

Public Document Pack

Audit Committee

Thursday, 22nd September 2011
at 6.00 pm

PLEASE NOTE VENUE

Executive Meeting Room,
Southbrook Rise

This meeting is open to the public

Members

Councillor Ball (Chair)
Councillor Mead (Vice-Chair)
Councillor Bogle
Councillor Daunt
Councillor Fuller
Councillor Furnell
Councillor Dr Paffey

Contacts

Democratic Support Officer:-
Judy Cordell
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Acting Head of Legal and Democratic Services
Richard Ivory
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PUBLIC INFORMATION

Role of the Audit Committee

The Committee has responsibility for:-

- providing an independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the statement of internal control;
- satisfying and providing assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies; and
- specifically, the oversight of, and provision of assurance to the Standards and Governance Committee on, the following functions:-
 - ensuring that Council assets are safeguarded;
 - maintaining proper accounting records;
 - ensuring the independence, objectivity and effectiveness of internal and external audit;
 - the arrangements made for co-operation between internal and external audit and other review bodies;
 - considering the reports of internal and external audit and other review and inspection bodies;
 - the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

Southampton City Council's Seven Priorities

- More jobs for local people
- More local people who are well educated and skilled
- A better and safer place in which to live and invest
- Better protection for children and young people
- Support for the most vulnerable people and families
- Reducing health inequalities
- Reshaping the Council for the future

Public Representations

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

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

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

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

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

Dates of Meetings: Municipal Year 2010/11

2011	2012
23 June	23 April
22 September	
16 December	

CONDUCT OF MEETING

Terms of Reference

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

Business to be discussed

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

Rules of Procedure

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

Quorum

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

Disclosure of Interests

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

Personal Interests

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

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

A Member must disclose a personal interest.

Continued/.....

Prejudicial Interests

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

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

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

There are some limited exceptions.

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

Agendas and papers are now available via Southampton Online at
www.southampton.gov.uk/council/meeting-papers

1 APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)

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

2 DECLARATIONS OF INTEREST

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

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

3 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 23rd June 2011 and to deal with any matters arising, attached.

4 STATEMENT FROM THE CHAIR

5 STRATEGIC RISK REGISTER

Report of the Director of Corporate Services detailing the Strategic Risk Register and associated Risk Management Action Plans, attached.

6 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2010/11

Report of the Head of Finance (Chief Financial Officer) detailing the Treasury Management activities and performance for 2010/11 against the approved Prudential Indicators for External Debt and Treasury Management, attached.

7 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW

Report of the Head of Finance (Chief Financial Officer) detailing the Treasury Management Strategy and Prudential Limits Mid Year Review, attached.

8 STATEMENT OF ACCOUNTS 2010/11

Report of the Head of Finance (Chief Financial Officer) detailing the Statement of Accounts for 2010/11, attached.

9 AUDIT COMMISSION: DRAFT ANNUAL GOVERNANCE REPORT 2010/11

Report of the Chief Internal Auditor summarising the findings of the Audit Commission's 2010/11 draft Annual Governance Report, attached.

10 FUTURE OF LOCAL PUBLIC AUDIT - UPDATE

Report of the Chief Internal Auditor providing an update on the Department for Communities and Local Government proposals for transferring the work of the Audit Commission's in-house audit practice to the private sector, attached.

11 INTERNAL AUDIT: STATUS OF WORK - AUGUST 2011

Report of the Chief Internal Auditor detailing the Internal Audit Status of Work report for the period ending August 2011, attached.

Wednesday, 14 September 2011

SOLICITOR TO THE COUNCIL

AUDIT COMMITTEE
MINUTES OF THE MEETING HELD ON 23 June 2011

Present:

Members of the Council

Councillors Ball (Chair), Bogle, Fuller, Furnell, Mead and Dr Paffey

Apologies

Councillor Daunt

1. **ELECTION OF VICE-CHAIR**

RESOLVED that Councillor Mead be appointed as Vice Chair of the Committee for the Municipal Year.

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

RESOLVED that the Minutes of the meeting held on 13 March 2011 signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

3. **CHAIR'S ANNUAL REPORT ON AUDIT COMMITTEE 2010/11**

The Committee considered and noted the report of the Chair of the Audit Committee Annual 2011/2012 Report (Copy of the report circulated with the Agenda and appended to the signed minutes.)

4. **AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS REPORT**

The Committee considered the report of the Chief Internal Auditor detailing the progress against the Audit and Inspections Plans. (Copy of the report attached to the Agenda and appended to the signed minutes)

RESOLVED

- (i) that the Committee noted the progress against the Audit and Inspection Plans
- (ii) that the Committee was satisfied with the District Auditor's comments on the steps undertaken to ensure the independence and objectivity of the audit, in particular the steps that have been taken in respect of the ex-Audit Commission employee who is now employed in the Council's Accountancy Section.
- (iii) the Committee suggested that contact be initiated, by an appropriate officer, with the member's electorate who had lodged questions relating to Council's accounts in order to facilitate a more thorough understanding of the issues related within the accounts.

5. **AUDIT COMMISSION: ANNUAL AUDIT FEE 2011/12**

That the Committee noted the report of Chief Internal Auditor detailing the audit, assessment and inspection work that the external auditors propose to undertake for the 2011/12 financial year. (Copy of the report attached to the Agenda and appended to the signed minutes).

6. **ANNUAL GOVERNANCE STATEMENT 2010-11**

The Committee considered and noted the report of the Director of Corporate Services seeking approval for the draft Annual Governance Statement to be submitted to the Standards and Governance Committee prior to signing. (Copy of the report attached to the Agenda and appended to the signed minutes).

7. **RISK MANAGEMENT ACTION PLAN AND REVIEW OF STRATEGY**

The Committee considered and noted the report of the Director of Corporate Services seeking approval of the Risk Management Action Plan for 2011/12 and the Risk Management Action Plan 2010/11: Status Report. (Copy of the report attached to the Agenda and appended to the signed minutes).

8. **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2010/11**

The Committee considered and noted the report of the Chief Internal Auditor seeking approval for Chief Internal Auditor's Annual Report and Opinion for 2010/11 (Copy of the report attached to the Agenda and appended to the signed minutes).

9. **FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION**

The Committee considered the report of the Head of Finance detailing an overview of the key aspects of the 'Future of local public audit – Consultation' paper (Copy of the report attached to the Agenda and appended to the signed minutes).

RESOLVED that the Committee delegated approval to the Chair of the Committee to approve a submission to the "Future of Local Public Audit – Consultation Paper" following the circulation of a draft response to Members.

Agenda Item 5

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	STRATEGIC RISK REGISTER		
DATE OF DECISION:	22 SEPTEMBER 2011		
REPORT OF:	Mark Heath - Director of Corporate Services		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

Risk Management is a key component of the Council's governance framework. The risk registers are designed to capture, in one place, those key risks that need to be managed in order to support the successful delivery of the Council's priorities and challenges and to enable opportunities to be exploited. This reflects the identified need to move from a 'risk averse' to a 'managed risk' approach to delivering the Council's priorities.

The risk registers are intended as a management tool and to provide assurance that key risks are understood and being managed in accordance with an agreed risk appetite or tolerance.

RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Review the Strategic Risk Register and associated Risk Management Action Plans (RMAPs) - Appendix 1, and be satisfied that the document adequately reflects the key strategic risks facing the Council.
- (ii) Note the Summary of Directorate Risk Registers (Appendix 2)

REASONS FOR REPORT RECOMMENDATIONS

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

CONSULTATION

3. The list of Strategic Risks was agreed by the Management Board of Directors in May 2011 with the Risk Management Action Plans and Summary of the Directorate Risk Registers reviewed by the Board on 6th September 2011.
4. At the suggestion of the Management Board of Directors, a meeting involving a senior representative from each of the Directorates is to be held to review the Directorate Risk Registers with a view to further developing the process and ensuring that a consistent approach is adopted.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5. No alternative options have been considered.

DETAIL

6. The Strategic Risk Register has been developed by the Leadership Team (Senior Managers) as part of the development of the Council Plan. It is to be reviewed on a quarterly basis either via a report to the Management Board of Directors or as part of the Quarterly Business Review process.
7. The risk registers provide evidence of a formal commitment by the 'risk owner' to develop and implement necessary actions to manage the risk to an acceptable level and within an agreed timescale.
8. The development of a Directorate Risk Register is an integral part of the Council's business planning process. Directorate Risk Registers are intended to reflect the key risks identified by the respective Directorate Management Teams based on their service priorities and objectives.
9. It is the responsibility of the respective 'Management Team' to periodically review the 'Action Plans' to ensure that the 'Required Action/controls' are still appropriate and that they are being actioned in accordance with the agreed 'target/due date'. The 'Update of Required Management Action/Controls' field is intended to capture the most up to date position.
10. All information in respect of Strategic and Directorate risks is held within CorVu (the Council's performance management software system) and a suite of standard risk reports is available.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

11. NONE

Revenue

12. NONE

Property

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

Other

14. NONE

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

16. NONE

POLICY FRAMEWORK IMPLICATIONS

17. NONE

SUPPORTING DOCUMENTATION

Appendices

1.	Strategic Risk Register and associated Risk Management Action Plans
2.	Summary of Directorate Risk Registers

Documents In Members' Rooms

1.	NONE
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Background Documents

Title of Background Paper(s)

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

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

E-mail: peter.rogers@southampton.gov.uk

FORWARD PLAN No:

N/A

KEY DECISION? N/A

WARDS/COMMUNITIES AFFECTED:

NOT APPLICABLE

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Summary - Strategic Risk Register

LIKELIHOOD	IMPACT					
	A	B	C	D	E	F
Very High						
High						
Significant						
Low						
Very Low						
Almost impossible						

Risk Number	Risk Description	Risk Category	Risk Owner	Directorate	Initial Risk Score	Current Risk Score	Target Risk Score	Next Review Date	Risk Status
001	The impact of national policies/trends on key service priorities or objectives is not identified or assessed sufficiently early	Political	Dawn Baxendale	Economic Development	D3	D3	E3	22-Sep-2011	Open
002	The efficiency programme fails to deliver the required or expected budget savings	Competitive	Dawn Baxendale	Economic Development	B3	B3	D3	22-Sep-2011	Open
003	The Council is unable to react sufficiently quickly to changes in political direction	Political	Mark Heath	Corporate Services	C3	C3	C3	22-Sep-2011	Closed
004	Workforce, industrial relations and skills retention issues have an adverse impact on service delivery	Professional/Managerial	Mark Heath	Corporate Services	B3	B3	D3	22-Sep-2011	Open
005	There is insufficient capacity to manage or maintain the capacity to change	Professional/Managerial	Mark Heath	Corporate Services	C3	C3	D3	22-Sep-2011	Open
006	Major infrastructure developments or economic development plans are adversely affected by economic, environmental or market conditions and/or are not delivered in accordance with stakeholder expectations.	Economic	Dawn Baxendale	Economic Development	C3	C3	D3	22-Sep-2011	Open
007	High priority projects do not deliver the required or expected outcome and/or are delayed or not within budget	Professional/Managerial	Mark Heath	Corporate Services	C3	C3	D3	22-Sep-2011	Open
008	Major incident or service delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Professional/Managerial	Frances Martin	Environment	D3	D3	D3	22-Sep-2011	Open
009	Key suppliers of services to the Council fail to deliver their contractual obligations	Partnership/Contractual	Mark Heath	Corporate Services				22-Sep-2011	Open
010	Governance arrangements in respect of the management of health and safety will not enable the provision of an appropriate level of assurance to officers and members that the health and safety compliance regime is robust	Legislative	Mark Heath	Corporate Services				22-Sep-2011	Open

