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GOVERNANCE COMMITTEE

Tuesday, 25th September 2012
at 6.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor David Furnell (Chair)
Councillor Mark Chaloner
Councillor Edward Daunt
Councillor John Hannides
Councillor John Inglis
Councillor Satvir Kaur
Councillor Eamonn Keogh

Independent Members

Mr David Blake
Mrs Elizabeth Hale

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

Public Representations

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

Southampton City Council's 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

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 2012/13

2012	2013
2 nd July	5 th February
25 th September	30 th April
10 th December	

CONDUCT OF MEETING

Terms of Reference

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

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

Business to be discussed

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

Quorum

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

Rules of Procedure

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

DISCLOSURE OF INTEREST

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

DISCLOSABLE PERSONAL INTERESTS

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

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

(ii) Sponsorship:

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

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

1 APOLOGIES

To receive any apologies.

2 DECLARATIONS OF PERSONAL AND PECUNIARY INTERESTS

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

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

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETINGS (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meetings of the Standards and Governance held on 25th June 2012 and the Governance Committee held on 2nd July 2012, and to deal with any matters arising, attached.

5 ANNUAL REPORT ON LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS 2011-12

Report of the Director of Corporate Services summarising performance and issues arising out of the Annual Letter for 2011-12 (year ending 31st March 2012) from the Commission for Local Administration in England, attached.

6 ANNUAL REPORT ON CHILDREN'S SERVICES AND LEARNING / HEALTH AND ADULT SOCIAL CARE COMPLAINTS 2011/12

Annual report of the Customer Care and Quality Manager on complaints regarding Children's Services and Learning / Health and Adult Social Care Complaints 2011/12, attached.

7 CORPORATE COMPLAINTS 2011-12

Report of the Senior Manager, Customer and Business Improvement summarising performance and issues arising out of the Council's Corporate Complaint's Procedure from the 1st April 2011 until 31st March 2012, attached.

8 CHAIR'S ANNUAL REPORT ON AUDIT COMMITTEE 2011/12

Report of the Chief Internal Auditor requesting that the Committee considers and comments on the Chair of the Audit Committee's Annual Report 2011/12, attached.

9 INTERNAL AUDIT: PROGRESS REPORT AUGUST 2012

Report of the Chief Internal Auditor regarding progress on internal audit practices for the period August 2012, attached.

10 INTERNAL AUDIT STRATEGY 2012-15

Report of the Chief Internal Auditor detailing the Internal Audit Strategy for 2012-15, attached.

11 STRATEGIC RISK REGISTER

Report of the Risk and Assurance Manager regarding the Strategic Risk Register, attached.

12 AUDIT COMMISSION: ANNUAL GOVERNANCE REPORT 2011/12

Report of the Chief Internal Auditor summarising the findings of the Audit Commission's 2011/12 Annual Governance Report, attached.

13 AUDIT COMMISSION: ANNUAL AUDIT LETTER 2011/12

Report of the Chief Internal Auditor concerning the Annual Audit Letter detailing the results of the District Auditor's statutory audit of the Council's 2011/12 financial statements and the assessment of arrangements to achieve value for money in the Council's use of resources, attached.

14 ANNUAL GOVERNANCE STATEMENT

Report of the Head of Finance and It regarding the Annual Governance Statement, attached.

15 STATEMENT OF ACCOUNTS

Report of the Head of Finance (Chief Financial Officer) detailing the Statement of Accounts for 2011/12, attached.

16 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW

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

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Agenda Item 4

To approve and sign as a correct record the Minutes of the meetings of the Standards and Governance held on 25th June 2012 and the Governance Committee held on 2nd July 2012, and to deal with any matters arising, attached.

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SOUTHAMPTON CITY COUNCIL
STANDARDS AND GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 25 June 2012

Present:

Members of the Council

Councillors Turner, Inglis, Keogh, Laming and Vinson

Independent Members

Mr Brian Hooper (Chair), Mr David Blake, Mrs Elizabeth Hale and Mr Geoff Wilkinson

Apologies

Councillors Burke and Hannides

23. **APPOINTMENT OF INDEPENDENT CHAIR**

RESOLVED that Mr Brian Hooper be appointed Independent Chair of the Committee for the purposes of this meeting.

BRIAN HOOPER IN THE CHAIR

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

RESOLVED: that the minutes for the meeting on 16th April 2012 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

25. **LOCALISM ACT 2011 - REVISED STANDARDS ARRANGEMENTS**

The Committee considered the report of Head of Legal, HR and Democratic Services detailing revised standards arrangements. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED

- (i) that the Committee recommend the revised Members Code of Conduct as set out at Appendix 1 for adoption by Council; and
- (ii) that after 6 months of the Code being in operation a further report be brought to the Committee for consideration.

26. **FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2011-12**

The Committee received and noted the report of Head of Legal, HR and Democratic Services detailing annual statistical information for the financial year 2011-12 Freedom of Information, Data Protection and Regulation of Investigatory Powers Acts. (Copy of the report circulated with the agenda and appended to the signed minutes).

The Committee particularly noted the continuing, overall upward trend in the number of requests, their increasingly complexity and thus the increasing cost and demand on resources in dealing with them.

It was confirmed to the Committee that consideration was given to each response as to whether the repetition of the request could be avoided by increasing information available on the web site and this was a frequent consequence.

GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 2 JULY 2012

Present: Councillors Furnell (Chair), Chaloner, Daunt, Inglis and Kaur

Apologies: Councillors Hannides, Keogh and Mrs E Hale

Also in attendance: Kate Handy and Mike Bowers – Audit Commission

1. **ELECTION OF THE VICE-CHAIR**

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

2. **STATEMENT FROM THE CHAIR**

On behalf of the Committee, the Chair expressed thanks to the Chairs of the previous Standards and Governance Committee and Audit Committee,

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

RESOLVED: that the minutes for the Committee meetings held on 8th and 28th September 2011 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

4. **RISK MANAGEMENT STRATEGY 2012-13 AND ANNUAL ACTION PLAN**

The Committee considered the report of the Head of Finance detailing the Council's Risk Management Strategy 2012-13 and Annual Action Plan. The Strategy set out the Council's overall approach to managing risk and is subject to annual review to ensure that it reflects good practice and remains aligned with current business processes and practices. The annual Risk Management Action Plan summarised the intended activity/actions in the forthcoming period to further develop and embed risk management. (Copy of report circulated with the agenda and appended to signed minutes).

The Committee noted with regard to the Risk Management Action Plan that all actions were completed with the exception of "Managing Risks in Partnerships" which was subject to revision in the light of guidance from the new administration in respect of the new approach to partnerships.

RESOLVED:-

- (i) that the Risk Management Strategy 2012-13 be noted and approved;
- (ii) that the Risk Management Action Plan for 2012-13 be noted and approved;
and
- (iii) that the status report on the Risk Management Action Plan for 2011-12 be noted.

5. **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2011/12**

The Committee received and noted the report of the Chief Internal Auditor reviewing the adequacy and effectiveness of the Council's system of internal control internal and summarising audit work for the year ending 31st March 2012. (Copy of the report circulated with the agenda and appended to the signed minutes).

6. **BRIBERY ACT POLICY**

The Committee received and noted the report of the Chief Internal Auditor seeking approval for the Bribery Act Policy in accordance with the legislative requirements of the Bribery Act 2010. (Copy of the report circulated with the agenda and appended to the signed minutes).

The Committee noted that the Policy consolidated the Council's approach in meeting the requirements of the Act. It also noted the process through which it was intended the Council would maintain its high standards and protect the organisation, employees, Members and business partners against allegations of bribery and corruption was .

RESOLVED that the Bribery Act Policy be approved.

7. **AUDIT COMMISSION: UPDATE REPORT AND AUDIT PLAN FOR THE AUDIT OF THE 2011/12 FINANCIAL ACCOUNTS**

The Committee received and noted the report of the Chief Internal Auditor regarding the Audit Commission's Update Report and Audit Plan for the Audit of the 2011/12 Financial Accounts; providing an update on progress in the delivery of the Council's external auditors' responsibilities and on the externalisation of the Audit Practice and key emerging national issues and developments. (Copy of the report attached to the Agenda and appended to the signed minutes).

8. **MEETING SCHEDULE AND WORK PLAN**

The Committee considered potential items for the Committee's work plan and schedule for the forthcoming municipal year.

The Committee also considered alternative start times for the Committee meetings

RESOLVED that future meetings of the Committee commence at 6pm.

Agenda Item 5

DECISION-MAKER	GOVERNANCE COMMITTEE		
SUBJECT	ANNUAL REPORT ON LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS 2011-12		
REPORT OF:	DIRECTOR OF CORPORATE SERVICES		
DATE OF DECISION	25 TH SEPTEMBER 2012		
AUTHOR	Name:	Sarita Riley	Tel: 023 8083 3218
	E-mail:	sarita.riley@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

N/A

SUMMARY

This report summarises performance and issues arising out of the Annual Letter for 2011-12 (year ending 31st March 2012) from the Commission for Local Administration in England (Ombudsman). Separate reports will also be provided to Governance Committee in relation to the Council's performance under its Corporate Complaints Procedure and the Statutory Children's and Adult's social care complaints procedures (both of which also now report compliments and service comments where appropriate) as both of these ultimately impact upon and form links with the Council's relationship with the Ombudsman.

RECOMMENDATION:

- (i) That the report be noted.

REASONS FOR REPORT RECOMMENDATIONS

1. To update Members on issues and performance arising out of complaints made by the public to the Ombudsman during 2011-12. Identifying these issues assists the Council in understanding where services delivered by the Council in the past year have fallen below public expectation in order to improve service delivery to its citizens.

CONSULTATION

2. This report is presented to Governance Committee for consultation purposes. The Annual letter has been shared with the Chief Executive, the Director of Corporate Services (in his capacity as Monitoring Officer for the Council) and the Head of Legal, HR & Democratic Services. The Monitoring Officer and the Corporate Legal Team administer all Local Government Ombudsman complaints within the Authority on behalf of the Chief Executive, who is the person ultimately responsible for these matters to the Ombudsman. The author of this report acts as a single point of contact for the Ombudsman in relation to areas of concern (including all complaint investigations), advice and training.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. N/A