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Key Priority/ Objective	Council Plan Ref	Action/controls already in place	Required Action/controls	Responsibility for Action	Responsible Officer	Due/Target Date	Update of Management Action Controls	Status	Critical Success Factors and KPI's	Date last update	Date of next review	Risk Status
<p>Risk Number : 001 Risk Owner : Dawn Baxendale Portfolio: Leaders Risk Category: Political</p> <p>Risk Description: The impact of national policies/trends on key service priorities or objectives is not identified or assessed sufficiently early</p> <p>Initial Impact: Significant Initial Likelihood: Low Initial Score: D3 Current Impact: Significant Current Likelihood: Low Current Score: D3 Target Impact: Significant Target Likelihood: Very Low Target Score: E3</p>												
Change programme - the changing national environment in which we work		Horizon scanning, Strategic Planning meetings of the Management Board once in six weeks, Forward Plans for Cabinet and Management Board, Directorate leads to consider specific issues	Consideration at Quarterly Business Reviews	Dawn Baxendale		31-Mar-2012		G		30/6/2011	30/9/2011	Open
<p>Risk Number : 002 Risk Owner : Dawn Baxendale Portfolio: Leaders Risk Category: Competitive</p> <p>Risk Description: The efficiency programme fails to deliver the required or expected budget savings</p> <p>Initial Impact: Significant Initial Likelihood: High Initial Score: B3 Current Impact: Significant Current Likelihood: High Current Score: B3 Target Impact: Significant Target Likelihood: Low Target Score: D3</p>												
Efficient use of resources		Robust programme governance, roles and accountabilities established. PM Connect methodology used to monitor and control projects	Adequate project management and programme support arrangements in place to ensure delivery	Joy Wilmot-Palmer		31-Mar-2012		G		30/6/2011	30/9/2011	Open
			Appropriate staff, management and Trade Union engagement procedures established for all projects	Joy Wilmot-Palmer		31-Mar-2012		G		30/6/2011	30/9/2011	Open
			Consistent and timely review / change management approach implemented across the Council	Joy Wilmot-Palmer		31-Mar-2012		G		30/6/2011	30/9/2011	Open
			Contingency plans in place for all service areas	Joy Wilmot-Palmer		31-Mar-2012		G		30/6/2011	30/9/2011	Open
<p>Risk Number : 003 Risk Owner : Mark Heath Portfolio: Leaders Risk Category: Political</p> <p>Risk Description: The Council is unable to react sufficiently quickly to changes in political direction</p> <p>Initial Impact: Significant Initial Likelihood: Significant Initial Score: C3 Current Impact: Significant Current Likelihood: Significant Current Score: C3 Target Impact: Significant Target Likelihood: Significant Target Score: C3</p>												
Continuous improvement		Regular meetings of Group Leaders with the Chief Executive and the Monitoring Officer. Protocols and procedures in place regarding the actions required in the event of a change of political control. Cross party member briefings / involvement in all key or major decisions. Effective Overview and Scrutiny arrangements are in place with powers to review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the Executive, including the power to recommend that a relevant decision be reconsidered by the person who made it	Current activity is considered to be appropriate and robust	Mark Heath		31-Mar-2012		GY				Closed

Agenda Item 5

Appendix 2

Strategic Risk Register for 13 September 2011
Last Review Date - 6/6/2011 Next Review Date - 06/09/2011

Key Priority/ Objective	Council Plan Ref	Action/controls already in place	Required Action/controls	Responsibility for Action	Responsible Officer	Due/Target Date	Update of Required Management Action Controls	Status	Critical Success Factors and KPIs	Date last update	Date of next review	Risk Status
Risk Number : 004 Risk Owner : Mark Heath Portfolio: Leaders Risk Category: Professional/Managerial Risk Description: Workforce, industrial relations and skills retention issues have an adverse impact on service delivery Initial Impact: Significant Initial Likelihood: High Initial Score: B3 Current Impact: Significant Current Likelihood: High Current Score: B3 Target Impact: Significant Target Likelihood: Low Target Score: D3												
Reshaping the Council for the future	7		Develop and communicate Organisational Development Strategy	Sarah Dennis		31-Dec-2011		G	OD Strategy developed, approved and published by 31/12/2011	31/8/2011	6/9/2011	Open
			Progress against specified actions in new OD Strategy, specifically in respect of: Effective Communications; Skills Analysis; Training and Development; and Succession Planning. Work towards retaining IIP accreditation	Sarah Dennis		31-Jun-2012		G	Progress against OD Strategy Action Plan on target	31/8/2011	6/9/2011	Open
				Sarah Dennis		31-Jun-2012		G	IIP accreditation retained OR deliberate and reasoned decision taken not to seek retention.	31/8/2011	6/9/2011	Open
Risk Number : 005 Risk Owner : Mark Heath Portfolio: Leaders Risk Category: Professional/Managerial Risk Description: There is insufficient capacity to manage or maintain the capacity to change Initial Impact: Significant Initial Likelihood: Significant Initial Score: C3 Current Impact: Significant Current Likelihood: Significant Current Score: C3 Target Impact: Significant Target Likelihood: Low Target Score: D3												
Reshaping the Council for the future	7	Council-wide organisational restructure commenced to transform the Council into an effective, customer-led organisation whilst reducing costs;	Continuation of restructure to all tiers of the organisation	Sarah Dennis		31-Mar-2012		G	Restructures and all associated actions substantially complete by due date	30/8/2011	30/9/2011	Open
			Development of Organisational Development Strategy and implementation of Action Plan, particularly in respect of: Developing Flexible Employment Models; Development of Succession Planning Framework; and Development of Leadership Programme	Sarah Dennis		31-Dec-2011		G	Progress against OD Strategy Action Plan on target	30/8/2011	30/9/2011	Open
Risk Number : 006 Risk Owner : Dawn Baxendale Portfolio: Leaders Risk Category: Economic Risk Description: Major infrastructure developments or economic development plans are adversely affected by economic, environmental or market conditions and /or are not delivered in accordance with stakeholder expectations. Initial Impact: Significant Initial Likelihood: Significant Initial Score: C3 Current Impact: Significant Current Likelihood: Significant Current Score: C3 Target Impact: Significant Target Likelihood: Low Target Score: D3												
A better place to live and invest		Assist developer where possible to maximise scheme viability. Work closely with landowners and developers. Review opportunities to assist with funding. Explore all potential funding streams that can be aligned to facilitate development	Business Planning process considers PESTLE analysis and risks	Dawn Baxendale		31-Mar-2012	To be reaffirmed in the next cycle of integrated business planning	G		30/6/2011	30/9/2011	Open
			PM, Connect and Capital Boards are in place	Dawn Baxendale		31-Mar-2012		G		30/6/2011	30/9/2011	Open

Strategic Risk Register for 13 September 2011
Last Review Date - 6/6/2011 Next Review Date - 06/09/2011

Key Priority/ Objective	Council Plan Ref	Action/controls already in place	Required Action/controls	Responsibility for Action	Responsible Officer	Due/Target Date	Update of Required Management Action Controls	Status	Critical Success Factors and KPIs	Date last update	Date of next review	Risk Status
<p>Risk Number : 007 Risk Owner : Mark Heath Portfolio: Leaders Risk Category: Professional/Managerial</p> <p>Risk Description: High priority projects do not deliver the required or expected outcome and/or are delayed or not within budget</p> <p>Initial Impact: Significant Initial Likelihood: Significant Initial Score: C3</p> <p>Current Impact: Significant Current Likelihood: Significant Current Score: C3</p> <p>Target Impact: Significant Target Likelihood: Low Target Score: D3</p>												
Efficient use of resources		<p>PM Connect, project management process, introduced in April 2010.</p> <p>PM Connect provides a consistent and transparent process with high priority and other projects registered on a SharePoint site where monthly status reports can be viewed.</p> <p>A high priority project is categorised as 'Gold' and requires a higher level of project planning and approval via the council's Gateway approval process.</p>	<p>Develop SharePoint to require all Gateway project documents to be held and approved online via SharePoint. This will ensure that there is a clear audit trail to evidence that the document has the required level of approval appropriate to the project priority and risk level.</p> <p>Introduce an escalation procedure to trigger the automatic escalation of Gold high priority projects to MBoD where the project has a Red RAG status or, for more than one consecutive month, an Amber RAG status.</p> <p>Support a Programme Board that meets periodically to maintain an overview of projects that, collectively, are a high priority for the council. The Board will focus on whether the projects are likely to realise the benefits outlined in the Corporate Plan and other strategic objectives using a Benefits Tracker. It will hold Project Sponsors to account and escalate issues to the MBoD. PM Connect will provide a SharePoint meeting space to record all information about the programme and its projects, and tools to assist the Programme (Benefit Tracker).</p> <p>To produce a report for the MBoD seeking to ensure that (1) Project managers are adequately equipped to manage projects (2) That project sponsors are familiar with and are able to perform the role successfully (3) That project, programme and capital boards are able to ensure that projects are being adequately managed from a cost, timescale and quality perspective.</p>	Andy Lowe		31-Dec-2011		G	A reduction in the number of projects registered on SharePoint without the appropriate project documentation. Baseline figures to be provided by the Project Management Office	31/8/2011	6/9/2011	Open
				Mark Heath		30-Apr-2012		G	Consideration of escalated Gold projects to be a standing item on the MBoD agenda.	31/8/2011	6/9/2011	Open
				Andy Lowe		31-Mar-2012		G	The MBoD will be able to provide an up to date status report on the benefits the programme is expected to deliver and progress in realising those benefits.	31/8/2011	6/9/2011	Open
				Andy Lowe		1-Feb-2012		G	That there is a percentage increase year on year on the number of projects that are: a) Introduced within the initial budget; b) Introduced within the original timescale; c) That the project sponsor determines that the outcomes are at least equal to those originally envisaged.	31/8/2011	6/9/2011	Open

Summary - Directorate Risk Registers - September 2011

For all types of organisations there is a need to understand those risks that, if not managed effectively, could have an adverse impact on the achievement of key objectives or prevent opportunities from being exploited. The Council is committed to ensuring that there is a structured and consistent approach to managing risk, recognising the need to optimise the balance between risk and reward and that, actions to mitigate or manage risk to an acceptable level, need to be proportionate to the level of risk.

	Directorate	Description of Risk	Current Risk Score (RAG)	Likelihood	Impact	Comments
1	Families and Communities (Health & Adult Social Care)	There is a risk that services to the most vulnerable adults in the City will be reduced due to the consequences of the Public Spending Review resulting in less numbers of people being supported.	B2	High	Critical	
2	Families and Communities (Health & Adult Social Care)	There is a risk of market failure due to safeguarding issues or the closure of businesses due to economic or other pressures. This will result in the Local authority being required to re-assess care needs, seek alternative contracted care provision or provide care from internally provided services.	B2	High	Critical	
3	Families and Communities (Childrens Services & Learning)	SCC capacity to deliver statutory accountabilities to children and young people severely compromised as a consequence of local, school-based responses to government policy.	B3	High	Significant	Individual schools have the right to make unilateral decisions to assume Academy status. Each school that does so results in a government 'top slice' of SCC resource. Depending on the pace of individual school decisions, funds remaining to deliver statutory accountabilities to the remainder may be compromised significantly.
4	Families and Communities (Health & Adult Social Care)	There is a risk that due to demographic and economic changes, demand for care services will continue to rise in the short to medium term leading to the Local Authority being unable to meet its statutory obligations.	B3	High	Significant	
5	Environment	Failure to satisfy our residents and stakeholders aspirations for future service delivery/standards across the city.	B3	High	Significant	
6	Economic Development	Failure to progress viable development schemes.	B3	High	Significant	
7	Economic Development	Failure to deliver the agreed efficiency programme resulting in adverse consequences on the Council's budget.	B3	High	Significant	
8	Corporate Services	There are insufficient resources available to deliver all priorities.	B4	High	Marginal	
9	Families and Communities (Health & Adult Social Care)	There is a risk that the national care agenda is likely to recommend that residents are only placed in residential homes that are rated as excellent by Care Quality Commission. None of the Council owned homes are currently rated as excellent.	C2	Significant	Critical	
10	Families and Communities (Childrens Services & Learning)	Failing to manage the current infrastructure to meet the needs of growing numbers of young children needing school places.	C2	Significant	Critical	

11	Families and Communities (Health & Adult Social Care)	There is a risk that key suppliers of services to the Directorate fail to deliver their contractual obligations. This failure can be through business as usual activities or in an emergency situation.	C2	Significant	Critical	
12	Economic Development	Objections to consents and orders delaying or failing projects.	C2	Significant	Critical	
13	Economic Development	Failure to secure landowner / leaseholder consents.	C3	Significant	Significant	This creates delay and may require Compulsory Purchase Order.
14	Families and Communities (Childrens Services & Learning)	Failing to prevent a major child protection failure.	C3	Significant	Significant	The likelihood of such a failure relies on the quantity and calibre of child protection capacity, and the robustness of SCC and its partners meeting their child protection obligations. The immediate risk is exacerbated by staffing and resource pressures across all agencies.
15	Corporate Services	Risks arising from industrial action and legal challenge in respect of Terms and Conditions changes.	C3	Significant	Significant	
16	Families and Communities (Health & Adult Social Care)	There is a risk that final relevant legislation may not reflect the intentions set out in consultation documents, white papers and parliamentary bills resulting in requirements for changes that differ from initial policy planning intentions.	C3	Significant	Significant	
17	Families and Communities (Health & Adult Social Care)	There is a risk that the current workforce does not possess the skills necessary to deliver the changes currently identified resulting in inadequate organisational performance/ poor outcomes for service users, unmet needs / increased risk to clients/ poor staff morale.	C3	Significant	Significant	
18	Families and Communities (Health & Adult Social Care)	There is a risk that the Directorate will lose Senior Management capacity through organisational change within the Directorate and in the Council. Many tasks and decisions are delegated to Level 1 Managers and there will be less of these posts to provide Senior Management support and cover arrangements for many routine processes and emergency situations.	C3	Significant	Significant	
19	Environment	Insufficient infrastructure funding to support our economic development and city renaissance aspirations.	C3	Significant	Significant	
20	Environment	Impact of significant organisational change may affect ability to deliver efficiency and budget savings commitments and future priority plans, including minimum statutory service standards.	C3	Significant	Significant	
21	Environment	Adverse impact of environmental conditions (i.e. weather) on highway infrastructure.	C3	Significant	Significant	
22	Environment	Reduced capacity to deliver services and priorities with reduced staff & financial resources.	C3	Significant	Significant	
23	Environment	Ability to respond appropriately to changes to the legislative & regulatory framework, including the deregulation agenda.	C3	Significant	Significant	
24	Economic Development	Failure to secure relevant grant funding opportunities due to the reduction of external funding opportunities and government grants.	C3	Significant	Significant	
25	Economic Development	Reduced capacity / skill shortages following organisational changes / reconfiguration.	C3	Significant	Significant	
26	Economic Development	Significant changes in National policy / legislation affecting current services.	C3	Significant	Significant	
27	Economic Development	Failure to secure external funding for major projects or to support community groups / activ	C3	Significant	Significant	

28	Economic Development	Failure to secure grant funding opportunities.	C3	Significant	Significant	
29	Economic Development	Deliver young offenders programme of work placements/Pre-employment training.	C3	Significant	Significant	
30	Economic Development	Ability to respond appropriately to changes to the legislative and regulatory framework, including the de-regulation agenda.	C3	Significant	Significant	
31	Corporate Services	The Accommodation Strategy Action Plan (ASAP) is delayed or fails to meet key milestones.	C4	Significant	Marginal	
32	Economic Development	Failure to retain relevant grant funding e.g. SNAC / NCIP.	D2	Low	Critical	The impact would depend on the stage reached in the development programme renegotiations may mitigate the risk
33	Families and Communities (Childrens Services & Learning)	Business continuity arrangements fail to address a major disruption to service.	D2	Low	Critical	
34	Families and Communities (Health & Adult Social Care)	There is a risk that a major incident or prolonged disruption affecting normal service delivery will significantly impair or prevent the Directorate's ability to deliver key services and/or statutory functions.	D2	Low	Critical	
35	Economic Development	Failure to achieve various pre-conditions attached to development / legal agreements.	D2	Low	Critical	
36	Economic Development	Failure to implement a robust flooding strategy and necessary flood defence to facilitate future development.	D2	Low	Critical	
37	Corporate Services	There is an increase in fraudulent activity in light of the current economic climate.	D3	Low	Significant	
38	Corporate Services	The required/expected outcomes and savings from the SSP are not delivered.	D3	Low	Significant	
39	Families and Communities (Health & Adult Social Care)	There is a risk that changes in political policy direction at both local and national level will result in a significant change in direction than that already proposed and being implemented.	D3	Low	Significant	
40	Economic Development	Risk of challenge through OJEU process.	D3	Low	Significant	
41	Economic Development	Failure to deliver commitments or achieve agreed performance or saving targets due to industrial relations issues.	D3	Low	Significant	
42	Economic Development	Partnership opportunities and benefits not being fully realised with Private Sector companies, other departments and/or voluntary organisations.	D3	Low	Significant	
43	Economic Development	Failure to achieve high level of design quality with reduced resources.	D4	Low	Marginal	
44	Economic Development	Failure to deliver commitments, achieve performance targets or demonstrate performance due to insufficient resources.	D4	Low	Marginal	

Likelihood

- (A) Very High : Highly likely to occur
 (B) High : Will probably occur at some time, or in some circumstances
 (C) Significant : Fairly likely to occur at some time, or in some circumstances
 (D) Low : Is unlikely to, but could, occur at some time
 (E) Very Low : May only occur in exceptional circumstances

Impact is considered in terms of:

- Financial impact;
- Reputational impact;
- Impact on delivery of key priorities.

(F) Almost Impossible: Highly unlikely to occur

Agenda Item 6

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2010/11
DATE OF DECISION:	22 SEPTEMBER 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

The purpose of this report is to inform Audit Committee of the Treasury Management activities and performance for 2010/11 against the approved Prudential Indicators for External Debt and Treasury Management.

This report specifically highlights that:

- Borrowing activities have been undertaken within the borrowing limits approved by Council on 16 February 2011.
- The investment portfolio returned £0.82M at an average rate of 1.02% in 2010/11 compared to 1.89% for 2010/11 as a result of continuing low interest rates and the fact that income earned in 2009/10 included deals arranged before the decline in the market which have since matured. The average rate achieved is above the performance indicator of the average 7 day LIBID rate (0.58%) mainly due to the rolling programme of yearly deals which was restarted in October 2010 following advice from our Treasury Advisors.
- In order to balance the impact of ongoing lower interest rates on investment income we have continued to use short term debt which is currently available at lower rates than long term debt. As a result the average rate for repayment of debt, (the Consolidated Loan and Investment Account Rate – CLIA), at 2.99% is lower than that budgeted for (3.17%) but slightly higher than last year (2.82%). It should be noted that the forecast for longer term debt is a steady increase over the next few years and new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA (reaching 4.23% by 2013/14).
- Net loan debt increased during 2010/11 from £183M to £220M.

RECOMMENDATIONS:

It is recommended that Audit Committee:

- (i) Notes the Treasury Management (TM) activities for 2010/11 and the outturn on the Prudential Indicators.
- (ii) Notes that the continued proactive approach to TM has led to reduced borrowing costs (compared to that estimated) and safeguarded investment income during the year.

REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2010/11 forms part of the approval of the statutory accounts. The TM Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice. The report was presented to Council in July 2011.

2. The TM Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. In addition, as part of the approved TM Strategy, the Chief Financial Officer will report to the Audit Committee on treasury management activity / performance as follows:

- (a) A mid year review against the strategy approved for the year.
- (b) An outturn report on its treasury activity, no later than 30th September after the financial 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. TM is a complex subject but in summary the core elements of the strategy for 2010/11 are:

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

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

6. TM is defined as:

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

7. Overall responsibility for TM remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's TM objectives.

8. This report:

- is prepared in accordance with the revised CIPFA TM Code and the revised Prudential Code,
- presents details of capital financing, borrowing, debt rescheduling and investment transactions,
- reports on the risk implications of treasury decisions and transactions,
- gives details of the outturn position on TM transactions in 2010/11 and
- confirms compliance with treasury limits and Prudential Indicators.

The report is to Audit Committee, which is responsible for scrutiny of the TM function, and was in addition also submitted to Council.

9. Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function for 2010/11 and shows the outlook for 2011/12.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

10. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2011 was estimated at £360M. The Council's borrowing requirement during the year was £85M which included £28M for the replacement of maturing debt.

11. Following the Comprehensive Spending Review (CSR) on 20 October 2010, on instruction from HM Treasury, the Public Works Loans Board (PWLB) increased the margin for new borrowing to average 1% above the yield on the corresponding UK Government Gilt. New fixed rate borrowing increased by approximately 0.87% across all maturities and new variable rate borrowing by 0.90%. Premature repayment rates did not benefit from the increase in the margin which potentially makes future rescheduling of PWLB loans more challenging. Appendix 2 summarises interest rate movement during the year.

12. Whilst there are an increasing series of claims that a competitive, comparable equivalent to PWLB is readily available, the Council will adopt a cautious and considered approach to funding from the capital markets. The Council's treasury advisor, Arlingclose, is actively consulting with investors, investment banks, lawyers and credit rating agencies to establish the attraction of different sources of borrowing, including bond schemes, loan products and their related risk/reward trade off.

13. The Council funded £57M of its capital expenditure through new borrowing which included the addition of £25M new debt being taken out for the purchase of Number One Guildhall Square, with the PWLB at an interest rate of 4.62% over 40 years. The PWLB remained the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide. In total, £85M of new long term loans were raised through the PWLB which included the replacement of maturing debt.

14. The Council also undertook short term borrowing as part of the normal day to day cash flow management activities undertaken within the TM function. This included borrowing from a range of organisations as outlined in the approved TM Strategy, including other Local Authorities where the rate available offered the most cost effective source of funds.

15. Activity within the debt portfolio is summarised below:

Capital Expenditure	Balance on 01/04/2010	Debt maturing or Repaid	New Borrowing	Balance on 31/03/2011	Increase/ (Decrease) in borrowing for Year
	£000's	£000's	£000's	£000's	£000's
Short Term Borrowing	34,337	(273,698)	274,680	35,319	982
Long Term Borrowing	121,661	(17,303)	85,000	189,358	67,697
Total Borrowing	155,998	(291,001)	359,680	224,677	68,679

	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
	Actual £M	Actual £M	Estimate £M	Estimate £M	Estimate £M
External Borrowing:					
Fixed Rate – PWLB Maturity	60	80	105	125	135
Fixed Rate – PWLB EIP	27	63	107	93	81
Fixed Rate – Market	35	38	40	40	40
Variable Rate – PWLB	25	35	35	35	35
Variable Rate – Market	9	9	9	9	9
	156	225	296	302	300
Other Long Term Liabilities					
PFI / Finance leases	54	53	59	64	69
Deferred Debt Charges	19	18	18	17	16
Total Gross External Debt	229	296	373	383	385
Investments:					
Deposits and monies on call and Money Market Funds	(40)	(70)	(40)	(40)	(40)
Supranational bonds	(6)	(6)	(6)	(6)	(6)
Total Investments	(46)	(76)	(46)	(46)	(46)
Net Borrowing Position	183	220	327	337	339

16. The Council's use of internal resources (£80M) in lieu of borrowing 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.
17. £35M of PWLB variable rate loans have been borrowed at an average rate of 0.70% which mitigates the impact of changes in variable rates on the Council's overall treasury portfolio - the Council's investments are deemed to be variable rate investments due to their short-term nature. The Council's variable rate loans were borrowed prior to 20 October 2010 (the date of change to the PWLB's lending arrangements post CSR) and are maintained on their initial terms and are not subject to the additional increased margin. This strategic exposure to variable interest rates will be regularly reviewed and if appropriate, reduced by switching into fixed rate loans.
18. Given the large differential between short and longer term interest rates, which is likely to remain a feature for some time in the future, as well as the pressure on Council finances; the debt management strategy sought to lower debt costs within an acceptable level of volatility (interest rate risk). Loans that offered the best value in the prevailing interest rate environment were PWLB variable interest rates loans, PWLB medium-term Equal Instalments of Principal (EIP) loans and temporary borrowing from the market.

INVESTMENT ACTIVITY

19. The Department for Communities and Local Government's (CLG) revised Investment Guidance came into effect on 1 April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.
20. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2010/11. Investments during the year included:
- Deposits with the Debt Management Office
 - Deposits with other Local Authorities
 - Investments in AAA-rated Stable Net Asset Value Money Market Funds
 - Call accounts and deposits with UK Banks and Building Societies
 - Bonds issued by Multilateral Development Banks
21. The table below summarises activity during the year:

Capital Expenditure	Balance on 01/04/2010	Investments Repaid	New Investments	Balance on 31/03/2011	Increase/ (Decrease) in investment for Year
	£000's	£000's	£000's	£000's	£000's
Short Term Investments	30,580	(333,490)	332,210	29,300	(1,280)
Money Market Funds	9,645	(97,515)	128,445	40,575	30,930
EIB Bonds	6,000			6,000	0
Long Term Investments	36			36	0
Total Investments	46,261	(431,005)	460,655	75,911	29,650

22. The core element of the investment strategy is invest surplus funds prudently, the Council's priorities being:
- Security of invested capital
 - Liquidity of invested capital
 - An optimum yield which is commensurate with security and liquidity.
23. **Security / Credit Risk: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party** Counterparty credit quality was assessed and monitored with reference to credit ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. A maximum limit of £15M can be invested with a single counterparty subject to this being no more than 15% of total investments and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. 60% of total investments up to a limit of £50M can be invested for periods over one year.

The Council has no historical experience of counterparty default and does not expect any losses from non-performance by any counterparties in relation to its investments. Throughout 2010/11 the minimum criteria for new investments has been a long term rating of A+/A1/A+ (Fitch/Moody's/S&P) and a short term rating of F1/P-1/A-1 (Fitch/Moody's/S&P).

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2011, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Outstanding Investments as at 31 March 2011										
Counterparty	Credit Rating Criteria Met When Investment Placed	Credit Rating Criteria Met on 31 March 2011	Under 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	Over 12 Months	Total	
	YES/NO	YES/NO	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
UK										
Bank Deposits	YES	YES			8,000	7,000	4,000			19,000
Building Societies Gov't & Local Authority Deposits	YES	YES		2,000	2,000					4,000
Money Market Funds	YES	YES	5,300				1,000			6,300
Bonds			40,575						6,036	6,036
Total Investments			45,875	2,000	10,000	7,000	5,000	6,036		75,911

24. **Liquidity: The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.** In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds.