DETAIL

4. Attached to this report is the Local Government Ombudsman's Annual Review for the year ending 31st March 2012 (Appendix 1).
5. In 2008/09 the Ombudsman introduced significant changes in the way the Ombudsman investigates complaints against Councils. The first year's statistics under these arrangements were reported to Standards & Governance Committee on 24th September 2009. They have been reported annually since that time.
6. Further changes to the way in which complaints were recorded and changes to the decision descriptions have been made in 2011 and 2012 which have, again, made it difficult to accurately judge performance in some areas, where categorisation and complaints' descriptions (including outcome described) have again been altered. This is essentially because some complaints that would have previously been allocated to one category now fall within another and decisions that previously might have simply been recorded as 'No Maladministration' may now be recorded against a number of other 'decision' types. While this makes a direct comparison with the detail of last year's annual letter somewhat distorted, the author has, however, taken some time to look at the detail in relation to complaints held in the Council's own recording system this year and it has, therefore, been possible to provide some strong assurance about specific trends despite the change in reporting methods. It is the author's view, therefore, that a consistent level against which to benchmark performance is being achieved.
7. The previous category of "outside jurisdiction" is broadly comparable with the new "no power to investigate"; "no reason to use exceptional power to investigate" and "investigation not justified" are broadly equivalent to "Ombudsman's discretion". Two new categories of "not enough evidence of fault" and "no or minor injustice" replace the old "no maladministration"; and "injustice remedied during enquiries" replaces the previous category of "local settlement" "Report" is now the category under which findings of maladministration are listed.
8. Initial assessment suggests the Council's remains a strong performer in this area, with no major or underlying trends causing concern when looking at similar trends with statistical neighbours.
9. The introduction in 2009 of the 'LGO Advice Team', has proven to be working well in filtering out minor and repetitive complaints that do not merit investigation or can be dealt with locally by the councils concerned once they know about them. The advice team also provides general advice and assistance to members of the public before their case is allocated for investigation and this has helped individuals to focus on what they want to achieve from a complaint rather than the 'process' of making a complaint in and of itself.
10. Key points are to be noted from the Ombudsman's letter and statistics include:

- a. The Ombudsman received a total of 73 complaints in all categories (including premature complaints) this year against Southampton City Council, a somewhat higher number than in 2011 (68) and 2010 (53). There are, historically, annual fluctuations from year to year, and the Council is usually fairly consistent in the number of complaints received overall. Premature complaints remain higher than we would like but the complaints procedure is well advertised and accessible and it is our considered view that this is more a reflection of customers seeking to “cut out the middle man” in the hope of a speedier resolution by the LGO than any failing of the complaints system and is a very slight improvement on last year’s figure. The overall number of complaints does remain low and both substantive and premature complaints figures remain consistent with statistical neighbour’s trends (See Appendix 3).
- 18 complaints related to Housing matters (16 last year)
 - 4 complaints related to Children’s Services (14 last year),
 - 6 complaints related to benefits and tax (12) last year,
 - 4 complaints received concerned Planning / Building Control (8 last year),
 - The remainder of complaints cover a range of services.
- b. The most significant increase in 2011/12 is in Environmental Services & Public Protection and Regulation. Twenty complaints (six of which were forwarded for new investigation) compared to only four (two investigations) last year. The reason for this trend has not yet been clarified, but it is believed that a large number of these issues relate to enquiries about waste collection services concerns following the industrial action last year (which the Ombudsman declined to investigate) together with a small increase in Bereavement Services’ matters (family disputes over graves and cremations) and nuisance matters.
- c. Historic trends show that complaint levels tend to increase when there are significant local or national pressures on the economy. Higher unemployment, lower disposable income, recession and the effects of the economic downturn generally have an impact on Council services, with a greater number of individuals seeking assistance from their local Councils or requiring services from Council’s who are under increasing pressure to prioritise resources to core function areas and the most needy. This overall impact needs to be considered when looking at the last two years’ complaint trends. Southampton still receives a relatively low number of complaints compared to the majority of its statistical neighbours.
- d. Thirteen cases were dealt with by way of ‘advice’ from the LGO advice team, slightly up on the nine cases reported last year and seven the previous year, when the service was first introduced but this remains broadly consistent with the overall increase this year. The introduction of the advice team continues to contribute to the number of complaints that would otherwise have been deemed ‘outside jurisdiction’ or for which alternative remedies are available being withdrawn or not proceeded with, which has enabled the Ombudsman and Council to focus on issues of greater concern.

- e. Twenty five complaints were referred to the Ombudsman's investigation teams (compared to 23 last year) and have either been determined or carried over to this year due to the complexity of the issues involved. Thirty six complaints were determined during 2010/11. Eleven were not investigated (resulting in no finding). Seventeen complaints were found to be without fault or with only minor fault or injustice that did not merit any finding against the Council compared to 13 last year.
- f. Eight complaints were remedied during investigation (the new term for "local settlement") - compared to 10 last year. The Monitoring Officer settles complaints during investigation for a variety of reasons, not all of which are associated with the Council's "liability" in respect of a complaint – on occasions, clearly, the Council will get things wrong, and it is right when that happens to settle the matter without having to put the complainant through further distress and anguish and, indeed, the Council to further cost. On occasion, it is appropriate to settle a complaint because of the complexity of the matter, the costs of a comprehensive investigation and/or the fact that sometimes the full facts will be unclear, and an appropriate and suitable (and cost effective) way forward has to be found. Local settlements cost the Council a total of £4,906 in 2007/08, £1,425 in 2008/9, £4,525 in 2009/10 (£3,500 of which related to a single complaint), £3,650 in 2010/11 and £3650 in 2011/12 (£2,400 of which related to a single complaint).
- g. Of the £3650 paid out to resolve matters during investigation of a complaint during 2011/12, £2,400 related to a single adult social care matter. In that case, the LGO found that the Council had unreasonable delayed assessing an individual for a personal care budget for over seven months. The settlement figure agreed with the LGO reflected the sum they would have been entitled to in personal care payments (for cleaning assistance) had a decision to award a personal care budget been made in a timely manner, together with a further £200 to reflect her time and trouble in pursuing her complaint with the Council. The process for awarding personal care budgets was relatively new at the time the complaint arose and errors in the way applications were dealt with had subsequently been resolved via training and support to staff and changes to procedures and the LGO was therefore satisfied with the additional measures the Council had put in place to prevent a recurrence of this issue. Of the remaining seven matters 'settled locally' only three further cases merited financial compensation. £250 compensation was paid in relation to a planning matter where it was agreed with the LGO that the Council's decision letter had failed to properly explain why a planning permission was granted in light of the previous history of refused applications at the site in question. The Ombudsman found no flaws in the Council's decision making process for the matter in question but could have prevented the complainants need to complain if they had properly understood the basis on which the decision had been taken. Two awards of £250 each were agreed in relation to delays in dealing with two residents complaints about odour nuisance from a restaurant site. The LGO accepted the difficulties the Council had faced in witnessing a formal statutory nuisance at the site but felt that the Council had no kept residents properly informed as to progress in pursuing the matter.