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 not 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 nominal value of the Council's debt at 31 March 2011 was as follows:

Outstanding 31 March 2009	% of total debt portfolio	Outstanding 31 March 2010	% of total debt portfolio	Total borrowing	Outstanding 31 March 2011	% of total debt portfolio
£000's	%	£000's	%	Source of Loan	£000's	%
99,000	78	112,661	72	Public Works Loan Board	177,733	79
28,438	22	43,337	28	Other Financial Institutions	46,944	21
127,438	100	155,998	100		224,677	100
Analysis of Loans by Maturity						
48,717	38	51,078	33	Less than 1 Year	48,413	22
17,066	13	9,357	6	Between 1 and 2 years	18,121	8
20,555	16	19,834	13	Between 2 and 5 years	19,561	9
1,159	1	36,729	24	Between 5 and 10 years	64,582	29
941	1			Between 10 and 15 years		
				Between 20 and 25 years	6,000	3
16,000	13			Between 25 and 30 years	10,000	4
8,000	6	21,000	13	Between 30 and 35 years	8,000	4
				Between 35 and 40 years	25,000	11
5,000	4			Between 40 and 45 years	10,000	4
10,000	8	18,000	12	Over 45 years	15,000	7
127,438	100	155,998	100		224,677	100

25. **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% since March 2009 and Short-term money market rates have remained at very low levels. The Council's investment income for the year was £0.82M against a budget of £0.64M. New deposits for periods up to one year have been made at an average rate of 0.73%. We have also reintroduced a rolling programme of yearly deals to support our core balances, to date we have invested £15M at an average rate of 1.6%.

COMPLIANCE WITH PRUDENTIAL INDICATORS

26. The Council can confirm that it has complied with its Prudential Indicators for 2010/11, approved by Council on 17 February 2010. The 2010/11 TM Strategy can be as Item 6 on the Council Meetings Agenda found via the following web link:

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=249&Ver=4>

These were subsequently revised as part of the Council's TM Strategy Statement for 2011/12 on 16 February 2011.

27. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the TM activity during 2010/11. 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. Details can be found in Appendix 3.

REFORM OF COUNCIL HOUSING FINANCE

28. In its publication Implementing self-financing for council housing issued in February 2011 the CLG set out the rationale, methodology and financial parameters for the initiative. Subject to the Localism Bill receiving Royal Assent and a commencement order being passed, the proposed transfer date is Wednesday 28 March 2012 - this fits with PWLB timetables on the payment/receipt of funds to clear by 31 March 2012.
29. The self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the CLG the difference between the two, which is currently estimated to be approximately £63M. This will require the Council to fund this amount in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market.
30. The TM implications of HRA reform and an appropriate strategy to manage the process are being actively reviewed with the Council's Treasury Advisor including the issues surrounding any early prefunding of the significant settlement payment (primarily the powers to borrow and the cost of carry).

RESOURCE IMPLICATIONS

Capital/Revenue

31. The report is a requirement of the TM Strategy, which was approved at Council on 16 February 2011.

32. 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 £5.7M in 2010/11 compared with an estimate of £6.2M, a reduction of £0.5M. This was mainly due to savings as a result of refinancing long term debt through the use of variable interest rates and 10 year EIP borrowing which currently remain significantly lower (0.88% and 2.46% as opposed to the estimated rate of 5.3% for a 30 year fixed maturity loan).
33. In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2010/11, £0.8M was earned against a budget of £0.6M, an increase of £0.2M. This was a result of lower than expected interest rates in the depressed financial market and Appendix 1 gives further details surrounding the economic climate during 2010/11.
34. 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 £139,100 in 2010/11 compared to an estimate of £132,000. This increase was mainly due to additional PWLB commission paid as a result of increased borrowing needs arising from additions to the capital programme, for example One Guildhall Square.

Property/Other

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

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

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

38. None.

POLICY FRAMEWORK IMPLICATIONS

39. This report has been prepared in accordance with CIPFA's Code of Practice on TM and the TM Strategy approved by Council on 16 February 2011.

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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Summary of the 2010 Economic Background and Outlook for 2011
2.	Summary of Interest Rates Movement During 2010/11
3.	Compliance with Prudential Indicators during 2010/11

Documents In Members' Rooms

1.	N/A
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Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	No
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Other Background Documents

Title of Background Paper(s)

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

1.	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2011/12 TO 2013/14 – Audit Committee 3 February 2011 and Council 16 February 2011	
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Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	None
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SUMMARY OF THE 2010 ECONOMIC BACKGROUND & OUTLOOK FOR 2011

Economic Background

At the time of determining the strategy for 2010/11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable post the General Election if the government had a clear majority. The markets had, at the time, viewed a hung parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and businesses trimming their spending and financial institutions exercising restraint in new lending.

The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review. Significant cuts were made to public expenditure, in particular local government funding.

The US Federal Reserve (the Fed) kept rates on hold at 0.25% following a slowdown in American growth. The European Central Bank (ECB) maintained rates at 1%, with the markets expecting a rate rise in early Spring.

The credit crisis migrated from banks to European sovereigns. The ratings of Ireland and Portugal were downgraded to the 'triple-B' category whilst the rating of Greece was downgraded to sub-investment (or 'junk') grade. The sovereign rating of Spain was also downgraded but remained in the 'double-A' category. The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only seven out of the 91 institutions failed the 'adverse scenario' tests. The tests were a helpful step forward, but there were doubts if they were far-reaching or demanding enough. The main UK banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above 9% under both the 'benchmark scenario' and the 'adverse scenario' stress tests. The tests were repeated in the Spring of 2011.

Gilts benefitted from the Comprehensive Spending Review (CSR) plans, which were judged by the markets to be decisive, as well as from their relative 'safe haven' status in the face of European sovereign weakness. 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.

During the year money market rates increased marginally at the shorter end (overnight to three months). 6 - 12 month rates increased between 0.25% to 0.30% over the 12 month period reflecting the expectation that the Bank Rate would be raised later in 2011.

Outlook for 2011

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at June 2011 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Official Bank Rate													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.00	3.00
Downside risk		-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-1.50	-0.50

- CPI remained persistently high at 4.5% in May. Despite the reduction in petrol prices double digit gas and electricity price hikes could push inflation close to 5% in 2011. CPI is forecast to remain above the Bank's 2% inflation target for the whole of 2012.
- The UK economy is growing but only modestly. The outlook for exports remains positive but household purchasing power is constrained by a much-needed adjustment of personal balance sheets (seen through a higher savings ratio and debt reduction) and the effect of higher consumer prices.
- Retail sales are contracting. Consumer spending has not shown any growth over the year due to a fall in disposable income, weak house price growth and a lack of consumer confidence. Unemployment is just under 2.5M and will increase as the public sector shrinks but private sector employment grows at only a modest pace.
- The MPC members are likely to remain 7 to 2 in favour of an unchanged policy, although markets will be interested to see whether new member Ben Broadbent will be hawkish like his predecessor.
- Eurozone finance ministers delayed a further Greek handout, in order to see whether the Greek government would pass austerity measures. The threat of Greek default has increased which has caused further anxieties about the threat of contagion to Eurozone peripheries such as Ireland and Portugal.
- Despite southern Europe's debt problems, the ECB is still likely to raise rates in a bid to control inflation as indicated by President Jean-Claude Trichet in his June press conference.
- S&P has revised its outlook on the long-term rating for the US to negative amidst fears that the government will not agree a medium-and long-term strategy to tackle their fiscal challenges. Fitch has indicated that it may follow S&P if the debt ceiling is not increase by August.
- The Federal Open Market Committee in the US may choose to initiate a new bout of Quantitative Easing (QE) in order to boost their faltering economy, although the Chairman of the Fed Ben Bernanke is more likely to pressure Congress into increasing the debt limit rather than use monetary policy.

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Appendix 2

SUMMARY OF INTEREST RATES MOVEMENT DURING 2010/11

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

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
01/04/2010	0.50	0.35	0.35	0.42	0.51	0.81	1.26	1.54	2.07	2.82
30/04/2010	0.50	0.30	0.30	0.43	0.53	0.83	1.29	1.70	2.23	2.95
31/05/2010	0.50	0.45	0.50	0.61	0.60	0.85	1.35	1.46	1.89	2.58
30/06/2010	0.50	0.35	0.35	0.45	0.61	0.94	1.38	1.40	1.79	2.42
31/07/2010	0.50	0.40	0.40	0.50	0.71	1.01	1.46	1.36	1.75	2.39
31/08/2010	0.50	0.40	0.55	0.50	0.71	1.00	1.45	1.20	1.47	2.02
30/09/2010	0.50	0.30	0.25	0.51	0.72	1.01	1.46	1.24	1.51	2.05
31/10/2010	0.50	0.48	0.40	0.51	0.72	1.01	1.46	1.26	1.53	2.08
30/11/2010	0.50	0.40	0.51	0.51	0.72	0.88	1.46	1.32	1.66	2.30
31/12/2010	0.50	0.40	0.40	0.51	0.72	1.01	1.47	1.49	1.94	2.61
31/01/2011	0.50	0.40	0.55	0.52	0.64	1.04	1.52	1.74	2.21	2.90
28/02/2011	0.50	0.40	0.54	0.53	0.68	1.09	1.56	1.85	2.29	2.95
31/03/2011	0.50	0.30	0.50	0.54	0.80	1.11	1.58	1.85	2.31	2.96
Minimum	0.50	0.30	0.25	0.42	0.51	0.75	1.00	1.13	1.37	1.92
Average	0.50	0.39	0.43	0.50	0.67	0.98	1.44	1.50	1.90	2.54
Maximum	0.50	0.55	0.55	0.80	0.80	1.11	1.58	1.97	2.49	3.19
Spread		0.25	0.30	0.38	0.29	0.36	0.58	0.84	1.12	1.26

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
01/04/2010	064/10	0.81	2.84	4.14	4.21	4.60	4.61	4.63
30/04/2010	089/10	0.85	2.86	4.13	4.20	4.61	4.61	4.60
28/05/2010	127/10	0.73	2.46	3.76	3.83	4.36	4.38	4.38
30/06/2010	171/10	0.67	2.27	3.54	3.62	4.22	4.28	4.27
30/07/2010	217/10	0.70	2.29	3.55	3.62	4.32	4.41	4.40
31/08/2010	259/10	0.63	1.84	3.05	3.13	3.82	3.93	3.93
30/09/2010	303/10	0.64	1.88	3.14	3.86	4.00	4.03	4.02
29/10/2010	346/10	1.58	2.90	4.23	5.06	5.2	5.22	5.2
30/11/2010	390/10	1.56	3.05	4.40	5.18	5.26	5.25	5.23
31/12/2010	430/10	1.65	3.33	4.58	5.18	5.23	5.20	5.16
31/01/2011	040/11	1.79	3.57	4.80	5.40	5.46	5.44	5.40
28/02/2011	080/11	1.87	3.61	4.75	5.33	5.38	5.35	5.31
31/03/2011	126/11	1.89	3.57	4.71	5.27	5.30	5.27	5.24
	Low	0.60	1.81	3.05	3.82	3.93	3.93	3.92
	Average	1.19	2.79	4.05	4.72	4.79	4.78	4.76
	High	1.99	3.84	5.00	5.50	5.55	5.53	5.48

Table 3: PWLB Repayment 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
01/04/2010	064/10	0.56	2.38	3.82	4.35	4.36	4.26	4.19
30/04/2010	089/10	0.62	2.43	3.83	4.37	4.38	4.33	4.30
28/05/2010	127/10	0.50	2.04	3.44	4.12	4.15	4.11	4.10
30/06/2010	171/10	0.44	1.86	3.23	3.98	4.05	4.00	3.97
30/07/2010	217/10	0.47	1.88	3.23	4.08	4.18	4.13	4.10
31/08/2010	259/10	0.40	1.45	2.73	3.57	3.70	3.66	3.62
30/09/2010	303/10	0.41	1.48	2.82	3.62	3.77	3.76	3.73
29/10/2010	346/10	0.47	1.61	3.03	3.93	4.09	4.07	4.03
30/11/2010	390/10	0.45	1.75	3.20	4.06	4.15	4.10	4.06
31/12/2010	430/10	0.54	2.04	3.39	4.07	4.12	4.05	3.99
31/01/2011	040/11	0.68	2.27	3.62	4.28	4.35	4.29	4.22
28/02/2011	080/11	0.76	2.32	3.57	4.21	4.26	4.20	4.13
31/03/2011	126/11	0.78	2.29	3.53	4.15	4.19	4.12	4.07
	Low	0.37	1.40	2.73	3.57	3.70	3.66	3.62
	Average	0.55	1.97	3.33	4.07	4.15	4.10	4.06
	High	0.88	2.54	3.94	4.47	4.46	4.38	4.35

Table 4: PWLB Borrowing Rates – Fixed Rate, EIP 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
01/04/2010	064/10	--	1.78	2.94	4.18	4.53	4.60	4.62
30/04/2010	089/10	--	1.82	2.96	4.16	4.53	4.61	4.62
28/05/2010	127/10	--	1.52	2.55	3.79	4.24	4.36	4.39
30/06/2010	171/10	--	1.38	2.36	3.58	4.06	4.23	4.27
30/07/2010	217/10	--	1.42	2.38	3.58	4.11	4.33	4.40
31/08/2010	259/10	--	1.12	1.92	3.09	3.61	3.82	3.91
30/09/2010	303/10	--	1.14	1.96	3.18	3.67	3.87	3.96
29/10/2010	346/10	--	2.11	2.98	4.27	4.84	5.07	5.16
30/11/2010	390/10	--	2.19	3.14	4.44	4.99	5.19	5.25
31/12/2010	430/10	--	2.43	3.42	4.62	5.05	5.19	5.23
31/01/2011	040/11	--	2.62	3.66	4.84	5.25	5.40	5.45
28/02/2011	080/11	--	2.71	3.69	4.79	5.18	5.33	5.38
31/03/2011	126/11	--	2.69	3.65	4.74	5.14	5.28	5.31
	Low		1.10	1.89	3.09	3.61	3.82	3.91
	Average		1.91	2.87	4.08	4.55	4.72	4.77
	High		2.88	3.93	5.03	5.38	5.51	5.55

Table 5: PWLB Repayment Rates - Fixed Rate, EIP 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
01/04/2010	064/10	--	1.40	2.59	3.89	4.27	4.35	4.37
30/04/2010	089/10	--	1.46	2.63	3.90	4.29	4.38	4.39
28/05/2010	127/10	--	1.18	2.23	3.53	4.00	4.13	4.16
30/06/2010	171/10	--	1.05	2.04	3.31	3.82	3.99	4.04
30/07/2010	217/10	--	1.08	2.06	3.32	3.87	4.09	4.17
31/08/2010	259/10	--	0.82	1.61	2.82	3.36	3.59	3.68
30/09/2010	303/10	--	0.83	1.65	2.91	3.43	3.63	3.73
29/10/2010	346/10	--	0.92	1.79	3.12	3.71	3.95	4.05
30/11/2010	390/10	--	0.99	1.94	3.29	3.86	4.07	4.14
31/12/2010	430/10	--	1.21	2.22	3.47	3.93	4.07	4.12
31/01/2011	040/11	--	1.40	2.46	3.69	4.13	4.29	4.34
28/02/2011	080/11	--	1.49	2.50	3.64	4.06	4.22	4.27
31/03/2011	126/11	--	1.47	2.46	3.60	4.02	4.16	4.20
	Low		0.75	1.57	2.82	3.36	3.59	3.68
	Average		1.17	2.15	3.41	3.90	4.08	4.14
	High		1.65	2.74	4.02	4.40	4.47	4.47

Table 6: PWLB Variable Rates

Change Date	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
01/04/2010	0.65	0.65	0.70			
30/06/2010	0.65	0.70	0.70			
30/09/2010	0.65	0.70	0.70			
31/12/2010	0.70	0.70	0.75	1.60	1.60	1.65
31/03/2011	0.67	0.76	0.88	1.57	1.66	1.78
	Low	0.65	0.65	0.68	1.55	1.58
	Average	0.66	0.68	0.73	1.57	1.61
	High	0.70	0.79	0.90	1.60	1.69

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Appendix 3

COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2010/11

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

Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. The following table shows the actual position as at 31 March 2011 and the estimated position for the next two years based on the capital programme approved at council on the 16 February:

Capital Financing Requirement	2009/10 Actual £M	2010/11 Actual £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Balance B/F	276	310	360	369	371
Capital expenditure financed from borrowing	37	59	19	11	8
Revenue provision for debt Redemption.	(5)	(6)	(6)	(7)	(6)
Movement in Other Long Term Liabilities	2	(3)	(4)	(2)	(4)
Cumulative Maximum External Borrowing Requirement	310	360	369	371	369

Capital Financing Requirement	2009/10 Actual £M	2010/11 Actual £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
General Fund	217	260	263	264	263
HRA	93	100	106	107	106
Total CFR	310	360	369	371	369

The CFR differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow, and actual borrowing is significantly below this as detailed below:

	Balance on 01/04/2010 £M	Balance on 31/03/2011 £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Borrowing	155,998	224,677	252,697	250,054	245,525
Other Long Term Liabilities	73,652	71,722	77,100	81,295	84,998
Total Borrowing	229,650	296,399	329,797	331,349	330,523

Balances and Reserves

The Council's level of Balances and Reserves for 2010/11 and estimates to 2013/14 are as follows:

	2009/10 Actual £M	2010/11 Actual £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Balances and Reserves	54	56	46	36	20

Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £459M for 2010/11.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2010/11 was set at £444M.
- The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £279M.

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 2010/11 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

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.

Upper Limit for total principal sums invested over 364 days	2010/11 Approved	2010/11 Revised	2011/12 Estimate	2012/13 Estimate
	£M	£M	£M	£M
	50	50	50	50

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/03/11	Average Fixed Rate as at 31/03/11	% Fixed Rate as at 31/03/11	Compliance with set Limits?
	%	%	£000's	%		
under 12 months	0	45	40,324	1.89%	22.65%	Yes
12 months and within 24 months	0	45	5,000	4.08%	2.81%	Yes
24 months and within 5 years	0	50	10,000	2.78%	5.62%	Yes
5 years and within 10 years	0	50	57,721	3.14%	32.42%	Yes
10 years and within 20 years	0	50			0.00%	Yes
20 years and within 30 years	0	75	10,000	4.68%	5.62%	Yes
30 years and within 40 years	0	75	30,000	4.62%	16.85%	Yes
40 years and within 50 years	0	75	25,000	3.89%	14.04%	Yes
50 years and above	0	100	0		0.00%	Yes
			178,045	3.45%	100.00%	

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.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2010/11 Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	4.99%	6.14%	4.89%	6.70%	7.89%	8.34%
HRA	5.14%	4.66%	4.46%	5.82%	7.15%	8.01%
Total	5.55%	5.48%	6.01%	7.57%	8.73%	9.16%

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Agenda Item 7

DECISION-MAKER:	AUDIT COMMITTEE COUNCIL
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW
DATE OF DECISION:	22 SEPTEMBER 2011 16 NOVEMBER 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

The Council approved a number of indicators on 16 February 2011. Following the September update of the Capital Programme and an analysis of Treasury Management (TM) activity during 2010/11 and between April and August 2011, these have been reviewed for 2011/12 and are reported in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on TM and in line with the approved TM Strategy.

These indicators have been reviewed with the assumption that the revised Capital Programme presented to Council on 14 September 2011 was approved. The other Prudential Indicators reported in February are not affected by the update of the capital programme.

The core elements of the 2011/12 strategy were :

- To continue the use of variable rate debt to take advantage of the current market conditions.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments as appropriate during the year in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To maximise investment returns in line with the Annual Investment Strategy and to constantly monitor global markets to protect the security of our investments.

RECOMMENDATIONS:

AUDIT COMMITTEE

It is recommended that Audit Committee:

- (i) Note the current and forecast position with regards to these indicators and endorses any changes.
- (ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Programme Update report were approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.

COUNCIL

It is recommended that Council:

- (i) Approve any changes to the Council's Prudential Indicators as detailed within the report.
- (ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Programme Update report were approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.
- (iii) Continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources, Leisure and Culture, to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, increase the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis and to report on them mid year and at year end.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which were taken at Full Council on 14 September 2011.

DETAIL (Including consultation carried out)

CONSULTATION

3. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

- 4.. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities are free to borrow as long as their capital spending plans are affordable, prudent and sustainable.

- 5.. CIPFA has defined Treasury Management as:
- “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
6. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of TM activities will focus on their risk implications for the Council. The main risks to the Council’s treasury activities are:
- Liquidity Risk - Inadequate cash resources.
 - Market or Interest Rate Risk -Fluctuations in interest rate levels and thereby in the value of investments.
 - Inflation Risks - Exposure to inflation.
 - Credit and Counterparty Risk - Security of Investments.
 - Refinancing Risks - Impact of debt maturing in future years.
 - Legal and Regulatory Risk - Non-compliance with statutory and regulatory requirements, risk of fraud..
7. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.
8. All treasury activity will comply with relevant statute, guidance and accounting standards.

COMPLIANCE WITH PRUDENTIAL INDICATORS

9. All indicators to date complied with the Prudential Indicators approved by Council on 16 February 2011. Details of the performance against key indicators and proposed changes are shown below:

Capital Financing Requirement and Actual External Debt

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

It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow. The following table shows the actual position as at 31 March 2011 and the estimated position for the current and next two years based on the capital programme submitted to Council on the 14 September:

Capital Financing Requirement	2010/11 Actual £M	2011/12 Estimate £M	2011/12 Forecast £M	2012/13 Estimate £M	2013/14 Estimate £M
Balance B/F	310	360	360	369	372
Capital expenditure financed from borrowing	59	11	19	12	10
Revenue provision for debt Redemption.	(6)	(8)	(7)	(7)	(7)
Movement in Other Long Term Liabilities	(3)	(3)	(3)	(2)	(3)
Cumulative Maximum External Borrowing	360	360	369	372	372

The above limits are set to allow maximum flexibility within TM, for example a full debt restructure. Actual borrowing is significantly below this as it reflects decisions taken to use internal balances and cash rather than to physically borrow and shows the position at a point in time. The table below shows the position as at 1 April 2011 and 31 August 2011 and the estimated position for the current and next two years based on the capital programme submitted to Council on the 14 September:

	Balance on 01/04/2011 £M	Balance as at 31/8/2011 £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Borrowing	224,677	305,345	277,302	279,863	266,858
Other Long Term Liabilities	71,722	71,361	71,657	73,886	78,153
Total Borrowing	296,399	376,706	348,959	353,749	345,011

Authorised Limit and Operational Boundary for External Debt

11. The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's Affordable Borrowing Limit, known as the **Authorised Limit** was set at £563M for 2011/12 (£486M for borrowing and £77M for other long term liabilities).
12. The **Operational Boundary** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario of the debt position of the Authority, without the additional headroom included within the Authorised Limit. The Operational Boundary for 2011/12 was set at £542M (£471M for borrowing and £71M for other long term liabilities).
13. The CFO confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of August 2011, borrowing at its peak was £309M, and there is no proposal to change these limits at this time.

Upper Limits for Fixed and Variable Interest Rate Exposure

14. These indicators, (shown below for 2011/12) ,set upper limits on the amount of net borrowing (total borrowing less investments) for fixed and variable interest rates and allow the Council to manage the extent to which it is exposed to changes in interest rates.

	Limits for 2011/12 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

15. The upper limit for fixed rate exposure is 100% as in principal it may be necessary /desirable for all borrowing at a point to be at a fixed rate, although in practice this would be unusual.
16. 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. The upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance and the highest to date is 21%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the Public Works Loans Board (PWLB) for variable debt.
- There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, in case of any slippage in expected capital receipts.

Maturity Structure of Fixed Rate Borrowing

17. This indicator sets limits on the amount of borrowing due to be repaid in a given period on fixed rate borrowing, thereby limiting large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.
- The table below shows the position as at 31 August 2011.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/8/2011	Average Fixed Rate as at 31/8/2011	% Fixed Rate as at 31/8/2011	Compliance with set Limits?
	%	%	£000's	%	%	
Under 12 months	0	45	67,784	1.85	26.20	Yes
12 months and within 24 months	0	45	5,000	4.08	1.93	Yes
24 months and within 5 years	0	50	10,000	2.78	3.86	Yes
5 years and within 10 years	0	75	110,981	3.23	42.89	Yes
10 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 30 years	0	75	10,000	4.68	3.86	Yes
30 years and within 40 years	0	75	30,000	4.62	11.59	Yes
40 years and within 50 years	0	75	25,000	0.04	9.66	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			258,764	3.45	100.00	

Total Principal Sums Invested for Periods Longer than 364 days

18. This indicator allows the Council to manage the risk inherent in investments longer than 364 days. This sets a maximum limit on the amount of money than can be invested for more than one year; the current approved limit is set at £50M, as shown below:

Upper Limit for total principal sums invested over 364 days	2010/11 Actual	2011/12 Approved	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£M	£M	£M	£M	£M
	50	50	50	50	50

19. Southampton City Council's core investment portfolio has been identified as being around £40M and on the advice of the Council's TM consultants a rolling programme of 1 year cash deposits was entered into to provide a greater degree of certainty and stability in returns generated. The aim was to place investments with start and maturity dates that are spaced at roughly equal gaps of 1 month, giving the Council the added benefit of the liquidity afforded by the upcoming rolling maturity of deposits to provide opportunities to invest in whichever investments offer the best fit solution to the risk/reward appetite of the Council at that time. This programme has currently been suspended and maturities have been limited to 6 months due to current uncertainties in the market at present and will be kept under review. The amount invested for more than 364 days as at 31 August 2011 was £21M, plus £6M in long term bonds.