The Council also undertook to work with the restaurant to reduce ambient smells and to undertake a programme of regular monitoring of the site for statutory nuisance. A statutory nuisance has subsequently been witnessed as a result of the significant resources the EHO put into this matter and further enforcement action is anticipated following service of statutory notices.

- h. Of the remaining four cases where local agreement was reached to resolve a complaint, three were resolved by way of apologies for minor delays or errors and / or minor changes to Council policies and procedures to make them clearer and easier for the public to understand. In relation to one further matter, the Council agreed to undertake a review of disabled parking arrangements around the Council's Gateway office facilities to determine if further provision was necessary and / or legally possible in that area. That review has been concluded and further disabled parking provision is now being made, subject to statutory advertisement and representation processes.
 - i. It should be noted that the Council is once again well within the target period of 28 days set by the Ombudsman to respond to complaints, the fastest responders within our comparator group and within the top quartile of response times nationally. The Council took an average of 23.8 days to respond. This is slightly higher than in 2010/11 (20.2 days) and reflects the increased work pressures placed on the Corporate Legal Team following Directorate restructures, together with the slight increase in the number and complexity of complaints received.
 - j. The Corporate Legal Team continues to provide ad-hoc advice and training on dealing with complaints and responding to Ombudsman enquiries where required (mainly through internal resources). Formal training on responding to Ombudsman complaints and investigating complaints generally was last held in 2007/8. Given the increase in premature complaints experienced this year, the Monitoring Officer will recommend a review of the need to deliver training in partnership with the Corporate Complaints Team and the Ombudsman in 2012 once the current changes to the management structure of the Council have settled down, the pending review of the Council's Corporate Complaints processes have been completed and resources permitting.
11. In previous years, Standards & Governance Committee requested a breakdown of how this performance measured against the Council's statistical neighbours. While the Ombudsman does not publish direct comparison's (as the nature of authorities and the services they deliver varies considerably within a geographic area), it has been possible to look at the statistics for the individual unitary authorities within our statistical neighbours (Audit Commission Comparator Authorities list) and provide a summary of performance against them. These authorities comprise Bristol, Brighton & Hove, Plymouth and Portsmouth.
12. The table at Appendix 2 sets out a breakdown of **decisions made** by the Ombudsman during 2011/12 and communicated to local authorities.
13. The total number of new **complaints received** (rather than determined) by each Authority in 2010/11 broken down by subject area is in the table at Appendix 3.

14. It should be noted that in the majority of the comparator authorities, the top two areas in which complaints were received (excluding 'Other' which covers a number of miscellaneous complaint areas) were Children's Services and Housing. Southampton's performance in key areas remains broadly comparable with other authorities and complaints tend to arise in these service areas consistently regardless of the type of authority or geographical area.
15. The LGO no longer publicises details of compensation paid out by Authorities in full or commentary on cases in annual letters unless there are areas of significant concern within an Authority. Compensation figures / cases were not reported against Southampton as the LGO remains satisfied overall with the Council's performance (but are provided for Committee from our own records of these matters).
16. Notable cases reported against the other authorities include:
- No cases / compensation figures are reported for Plymouth or Portsmouth.
 - Brighton: Housing repairs, delay in repairing flat following serious flood. Tenant had physical and mental health problems and was delayed returning to his flat for over a year longer than he should have been. The tenant was also pursued incorrectly for Council Tax while his property was unoccupied. Major changes to repairs procedures, working arrangements with contractors and decision making arrangements were agreed along with compensation of £3,200 to the individual.
 - Brighton: Adult Care Services failed to adequately involve the family of an elderly woman in planning her discharge from hospital to a nursing home. Care Plan also inadequate. Revised procedures and information for the public on hospital discharges agreed and £200 compensation paid to complainant or a charity of her choice. Second case relating to placement in a nursing home raised concerns about the safeguarding vulnerable adults procedure in place and the process for dealing with complaints about care quality in the home. The provider used by the Council did not satisfactorily address concerns expressed by the family on an ongoing basis resulting in the family moving the individual to another home. £600 compensation paid to the elderly person and £400 to her family.
 - Brighton: Children's Services failed to consider whether SEN statements for two siblings met legal requirements to quantify provision for speech and language therapy resulting in insufficient and irregular provision. The Council agreed to review the statements in consultation with the family and relevant professionals and set aside £500 for further speech therapy for each child in the future.
 - Brighton: Failure to deal with review and transition planning for profoundly deaf teenage boy. Procedures followed by the Council resulted in denying the family the chance to appeal against the decision to an independent tribunal resulting in time and trouble and uncertainty for the family for over a year. Compensation paid for distress and in relation to making provision for the boy's future educational needs (sums undisclosed).