Ratio of Financing Costs to Net Revenue Stream

20. The ratio of financing costs to the Council's net revenue stream 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 upper limit for this ratio is currently set at 10% to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Actual %	2011/12 Approved %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	4.89	7.09	4.87	8.43	9.09
HRA	4.46	5.75	5.62	7.50	8.69
Total	6.01	7.49	6.49	8.25	8.47

The definition of financing costs is set out at paragraph 87 of the Prudential Code and the ratio is based on costs net of investment income.

SUMMARY

21. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity up to the 31 August 2011. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.
22. In addition to the CIPFA's requirement to produce a mid and year end report, each quarter as part of corporate monitoring a summary of TM activity is prepared. This is presented to Cabinet as part of the Quarterly Revenue Financial Monitoring report and is available in Members Rooms on request from the report author.

RESOURCE IMPLICATIONS

Capital

23. The Capital implications were considered as part of the Capital Programme Update report submitted to Council on the 14 September 2011.

Revenue

24. The revenue implications are considered as part of ongoing monitoring which is reported to Cabinet each Quarter and as part of the budget setting process.

Property/Other

25. None

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

26. 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:

27. None

POLICY FRAMEWORK IMPLICATIONS

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

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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	None
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Documents In Members' Rooms

1.	QUARTERLY TREASURY MANAGEMENT REPORT – QUARTER 1 (MONTH 3) 2011/12 – Cabinet 5 September 2011
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Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	No
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Other Background Documents

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2011/12 TO 2013/14 – Council 16 February 2011	
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Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	
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Agenda Item 8

DECISION-MAKER:	AUDIT COMMITTEE STANDARDS AND GOVERNANCE COMMITTEE
SUBJECT:	STATEMENT OF ACCOUNTS 2010/11
DATE OF DECISION:	22 SEPTEMBER 2011 28 SEPTEMBER 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2010/11, which were signed by the Chief Financial Officer (CFO) on 30 June 2011, are submitted for approval to the Audit Committee and Standards and Governance Committee. The statutory deadline for approving the accounts has changed from the 30 June to the 30 September.

The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting.

However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Standards and Governance Committee after the completion of the Audit on 30 September 2011.

RECOMMENDATIONS:

AUDIT COMMITTEE

It is recommended that Audit Committee:

- (i) Recommend to the Standards and Governance Committee that the 2010/11 Statement of Accounts be approved.
- (ii) Review and consider the accounting policies adopted by the authority;

STANDARDS AND GOVERNANCE COMMITTEE

It is recommended that Standards and Governance Committee:

- (i) Approve the Statement of Accounts 2010/11 and that they be signed by the person presiding at the meeting subject to any changes required after the completion of the Audit.
- (ii) Approve, if necessary, any changes required to the draft accounts following the completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Statement of Accounts 2010/11 be approved and signed by the person presiding at the meeting, subject to any changes required after the completion of the Audit, by 30 September 2011.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

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

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable

FINANCIAL STATEMENTS

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

CHANGES TO THE 2010/11 ACCOUNTS

5. The Financial Statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the Financial Statements for 2010/11 are different from the equivalent figures presented in the 2009/10 financial statements.
6. The Accounting Policies applied to the 2010/11 Financial Statements have been reviewed and changed, where appropriate, to comply with IFRS
The main changes are:
 - **Property, Plant and Equipment** - Property, Plant and Equipment (previously known as fixed assets) 'have been renamed, reclassified and redefined. The Code also requires changes in the value of investment property to be charged, along with other expenditure and income from investment properties, to the Comprehensive Income and Expenditure Statement.
 - **Cash and cash equivalents** - The definition of Cash and Cash Equivalents has changed and they are now represented by cash in hand, deposit accounts and Money Market Funds which are repayable without penalty on notice of not more than 24 hours.
 - **Government Grants and Contributions** - Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable and any conditions have been met. Previously, unused grants were held in a Capital Grants & Contributions Unapplied account in the Liabilities section of the Balance Sheet until they were expended, at which point they were transferred to Government Grants & Contributions Deferred account and recognised as income over the life of the assets which they were used to fund.

- **Leases Reclassification** - As part of the implementation of IFRS the Council has reclassified a number of Plant and Equipment operating leases to finance leases.
- **Short-Term Accumulating Absences** - The Council has made an accrual for the cost of Teacher's Annual Leave entitlement not taken by the year end, in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) methodology. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. No Accrual has been made in respect of annual leave and flexi-time carried forward by non-teaching staff as this is considered not to be material.

7. These changes have had no effect on the General Fund balances available to the authority or on Council Tax.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

8. The Financial Statements present the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge.

The table on page 4 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total contribution from reserves of £3.9M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2011. Compared to this working budget, the Council's actual expenditure for the year is £4.7M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	2,485
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	1,652
Reduction and Re-phasing of Project Costs (Funded from within the Revenue Development Fund)	235
Unspent Contingencies	211
Other Variations	73
Total	4,656

9. Against this are requests to carry forward budget of £629,000 (of which £158,000 relates to central repairs and maintenance) which will be subject to approval by Council. Further draws on the overall favourable position of £4.7M (subject to approval by Full Council) include:

- Revenue Development Fund (£100,000) – In recognition of the fact that there are uncertainties in relation to timing and speed of progress of complex and strategic projects, the funding for these projects has been placed into a Revenue Development Fund from 2010/11 to enable the Council to retain flexibility in funding. The outstanding funding at the end of 2010/11 is £235,200 and it is proposed that £100,000 of this under spend is carried into 2011/12 and added to the Revenue Development Fund.
- Organisational Development Reserve (£3,986,600) – Every year as part of the outturn position officers review the funding within the strategic reserve to deal with organisational change. It is proposed this year given the overall under spend to contribute an additional £4.0M into the Organisational Development Reserve which is used for restructuring, re-training, redeployment and redundancy costs in future years.

GENERAL FUND BALANCES

10. The General Fund balance stands at £17.4M and is used as a working balance and to support future spending plans. This compares to a balance of £19.8M at the end of 2009/10.
11. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £4.5M in the medium term which is in line with the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

12. The table on page 6 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows that the budget assumed a deficit of £389,000.

Actual net expenditure for the year is a surplus of £34,000 which compared to the budgeted deficit results in an under spend of £423,000. This is made up as follows:

	£000's
Net Saving on Total Repairs	139
Savings on Supervision & Management	287
Savings on Capital Financing	221
Increase in Subsidy Paid to CLG	(101)
Reduction in Dwelling Rent Income	(120)
Other Variances	(3)
Total	423

CAPITAL EXPENDITURE

13. In 2010/11 the Council spent £126.8M on capital projects. This was £13.3M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2011/12. Of this expenditure £93.2M related to the General Fund and £33.6M to the HRA.

THE COLLECTION FUND

14. The Collection Fund had a surplus for the year of £38,100. There was a surplus brought forward from 2009/10 of just over £4.0M, to give a surplus to be carried forward of £4.1M. When setting the Council Tax for 2011/12 in February 2011, it was estimated that there would be a surplus of £3.8M to be carried forward.
15. This estimated surplus was taken into account in setting the 2011/12 Council Tax and was shared by the City Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority in proportion to the precepts levied by each authority in 2010/11. This leaves a surplus of £296,700 that will be carried forward to 2011/12 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when the Council Tax for 2012/13 is set.

PENSIONS

16. In 2010/11, the Council paid an employer's contribution of £23.0M into Hampshire County Council's Pension Fund. The employer's rate in 2010/11 was 19.1% of employees' pay. The rate set for 2011/12 is 13.1% of employees' pay plus a fixed payment equivalent to 6.0% of the payroll as at 31 March 2010.
17. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2011 was £457.3M, compared to its estimated liabilities of £760.8M, giving an estimated deficit on the Fund of £303.5M (£409.0M in 2009/10).
18. In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases were previously determined by reference to the Retail Price Index (RPI).
19. The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI has resulted in a reduction in the pension liability and therefore the pension deficit on the balance sheet. This £100.7M reduction in liabilities, due to the above change, has been accounted for as a (negative) past service cost, and has been treated as an exceptional item both within the Comprehensive Income and Expenditure Statement £90.8M and the HRA Income and Expenditure Statement £9.9M.

20. The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

ACCOUNTING POLICIES

21. 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.
22. The Accounting Policies are described in detail on pages 16 to 32 of the Financial Statements and cover such items as:
- Fixed assets
 - Depreciation
 - Pensions
 - Accruals
 - PFI contracts
 - VAT
 - Leasing

The Audit Committee will be asked to review the policies adopted and note the new policies adopted for 2010/11 under 'Accounting Issues and Developments' on pages 9 and 10 of the Financial Statements.

However, it should be borne in mind that the majority of the accounting policies adopted by the Council are in line with CIPFA's Code of Practice on Local Authority Accounting (the CODE) and the Audit Committee and the Standards and Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

FINANCIAL STATEMENTS AMENDMENTS

23. There were a number of mainly presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 30 June 2011 and presented for Audit.
24. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms or on request from the report author but the main adjustments were:
- Amendment to the Cash Flow Statement as not updated for a late adjustment to provisions;
 - PFI Future obligations table required to be slightly amended and additional disclosure with respect to Street Lighting payments in 2010/11;
 - Financial Instruments disclosures required to be amended as excluded a category of Financial Instrument;
 - Events after the Balance Sheet Date – Additional disclosure required with regard to Pooled Budget arrangement with NHS Southampton of £15.2 per annum for 10 years (Integrated Commissioning of Learning Disability Services and financial arrangements);

- Capital Commitments – Additional disclosure with regard to Lordshill Academy of £13.96M; and
- Capital Grants and Contributions Receipts in Advance – Additional disclosure table and note added.

25. The Annual Governance Report prepared by the Audit Commission is on the Agenda for consideration and the high level findings are that an unqualified opinion has been issued in relation to both the Financial Statements and the arrangements in place to secure value for money.

RESOURCE IMPLICATIONS

Capital

26. The capital implications were considered as part of the Capital Outturn report presented to Council on 14 July 2011.

Revenue

27. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 14 July 2011.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

29. Accounts and Audit Regulations 2011

Other Legal Implications:

30. None.

POLICY FRAMEWORK IMPLICATIONS

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

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KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	None
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Documents In Members' Rooms

1.	Latest Draft Financial Statements 2010/11
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 30 June 2011

Integrated Impact Assessment

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

Integrated 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.		
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Agenda Item 9

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: DRAFT ANNUAL GOVERNANCE REPORT 2010/11
DATE OF DECISION:	22 SEPTEMBER 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The Annual Governance Report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess how well the Council uses and manages their resources to deliver value for money.

RECOMMENDATIONS:

- (i) That the Audit Committee notes the Audit Commission's reports as attached.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The reports, as attached, have been discussed and agreed with the Chief Executive, Director of Corporate Services and Head of Finance. The following Audit Commission reports are attached for consideration in the appendix:

- Draft Annual Governance Report 2010/11

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

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

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KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Audit Commission: DRAFT Annual Governance Report 2010/11
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

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

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

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

Southampton City Council

Audit 2010/11



Agenda Item 9

Appendix



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Our findings

Unqualified audit opinion



Proper arrangements to secure value for money



Audit opinion and financial statements

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements. Your accounts and supporting working papers were well prepared.

Value for money

I intend to issue an unqualified audit opinion on your arrangements to secure economy, efficiency and effectiveness in the use of resources.

As a Council, you:

- prepared your accounts on time and complied with the accounting code of practice for Local Government;
- delivered your 2010/11 budget;

- approved a balanced 2011/12 budget and responded promptly to the government's spending review;
- adopted an appropriate medium term financial plan identifying an initial funding shortfall of £49.5m and efficiencies and savings totalling £36.1m over the three years to 2013/14;
- are addressing the remaining shortfall, £13.2m phased £3m in 2012/13 rising to £13.2m cumulatively by 2013/14, through the budget setting process with a draft budget to be presented to Cabinet in October 2011;
- implemented your Highways Strategic Partnership and Street Lighting PFI and began to realise the planned benefits through these schemes; and
- delivered the first phase of your estates regeneration programme that has provided valuable experience and expertise that you can rely on when planning the initial stages of phase 2.

It is important that you now:

- complete the organisational restructure to improve how the Council works, including the planned reduction in management posts; and
- deliver the planned efficiencies and savings included in your financial plans.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I have previously reported the steps that I have taken to ensure there are no threats to my independence, objectivity and integrity.

I have not undertaken, and neither has the audit practice undertaken, any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Council to:

- Consider the matters presented in this report;
- approve the letter of representation, provided alongside this report, for the Council before I issue my opinion and conclusion

Financial statements

Your financial statements and annual governance statement are important means by which you account for your stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on your financial statements. Appendix 1 contains a copy of my draft audit report.

The 2010/11 audit cannot be formally closed and an audit certificate issued until I have completed my consideration of matters that have been brought to my attention by local authority electors, about your 2009/10 financial statements. I am satisfied that these matters do not have a material effect on either the 2009/10 or 2010/11 financial statements.

Your financial statements

- 1 I am required to report to you those corrections made during my audit to your accounts that are, in my opinion, both important and relevant to your oversight of the financial reporting process.
- 2 There is only one error that I have identified that has not been corrected in your accounts. This is the Council's treatment of the 'equal pay provision' in the financial statements and in particular the Council's interpretation of Financial Reporting Standard 12 (FRS12). The Council has decided not to recognise its 'equal pay provision' in the financial statements because to do so would be prejudicial to its interest in ongoing litigation. I am satisfied that the provision is not material to my opinion audit, although it is above the threshold for trivial items (ie it amounts to more than £135k). I have asked officers to correct this misstatement, but they have declined to do so for the reasons set out above. Members should consider this issue before approving the 2010/11 financial statements and, if you agree with officers, include the reasons for not recognising the equal pay provision in the financial statements in the letter of management representations to me.

3 I have carefully considered each of the other adjustments made to your accounts, none affected the Council's general fund reserves or net asset position. Appendix 2 sets out details of the more significant corrections made that I judge are relevant to your responsibilities. Other than these, I identified five other non-material errors, none of which affected the Council's net assets or general fund balance. These errors included more minor omissions, misstatements or typographical errors in the notes to the core statements, and some inconsistencies between primary statements and supporting notes. Errors of this type are not unusual within the general accounts production process and in our view should not overly concern those charged with governance in approving the accounts. All the identified inconsistencies have now been amended. A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the accounting code of practice.

Specific risks identified by my planning

In planning my audit I identified specific risks and areas of judgement. I reported these to you in June and include below my final conclusions about each of them.

Key audit risk and our findings

Key audit risk

Finding

1. Transition to International Financial Reporting Standards (IFRS)

Your accounts comply with the IFRS

I planned to:

- review the restated accounts and comparatives for 2009/10 ahead of the year-end, and the revised accounting policies; and
- pay particular attention to the higher risk areas of Property, Plant and Equipment (especially leases, contracts with embedded leases and component accounting), segmental reporting and accruals for employee benefits.

2. PFI schemes

I have reviewed the treatment of PFI schemes and Non-PFI partnerships in your 2010/11 financial statements. There are no issues that I need to bring to your attention. There were two adjustments that were above my £135k triviality level that have been made. These were however immaterial and have not therefore been included in appendix 2.

There are some areas where we have previously taken technical advice relating to the Schools PFI, the Waste Management contract, the Street Lighting PFI and BUPA care homes. The correct modelling of costs and recognition of assets remain relevant to the 2010/11 opinion audit

3. Equal pay provision

The Council has provided for its 'equal pay provision' in its financial ledger, but not recognised the provision in the 2010/11 financial statements. The financial statements therefore do not agree to the ledger for this one item.

The Council will need to consider how to respond to the equal pay claims that it has received and decide whether to provide for these in 2010/11.

The Council has decided not to include this provision in its financial statements based on legal advice that to do so would prejudice its position in ongoing litigation. The Council believes Financial Reporting Standard 12 (FRS12) allows it not to include the provision in either the balance sheet or the notes.

I do not agree with the Council's interpretation of FRS12. I have sought technical advice which was that the provision should be included in the balance sheet but that FRS12 allows for the detail not be disclosed in the notes. Officers have declined to correct this misstatement for the reasons set out above.

You should consider this issue before approving the 2010/11 financial statements and, if you agree with officers, include the reasons for not recognising the equal pay provision in the financial statements in the letter of management representations to me.

I have tested the bank reconciliation at the 31 March 2011 and confirmed there are no unidentified bankings/ credits in the reconciliation.

4. Bank reconciliation

At the time of my pre statements audit the main bank account reconciliation included income which had not been accurately identified in both the IKON system (£3m) and the bank account (£2m). These balances were shown as reconciling items.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control that I need to bring to your attention resulting from my 2010/11 audit.

I am still responding to matters brought to my attention by an elector about the heating charges that the Council has levied on tenants and leaseholders. These matters relate to the 2009/10 financial statements. Following my 2009/10 audit I made a few recommendations to improve the internal controls over heating charges. I have followed up the Council's progress in implementing those recommendations. My findings are set out in the table below.

Internal control issues and our findings

Description of weakness

1. Heating charges to tenants and leaseholders

In 2009/10 I made four recommendations in respect of the tenant and leaseholder heating charges the Council raises and in particular the Council's meter record, which is used to calculate these charges.

I have worked with your Internal Auditors to review the progress the Council has made in addressing each of my recommendations. Where errors have been identified, I have tested the financial corrections made to the heating charges account in 2010/11.

Findings

The Council has:

- implemented a new computer based meter record (System link) that is being evaluated through parallel running with the old meter record;
- confirmed the designation of electricity meters, with less than 10 outstanding. Established the extent of errors in the old meter record, calculated the financial impact of these errors and adjusted the heating charges account;
- begun to establish the refund of costs due from energy suppliers where charges were still being made for redundant meters,
- removed the cost of energy used in sheltered housing communal areas from the heating charges account; and
- confirmed that just over half of properties have been visited by the end of August 2011 and the gas meter read as part of the gas servicing cycle.

Work still required

Officers need to:

- evaluate the effectiveness of the new 'System link' meter record, through a post implementation review;
- confirm the designation of meters in the remaining 6 properties and reclaim the cost of overcharged energy costs from its energy suppliers; and
- complete the review gas meters through the annual gas servicing cycle.

These weaknesses are only those I identified during my audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I also consider the non-numeric content of your financial reporting. Your financial statements for 2010/11 had to comply with IFRS for the first time. This put extra pressure on your staff. Despite this extra work your financial statements and working papers produced in line with agreed timetables. Working papers were once again produced to a good standard to support the entries and disclosures in the accounts.

There are no other matters I need to bring to your attention.

Other matters

Finally, I reviewed your annual governance statement and confirmed that it complies with the code requirements and our knowledge and experience of the Council.

There are no other matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have asked that you include your reasons for not recognising the 'equal pay provision' in your financial statements in your letter of representation.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- the organisation has proper arrangements in place for securing financial resilience (Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future); and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

My value for money conclusion

My overall conclusion is the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. The Council has made progress against each of the areas that I highlighted in my audit last year. A summary of my findings is set out in the table below.

Criterion	Findings
Financial resilience	The Council has a track record of strong financial management. It has implemented a robust response to manage the impact of the government's comprehensive spending review and it is closely monitoring the delivery of its identified efficiencies and savings plans. It is maintaining balances at a prudent level, ensuring there are funds to meet unexpected costs, deliver key priorities and provide scope for 'invest to save' schemes. The Council is restructuring into three core front line directorates, supported by a central core. This is designed to improve the efficient working of the Council and will lead to a reduction of senior management posts and the realisation of savings. Phase 1 of the restructure is

completed. A new 'Management Board of Directors' was set up in April 2011 and the number of directorates was reduced to 5, reducing the number of directors that are in post. The consultation process on phase 2 started at the end of July 2011 and will end in September 2011, before the new structure is implemented in November 2011.

The Council has implemented revised staff 'terms and conditions' (T&Cs) of employment for staff, although this was delayed until 11 July 2011, resulting in a £1.3m reduction in the originally planned savings in 2011/12. This shortfall is being made good from other one-off sources in 2011/12.

The Council's capital programme was underspent by £13.3m (9 per cent) in 2010/11, General Fund (GF) £11.4 m and Housing Revenue Account (HRA) £1.9m. The future capital programme that has been agreed over programmes GF resources by £9.2m and HRA by £3m. While this level of future over programming is in line with the Council's predetermined tolerances of 5 per cent (£15.5m) it will require close management to ensure the capital programme remains realistic and achievable.

Economy efficiency and effectiveness

The Council has taken action to prioritise resources and focus on its key corporate aims. Examples are as follows.

- Although almost all staff have accepted the revised Terms and Conditions that have been implemented as part of the planned savings programme, there has been industrial action that is still to be resolved which has been detrimental to front line services.
- The Council has implemented two major projects in 2010/11 the Highways Strategic Partnership (HSP) (£100m over 10 years) and the Street Lighting Partnership (£28.5m over 25 years). Realised benefits have been reported by these schemes in their first year. For example the HSP has achieved savings equivalent to £263k pa against the pre-HSP budgets in its first six-month period and financial cost savings of £211.8k against the four Highways Target Cost schemes. In its first year the Street Lighting PFI has delivered the replacement of 2,534 lighting units and has reduced energy consumption by 150,329 kWh. The Council is reviewing the governance and performance frameworks for these projects in 2011/12 and has responded positively to recommended improvements.
- The experience gained from the successful delivery of the phase 1 £16m Hinkler Parade estate regeneration scheme places the Council in a strong position when procuring and project managing the delivery of future estate regeneration schemes (phase 2 will be between £30m to £40m).
- Robust arrangements have been developed with the Southampton City Primary Care Trust for Adult Health and Social Care, combining annual budgets of £62.7m from the Council with £83m from Southampton City PCT. The application of these arrangements is being reviewed and tested by Internal Audit in 2011/12 to ensure that they are working effectively.
- External partners have been selected and contracts awarded for the management of the Council's sport and recreation facilities, these commenced in August and September 2010 respectively.

Appendix 1 - Draft Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Southampton City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and Auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Southampton City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Delay in certificate of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by a local authority elector in respect of the audit of the 2009/10 financial statements. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements.

K. L. Handy
Officer of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

XX September 2011

Appendix 2 - Amendments made to your draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring the them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	comprehensive income and expenditure statement		Statement of financial position	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<p>Financial foreword –Where the money came from</p> <p>The disclosed total amount of main sources of income for 2010/11 has been increased by £23.6m to £619.5m and 2009/10 by £50.7m to £594.6m.</p>	<p>The total amount of main sources of income had been misstated.</p>	N/A	N/A	N/A	N/A
<p>Equal pay provision</p> <p>Your original accounts included the 'equal pay provision' in the cash flow statement and supporting notes.</p>	<p>Following discussions, your officers removed this provision from the cash flow statement and supporting notes.</p>	N/A	N/A	N/A	N/A

<p>A transfer from 'provisions' to 'creditors' in respect of equal pay claims that had been determined in 2010/11 but not paid by 31 March 2011 has been reversed.</p>	<p>The original disclosure distorted the level of provisions made by the Council.</p>	N/A	N/A	N/A	N/A
<p>Events after the balance sheet date – note 8 The Council has disclosed an additional event after the balance sheet date in respect of the 'Integrated Commissioning of Learning Disabilities' agreement that it has entered with NHS Southampton City from the 1 April 2011.</p>	<p>This is a significant agreement that will involve the Council pooling £15.2 m per annum over the next 10 years.</p>	N/A	N/A	N/A	N/A
<p>Property, Plant and Equipment (capital commitments) – note 14 The Council's commitment in respect of the Lordshill Academy at 31 March 2011 has been added to note 14, totalling £13.96m.</p>	<p>This commitment had originally been omitted.</p>	N/A	N/A	N/A	N/A
<p>Capital grants and contributions receipts in advance – note 42 A detailed disclosure note has been added in respect of capital grants and contribution receipts in advance.</p>	<p>This disclosure is a requirement of the Code of Practice on local authority Accounting.</p>	N/A	N/A	N/A	N/A

Appendix 3 - Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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

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



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September 2011

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DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	FUTURE OF LOCAL PUBLIC AUDIT - UPDATE
DATE OF DECISION:	22 SEPTEMBER 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The purpose of this paper is to provide the Audit Committee with an update of the Department for Communities and Local Government (DCLG) proposals for transferring the work of the Audit Commission's in-house audit practice to the private sector.

The DCLG has asked the Audit Commission to seek bids for the work currently undertaken by its in-house audit practice. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13.

It is intended that the Audit Commission will award contracts in spring 2012 to allow new auditor appointments to be in place by 1 September 2012.