- Bristol: Adult Care Services: Elderly care home placement for a resident with dementia in a home with a zero rating resulted in inadequate care for a number of months that detrimentally affected health and well being of individual. Council's reviewing and safeguarding procedures inadequate together with poor communication between Council and provider. Council agreed to pay £6,500 compensation to the resident and her son together with refunding extra care costs paid by family towards resident's alternative care.
17. Full details of all of these cases (and the annual letters relating to these authorities) can be reviewed on the Ombudsman's website at www.lgo.org.uk along with a digest of cases, fact sheets on service specific areas, special interest reports and a summary of statistics by area and authority type should the Committee require any further information in this regard.
18. From next year, the LGO has indicated that they intend to publish ALL decision letters (not just where a Report has been issued against a Council) in relation to all complaints recorded against local authorities on their web site in an open publication scheme. Individuals' names will likely be redacted or anonymised to comply with Data Protection requirements but the media and public will have full access to all decisions made against any named authority once this occurs.
19. In conclusion, in relation to the Local Government Ombudsman's Annual Review, the number of complaints overall continues to remain on a par with statistical neighbours experiences and, overall, low and that is pleasing. Southampton performs well in comparison to its Audit Commission comparator group in the south. The sums paid by the Council in resolving complaints is broadly comparable with last years mainly because of a single relatively high payout in relation to an Adult Social Care matters. Of the remaining Local Settlements, there has been a significant decrease in the number of cases in which compensation for minor breaches has been payable demonstrating that appropriate resolution to complaints is now being offered in the main at earlier stages of the complaints procedures. Continued investigation and monitoring will be undertaken to assess and understand the increasing trend of premature complaints with appropriate action to be taken to address any issues identified as contributing to the increase.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

20. N/A

Revenue

21. There are no additional revenue implications arising from this report. The small level of compensation paid was met from within existing divisional budgets.

Property

22. N/A

Other

23. N/A

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

24. The Ombudsman's jurisdiction is laid out in the Local Government Act 1974 as amended. Local authority complaints mechanisms are operated under Section 111 Local Government Act 1972 and complaints in relation to Children's and Adult Services in accordance with corresponding primary legislation and regulations.

Other Legal Implications:

25. N/A

POLICY FRAMEWORK IMPLICATIONS

26. The matters set out in this report are consistent with the Council's Constitution and Policy Framework.

SUPPORTING DOCUMENTATION

Appendices

1	LGO Annual Letter 2011-12 and statistics
2	Breakdown of decisions made by the Ombudsman during 2011/12 and communicated to local authorities
3	Total number of new complaints received (rather than determined) by each Authority in 2010/11 broken down by subject area

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

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

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

E-mail:

FORWARD PLAN No N/A

KEY DECISION No

WARDS/COMMUNITIES AFFECTED: All

22 June 2012

By email

Mr A Neill
Chief Executive
Southampton City Council

Dear Mr Neill

Annual Review Letter

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ended 31 March 2012. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number forwarded by the Advice Team to my office, and decisions made on complaints about your authority. The decision descriptions have been changed to more closely follow the wording in our legislation and to give greater precision. Our guidance on statistics provides further explanation ([see our website](#)).

The statistics also show the time taken by your authority to respond to written enquiries.

I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention.

Changes to our role

I am also pleased to have this opportunity to update you on changes to our role. Since April 2010 we have been exercising jurisdiction over the internal management of schools on a pilot basis in 14 local authority areas. This was repealed in the Education Act 2011 and the power restored to the Secretary of State for Education. During the short period of the pilot we believe we have had a positive impact on the way in which schools handle complaints. This was endorsed by independent research commissioned by the Department for Education which is available [on their website](#).

Our jurisdiction will end in July 2012 and all complaints about internal school matters will be completed by 31 January 2013.

From April 2013, as a result of the Localism Act 2011, local authority tenants will take complaints about their landlord to the Independent Housing Ombudsman (IHO). We are working with the IHO to ensure a smooth transition that will include information for local authority officers and members.

Supporting good local public administration

We launched a new series of Focus reports during 2011/12 to develop our role in supporting good local public administration and service improvement. They draw on the learning arising from our casework in specific service areas. Subjects have included school admissions, children out of school, homelessness and use of bankruptcy powers. The reports describe good practice and highlight what can go wrong and the injustice caused. They also make recommendations on priority areas for improvement.

We were pleased that a survey of local government revenue officers provided positive feedback on the bankruptcy focus report. Some 85% said they found it useful.

In July 2011, we also published a report with the Centre for Public Scrutiny about how complaints can feed into local authority scrutiny and business planning arrangements.

We support local complaint resolution as the most speedy route to remedy. Our training programme on effective complaint handling is an important part of our work in this area. In 2011/12 we delivered 76 courses to councils, reaching 1,230 individual learners.

We have developed our course evaluation to measure the impact of our training more effectively. It has shown that 87% of learners gained new skills and knowledge to help them improve complaint-handling practice, 83% made changes to complaint-handling practice after training, and 73% said the improvements they made resulted in greater efficiency.