As contracts will not be awarded until spring 2012 auditors will not be appointed until after the start of the 2012/13 financial year. Because an auditor needs to be in place at the start of the financial year, an interim auditor appointment will be made to cover the period 1 April 2012 to 31 August 2012.

It is intended that the Council's current external audit provider would be retained to cover this interim period, although formal consultation will be undertaken by the end of this year.

The 'interim' role will be limited to a 'watching brief', with any costs incurred during this period, met by the Audit Commission.

Following the procurement exercise the Audit Commission will appoint the Council's new auditor, to audit the 2012/13 and future years' accounts, with effect from 1 September 2012.

The Council will be consulted on this appointment following the award of contracts in spring 2012.

The proposed timetable for transition is detailed at Appendix 1

RECOMMENDATIONS:

- (i) That the Audit Committee note pending changes to the provision of external audit to the Council.

REASONS FOR REPORT RECOMMENDATIONS

1. To ensure Members are fully briefed in respect of government changes to the future of external audit provision

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. None

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. None

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Department for Communities and Local Government – Transition timetable
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

Other Background Documents

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

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

Period	Auditor Appointment	Comments
<i>From 1 April 2011</i>	<i>Current auditor (in-house audit practice)</i>	<ul style="list-style-type: none"> • No change for audit of 2011/12 accounts.
<i>1 April 2011 – 31 August 2012</i>	<i>Current auditor (in-house audit practice)</i>	<ul style="list-style-type: none"> • <i>Interim appointment for 2012/13. No change – subject to consultation by end of 2011.</i> • <i>Role will be to keep a ‘watching brief’ only and any costs incurred by auditors will be paid by the Audit Commission</i>
<i>From 1 September 2012</i>	<i>New auditor (Private firm)</i>	<ul style="list-style-type: none"> • Change of auditor (to a private firm) – subject to consultation following award of contracts in spring 2012. • <i>Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion)</i> • <i>Full year’s scale fee payable by audited body.</i> • <i>Auditor responsible for audit of future year’s accounts</i>

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DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	INTERNAL AUDIT: STATUS OF WORK - AUGUST 2011
DATE OF DECISION:	22 SEPTEMBER 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:

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

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

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

The appendix summarises the activities of internal audit for the period ending August 2011.

RECOMMENDATIONS:

- (i) That the Audit Committee notes the Internal Audit Status of Work report for the period ending August 2011 as attached.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

None

DETAIL (Including consultation carried out)

The status report for the period ending August 2011 is attached for consideration in the appendix.

RESOURCE IMPLICATIONS

Capital/Revenue

None

Property/Other

None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

The Accounts and Audit (England) Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'

Other Legal Implications:

None

POLICY FRAMEWORK IMPLICATIONS

None

AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Internal Audit: Status of Work Report period ending August 2011
----	---

Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

Other Background Documents

Integrated 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.		
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SUBJECT:	Internal Audit: Status of Work
MEETING:	Audit Committee
DATE OF MEETING:	22 September 2011
REPORT OF:	Chief Internal Auditor
REPORT DATE:	August 2011

1 Opinion definitions

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

2 Status of 'live' reports:

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Overdue	Pending
Payroll	23/03/10	Corporate Services	Substantial	Substantial	3(2)	1(1)	2(1)	
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)	3(0)	2(0)	
Hollybrook Junior School	13/09/10	Families & Communities	Substantial	Substantial	4(1)	3(1)	1(0)	
Application and Software Management	12/10/10	Corporate Services	Limited	Substantial	8(0)	4(0)	4(0)	
Network Management and Security	12/10/10	Corporate Services	Limited	Adequate	21(0)	13(0)	8(0)	
Vermont School	19/11/10	Families & Communities	Adequate	Adequate	8(1)	1(0)	7(1)	
St Johns Primary and Nursery School	22/11/10	Families & Communities	Limited	Limited	5(3)		5(3)	
Pathways Financial Payments	08/02/11	Families & Communities	No	Substantial	15(11)	15(11)*		
Creditors	15/02/11	Corporate Services	Substantial	Substantial	3(0)	3(0)	1(0)	1(0)
Expense Management	21/02/11	Corporate Services	Adequate	Substantial	13(0)	9(0)	2(0)	2(0)
Payroll	21/02/11	Corporate Services	Substantial	Substantial	2(2)		2(2)	
Debtors	07/03/11	Corporate Services	Substantial	Substantial	5(0)	3(0)	2(0)	
VAT Accounting	20/04/11	Corporate Services	Adequate	Adequate	3(0)		3(0)	

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Overdue	Pending
Provider Services (Kentish Road)	23/05/11	Families & Communities	Limited	Substantial	8(4)	6(4)	2(0)	
Section 106 Agreements	23/05/11	Environment	Limited	Limited	5(5)	1(1)	1(1)	3(3)
Mount Pleasant Junior School	15/07/11	Families & Communities	Adequate	Adequate	2(1)			2(1)
Internet and Email	20/07/11	Corporate Services	Adequate	Adequate	4(0)	1(0)	1(0)	2(0)
IT Security Management	20/07/11	Corporate Services	Limited	Adequate	10(3)	8(3)		2(0)
IT Strategy and Service Delivery	20/07/11	Corporate Services	Adequate	Adequate	4(0)	1(0)		3(0)
Customer Services	21/07/11	Corporate Services	Substantial	Substantial	3(0)	1(0)		2(0)
Highways Futures	28/07/11	Environment	Adequate	Adequate	12(4)	1(1)		11(3)
Across School Thematic Review (General report)	29/07/11	Families & Communities	Adequate	Adequate	9(0)	1(0)		8(0)
School Admissions	19/08/11	Families & Communities	Adequate	Adequate	3(1)			3(1)

* Financial training and guidance has been disseminated to all safeguarding staff, however work remains ongoing to further disseminate across the whole of CSL

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

Audit title: Provider Services (Kentish Road Respite Home) 23/05/11

Original published audit opinion: Limited Assurance

Current audit opinion: Substantial Assurance

Executive summary:

Kentish road is a respite home for adults with learning disabilities, in which clients reside on a short stay basis.

During visits clients routinely bring spending money with them for outings and purchases during their stay. Most of the clients opt for their money to be stored in the safe for reimbursement when requested.

The audit review found that whilst there was no indications that monies had gone missing, controls over access to the safe, recording and issuing of client monies, and return of monies at the end of their stay were inadequate and left staff at risk of exposure.

Review of imprest account procedures highlighted a lack of segregation of duties with regard to removal of money from the safe, purchasing and recording of goods purchased and a lack of independent verification. All permanent staff at the home had access to the safe key which was stored in a digitally locked key cabinet.

The home did not maintain an asset register as required by the Council's financial procedure rules.

A caution list is distributed to residential homes of agency staff considered by the residential home managers and agency managers not suitable for employment in the homes. The Manager at Kentish road was not in receipt of the 'caution list' and was therefore unable to utilise it to check the suitability of agency staff prior to employing them.

The home did not maintain monitoring records of agency staff and records of induction as required in the framework agreement nor was there evidence of a CRB check requested from agency workers prior to the start of an assignment.

The home has its own procedures manual which is comprehensive and regularly reviewed and updated by the Manager, however some of the procedures contained within it were not consistent with those of other residential homes, with particular regard to contingency plans and the medication audit.

Management actions and update:

Handling of clients' money now includes segregation of duties

Procedures have been updated to accord with other residential homes (including imprest procedures and medication audits)

Safe keys are restricted to authorised personnel

A Business Continuity Plan has been completed

Appropriate checks now undertaken and records maintained for agency staff

Manager now included within the circulation list for all cautions around the suitability of agency workers.

Appraisals are being undertaken for all staff

An asset register is now in place.

High priority actions overdue:

None

Audit title: IT Security Management 20/07/11

Original published audit opinion: Limited Assurance

Current audit opinion: Adequate Assurance

Executive summary:

The Southampton Strategic Services Partnership agreement requires compliance with the Payment Card Industry (PCI) level 3 for Data Security. Penetration tests were undertaken in August 2010 and November 2010 and the resultant reports stated that 'Southampton City Council is NON-COMPLIANT with the PCI scan validation requirement.' The action plan currently in place by Capita to ensure that all of the issues causing non compliance with the PCI requirement are addressed is out of date and requires revision. In addition, a monthly performance report prepared by Capita shows 100% compliance for perimeter testing even though the penetration tests undertaken in August 2010 and November 2010 concluded that the Council was non PCI compliant.

The host for the Citrix Access Gateway undergoes quarterly penetration testing. Vulnerabilities were identified, a number of which were rated as of medium criticality and should be resolved as part of the on-going security maintenance of the system. Capita's action plan to address the issues raised by penetration testing is out of date and requires revision.

The Southampton Strategic Services Partnership agreement states that Capita should work towards delivering services in line with the principles defined in BS7799, however, the current standard ISO/IEC 27001 superseded BS7799. Capita have performed an ISO/IEC 27001 gap analysis. However, at the time of this review action plans had not been developed for the gaps identified.

The Council's Information Security Policy refers to NHSnet, a wide area network used by the NHS and its partners. NHSnet was superseded by the N3 network in 2006. The Policy is therefore in need of revision.

An Information Security Incident Management Policy has been developed, the purpose of which is to ensure that Southampton City Council reacts appropriately to any actual or suspected security incidents relating to information systems and data. However, at the time of this review, the Policy was in draft and had yet to be published.

Management actions and update:

All policy documents are now version controlled and published in a PDF format on the intranet

Capita contacted to identify measurement of KPI's and PI's and such information is being shared and reported.

A change control notice has been added to the Capita contract which now refers to ISO0IEC27001.

NHS Net will be replaced with N3 on all security policies.

High priority actions overdue:

None

4 Internal Audit Performance

Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit.

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) as proper practice in relation to internal audit in local authorities. A full self assessment against the Code has been completed and assurance gathered to confirm full compliance

Analysis of audit activity to date confirms that 46% of the 2011/12 audit plan is complete or work in progress.

5 Planning and Resourcing

With effect from 1 November 2010 Hampshire County Council and Southampton City Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduced a shared Chief Internal Auditor role across both authorities. The intention was to then embed this as a true partnership model.

Following an expression of interest from West Sussex County Council it was agreed that a business case should be produced to evaluate options for the delivery of an Internal Audit Shared Service across the three authorities.

A full range of options were identified and assessed including a fully outsourced service. The preferred option, however, was a shared service partnership as a joint discharge of functions under Section 101(5) of the Local Government Act 1972, with Hampshire County Council operating as the host authority.

The three Chief Financial Officers met as joint Project Executives to consider the draft business case in July 2011 and agreed to move to seek authority to proceed from Cabinet within each authority (Sept / Oct 2011)

6 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<u>2010/11 Audit Plan</u>					
VAT Accounting	✓	✓	✓	✓	20/04/11
Section 106 agreements	✓	✓	✓	✓	23/05/11
Intermediate Care	✓	✓	✓	✓	23/05/11
Provider Services	✓	✓	✓	✓	23/05/11
Customer services	✓	✓	✓	✓	20/07/11
IS security management	✓	✓	✓	✓	20/07/11
IS strategy and service delivery	✓	✓	✓	✓	20/07/11
Internet/e-mail	✓	✓	✓	✓	20/07/11
Highways futures	✓	✓	✓	✓	28/07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Across School Thematic	✓	✓	✓	✓	29/07/11
School admissions	✓	✓	✓	✓	19/08/11
Project management	✓	✓	✓	✓	26/08/11
Strategic service partnership	✓	✓	✓	✓	30/09/11
Cash collection and banking	✓	✓	✓	✓	30/09/11
Joint Commissioning Standards	✓	✓	✓	✓	30/09/11
Housing Management	✓	✓	✓	✓	30/09/11
2011/12 Audit Plan					
Annual Governance Statement	✓	✓	✓	✓	26/05/11
Compliance with Health and Safety Legislation	✓	✓	✓	✓	01/07/11
Hampshire Camera Partnership	-	✓	✓	✓	29 /07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Solent Sea Rescue	-	✓	✓	✓	29/07/11
General School Review – Sinclair Primary School	✓	✓	✓	✓	16/09/11
Itchen Bridge (Industrial Action)	✓	✓	✓	✓	16/09/11
Repairs and Maintenance	✓	✓	✓	✓	30/09/11
Asset management	✓	✓	✓	✓	30/09/11
Grants to Voluntary Organisations	✓	✓	✓	✓	30/09/11
Street Lighting PFI	✓	✓			
Parking Services and City Patrol	✓	✓			
European Funded Projects	-	✓			
Libraries	✓	✓			
Licensing	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Locality Teams	✓	✓			
Teachers Pension	✓	✓			
Housing and Council tax Benefits	✓				
Creditors	✓				
Debtors	✓				
Council Tax and NNDR	✓				
Treasury and Cash Flow Management	✓				
Sustainability (Carbon Reduction)	✓				