Further details of publications and training opportunities are on [our website](#).

Publishing decisions

Following consultation with councils, we are planning to launch an open publication scheme during the next year where we will be publishing on our website the final decision statements on all complaints. Making more information publicly available will increase our openness and transparency, and enhance our accountability.

Our aim is to provide a comprehensive picture of complaint decisions and reasons for councils and the public. This will help inform citizens about local services and create a new source of information on maladministration, service failure and injustice.

We will publish a copy of this annual review with those of all other English local authorities on our website on 12 July 2012. This will be the same day as publication of our Annual Report 2011/12 where you will find further information about our work.

We always welcome feedback from councils and would be pleased to receive your views. If it

would be helpful, I should be pleased to arrange a meeting for myself or a senior manager to discuss our work in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read "J Martin", with a horizontal line underneath it.

Dr Jane Martin
Local Government Ombudsman

LGO advice team

Enquiries and complaints received	Adult Care Services	Benefits & Tax	Corporate & Other Services	Education & Childrens Services	Environmental Services & Public Protection & Regulation	Highways & Transport	Housing	Planning & Development	Total
Advice given	2	0	2	1	2	2	3	1	13
Premature complaints	1	4	1	0	10	3	7	1	27
Forwarded to Investigative team (resubmitted)	1	1	0	2	2	1	0	1	8
Forwarded to Investigative team (new)	5	1	1	1	6	2	8	1	25
Total	9	6	4	4	20	8	18	4	73

Investigative team - Decisions

No power to investigate	Not investigated			Investigated			Report	Total
	No reason to use exceptional power to investigate	Investigation not justified & Other	Not enough evidence of fault	No or minor injustice & Other	Injustice remedied during enquiries			
4	3	4	12	5	8	0	36	

Response times to first enquiries	No of first enquiries	Avg no of days to respond
	20	23.8

BREAKDOWN OF DECISIONS MADE BY THE OMBUDSMAN DURING 2011/12 AND COMMUNICATED TO LA'S

Authority	Total Complaints (Excluding Prematures)	Rep	IR	NF	NRI/ INJ	NPI	Total Compensation	Days to respond (target 28 days)
Brighton & Hove	100 (61)	1 (0)	27 (18)	35 (20)	37 (15)	0 (8)	No Longer reported	27 (28.7)
Bristol	99 (106)	1 (0)	17 (29)	50 (42)	27 (13)	4 (22)	No Longer reported	33.4 (27.2)
Plymouth	37 (52)	0 (0)	6 (11)	19 (19)	9 (11)	3 (11)	No Longer reported	24.3 (25.2)
Portsmouth	27 (32)	0 (0)	4 (5)	17 (13)	3 (8)	3 (3)	No Longer reported	26.2 (26.1)
Southampton	36 (30)	0 (0)	8 (10)	17 (13)	7 (5)	4 (2)	£3,650 (£3,650)	23.8 (20.2)

Rep = Maladministration (Reported)

IR = Injustice Remedied During Investigation (formerly Local Settlements)

NF = Not enough evidence of fault / No or Minor Injustice

NRI / INJ = No Reason to Investigate / Investigation Not Justified

NPI = No Power to Investigate (formerly Outside Jurisdiction)

(Figures in Brackets) = Last Years figures

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TOTAL NUMBER OF NEW COMPLAINTS RECEIVED (RATHER THAN DETERMINED) BY EACH AUTHORITY IN 2010/11 BROKEN DOWN BY SUBJECT AREA

Authority	Adult Care	Benes & Tax	Corporate & Other	Education & Children's Services	Environment & Public Protection	Highways & Transport	Housing	Planning & Development Control	Premature or Advice	Total
Brighton & Hove	14	14	8	25	12	15	37	11	48(35.3%)	136
Bristol	13	26	14	24	26	19	45	15	81(44.5%)	182
Plymouth	14	8	2	22	10	6	3	9	39 (52.7%)	74
Portsmouth	9	4	5	11	10	1	7	6	27 (50.9%)	53
Southampton	9	6	4	4	20	8	18	4	40 (54.8%)	73

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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL AREPORT ON CHILDREN'S SERVICES AND LEARNING/HEALTH AND ADULT SOCIAL CARE COMPLAINTS 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	CUSTOMER CARE AND QUALITY MANAGER
STATEMENT OF CONFIDENTIALITY	
NONE	

BRIEF SUMMARY

This 2011-12 "Learning from our Customers" annual complaints report for Children's Services and Learning and Health and Adult Social Care sets out the performance of both Directorates in responding to complaints and other contacts (compliments, comments and MP enquiries) between April 2011 and March 2012.

This report also includes information on the number of Subject Access requests under the Data Protection Act 1998 and the Freedom of Information Act 2000 for both Children's Services and Learning and Health and Adult Social Care directorates.

All the above are co-ordinated through a dedicated Customer Care and Complaints team which covers these functions for both directorates. The reason that these complaints are managed separately from the corporate complaints process as they are subject to complaint management arrangements set out in statute.

This report is presented annually to the Standards Governance Committee for consultation purposes as part of a wider suite of reports upon corporate complaints and Ombudsman complaints to inform members' views of how the council is developing its customer care and to recognise the important feedback provided to the Council about its services through these complaints processes.

RECOMMENDATIONS:

- (i) That the report be noted

REASONS FOR REPORT RECOMMENDATIONS

1. To provide Council Members with an overview of the issues arising out of complaints made by the public to Children's Services and Learning and the Health and Adult Social Care Directorate during 2011-12, and provide information on actions taken following on from complaints to demonstrate how we learn as an organisation and improve future performance

DETAIL (Including consultation carried out)

2. The Children Act 1989 Representations Procedure (England) Regulations 2006 and the Health & Social Care Act require Local Authorities with social care services to set up and maintain a complaints procedure. This procedure must operate according to specified timescales and methods of investigation and review. The guidance requires that a report be published annually. The published report should provide an overview to staff, the general public as well as the Council's Governance Committee.

3. The reports at Appendices 1 and 2 provide a analysis of comments / concerns, compliments, enquiries from Councillors and MPs, informal complaints (representations), formal complaints as well as Access requests to Personal Social Care files (Data Protection Act 2000) and Freedom of Information requests for both Children's Services and Learning and Health and Adult Social Care directorates.

Overall levels of complaints

4. There was a 28% rise in statutory complaints about Children's Social Care and schools between 2010-11 and 2011-12, from 176 to 225. There was also a 28% increase in statutory complaints about Health and Adult Social Care services, from 111 in 2010-11 to 142 in 2011-12). In relation to corporate complaints about Health and Adult Social Care services there was a 20% fall in complaints, from 84 complaints in 2010-11 to 67 in 2011-12.

Responding to complaints

5. There has been 15.1% deterioration in the timeliness of responses for Children's services to statutory complaints from 77.8% in 2010-11 to 62.7% in 2011-12. There has been an overall improvement in the timeliness of responses for Adult services to statutory complaints. Unfortunately we cannot compare the Adult services performance to that of last year as there were problems with the database last year. We have therefore only been able to compare these figures with 2009/10.
6. Of the 225 complaints for Children's services 41 were upheld, 52 were partially upheld and 123 were not upheld. Of the 204 complaints for Adult services:- 46 were upheld, 49 were partially upheld and 87 were not upheld. A full breakdown of this is included in the annual reports at Appendix 1 and 2.

Themes from complaints and learning from complaints

7. Identifying overall themes from complaints can be difficult. Many complaints are personal to the complainant, and relate to more than one issue. However the Customer Care and Complaints team works closely with management teams to make as much sense as possible of themes at the broader level. The vast majority of issues generating complainants relate to access to services and the actions of staff. Some of the complaints about access to services relate to reductions in services that have been reduced through savings. Complaints about the actions of staff, especially in Children's services have been consistent with the messages from the Ofsted Announced Inspection; many service users have reported poor service arising from changes in social worker and inconsistency of service provision arising from this.
8. There was inconsistent practice in 2011-12 in the completion by managers of templates following the resolution of a complaint to summarise what has been learnt from it. Some of this is thought to relate to high turnover, particularly in some of the Children's social care teams. In response to this that Customer Care and Complaints Team have worked with Directorate Management Teams and service managers to revise these forms and make them easier to complete. There has also been a concerted effort to re-

engage managers in both Children's Services and Learning and Health and Adult Social Care during 2012-13 which has led to improvements in the consistency and timeliness with which these forms are completed.

Contacts

9. The Customer Care and Complaints Team dealt with 400 contacts for Children's Services and Learning and 353 contacts for Health and Adult Social Care during the period 2011-2012. These contacts are analysed in Appendices 1 and 2.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10. N/A

RESOURCE IMPLICATIONS

Capital/Revenue

11. This report has not had the benefit of financial input.

Property/Other

12. This report has not had the benefit of input from property services.

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

13. Local Authority complaints mechanisms are operated under Section 11 Local Government Act 1972 and complaints in relation to Children's and Adult Services in accordance with corresponding primary legislation, regulations and guidance.

Other Legal Implications:

14. N/A

POLICY FRAMEWORK IMPLICATIONS

15. The matters set out in this report are consistent with the Council's Constitution and Policy Framework

AUTHOR:	Name:	Christine Williams	Tel:	023 8083 3258
	E-mail:	christine.williams@southampton.gov.uk		

SUPPORTING DOCUMENTATION

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

Appendices

1.	Learning from our Customers - Review of Complaints for Health and Adult Social Care
2.	Learning from our Customers - Review of Complaints for Children's Services and Learning.

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)
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1.	N/A	
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Integrated Impact Assessment and Other Background documents available for inspection at: N/A

WARDS/COMMUNITIES AFFECTED:	
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Learning from our Customers

A review of comments and complaints made in

1st April 2011 – 31st March 2012



Southampton City Council
Children's Services and Learning

Christine Williams
Customer Care and Quality Manager

1 PURPOSE

- 1.1 This report provides analysis of comments/concerns, compliments, enquiries from Councillors and MPs, informal complaints (representations) formal complaints as well as Access to Personal Social Care files (Data Protection Act requests) and Freedom of Information Requests for the Children's Services and Learning Directorate for the year 2011-12
- 1.2 The report compares these to the previous year (2010-11) and reports on complaints investigated at the external investigation stage of the procedure
- 1.3 The management of complaints forms part of a broader approach to the way the Directorate delivers customer care. The complaints function is a vital source of information, which assists in the development and delivery of future services.
- 1.4 This report encompasses statistics for all divisions within the Children's Services and Learning Directorate between 1 April 2011 and 31 March 2012.
- 1.5 An announced inspection by Ofsted of safeguarding and Children Looked After services identified areas for improvement in relation to the formal learning from the outcomes of complaints, and the communication with children and young people to increase their awareness of how to complain or seek help with accessing advocacy. The report summarises how the service intends to work across the directorate to achieve this and other learning from complaints.

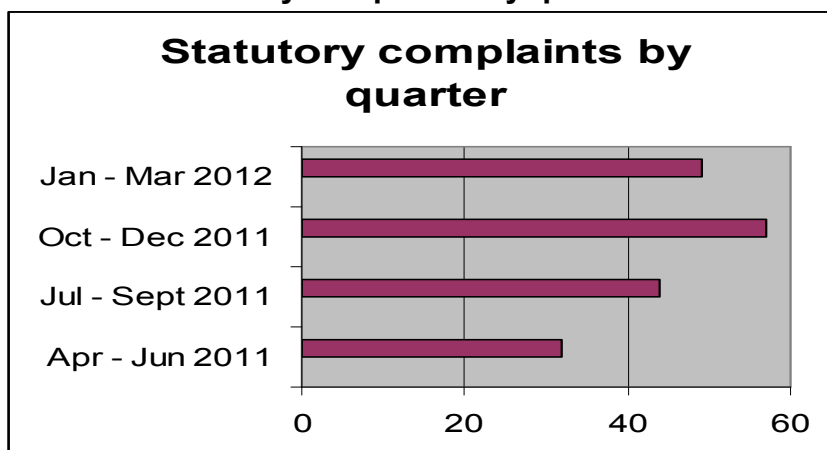
2 BACKGROUND

- 2.1 The Children Act 1989 Representations Procedure (England) Regulations 2006 require local authorities with social care services to set up and maintain a complaints procedure. This procedure must operate according to specified timescales and methods of investigation and review. The guidance requires that a report be published annually. The published report should provide an overview to staff, the general public as well as the Council's Standards and Governance's committee.

3 ANALYSIS OF COMPLAINTS

- 3.1 During the financial year 2011-2012, there were 182 statutory complaints made about Children's Social Care. This compared to 138 on 2010-11 and 131 in 2009-10, a 31.9% increase in the number of complaints this year.
- 3.2 Table 1 indicates the number of statutory complaints made in relation to Children's Services and Learning. These indicate a significant increase in complaints which started to increase during Quarter 2, rose further in Quarter 3 to a peak before falling back a little towards the end of the year. Further analysis of this is set out in Table 5.

Table 1 – 2011/12 statutory complaints by quarter



- 3.3 The number of Children’s Social Care referrals in the financial year 11-12 was 3672. The 182 complaints represent 5 % of all referrals made.
- 3.4 The majority of complaints continue to be resolved at the first stage of the procedure through work by managers and staff in the service, consistent with good customer care. Where resolution is not possible in this way, the Council commissions an independent external investigator and an Independent Person, to look into complaints at Stage 2 of our procedure. This can be a positive action for both complainant and Southampton City Council, and provide opportunities to identify and learn from our mistakes and other issues that result in complaints from service users.
- 3.5 Only 4 complaints (2.2%) require independent investigation. One complaint proceeded to Stage 3, two were completed and one was discontinued. For the financial year 2011/12 the cost of independent investigations was £10,146, compared to £11,515 in 2010-11.
- 3.6 Table 2 sets out the number of complaints which progress to stage 2, and shows how this has changed since 2006-07 to 2011-12. From a peak in 2008/09 there has been a fall in the number and percentages of complaints not resolved at stage 1.
- 3.7 If the complaint is unresolved at Stage 2 the complaint may be reviewed by an Independent Panel (Stage 3 of our procedure). Complaints unresolved after Stage 3 can be referred to the Local Government Ombudsman. The LGO will consider the complaint, what the Council did, and how well it fulfilled its obligations to the service user both in its original service, and in its subsequent management of their complaint.
- 3.8 Table 3 sets out the very low number of complaints which require stage 3 resolution via an Independent Panel. Together Tables 2 and 3 indicate that services, supported by the Customer Care and Complaints Team, have been generally effective in resolving complaints closer to the point at which they occur.

Table 2 External Investigation of Complaints (Stage 2)		
Year	No of Stage 1 Complaints	Percentage (and number) progressing to stage 2
2006/2007	86	1.16% (1)
2007/2008	101	1.98% (2)
2008/2009	90	12.2.% (11)
2009/2010	131	5.34% (7)
2010/2011	138	2.89% (4)
2011/2012	182	2.19% (4)

Table 3 Independent Review Panel (Stage 3)	
Year	Number of complaints progressing to stage 3 (Panel)
2006/2007	0
2007/2008	2
2008/2009	6
2009/2010	0
2010/2011	2
2011/2012	1

Issues and themes

- 3.9 There were no recurring themes. Only one complaint resulted in compensation for the complainant. £1,500 was paid to a child for lack of education for a term and a half . £150 was paid to his mother for time and trouble in making the complaint.
- 3.10 In addition to statutory complaints, all complaints relating to Education Services are investigated under the Corporate Complaints Procedure.

Corporate Complaints

- 3.11 For the financial year 2011-2012, there were 43 corporate complaints made about Education Services compared to 34 in 2010-11 and 40 in 2009-10. This represents a 26.5% increase in the number of complaints this year. 25 complaints were also received which related to Southampton schools and complainants were supported in accessing schools own complaints procedure.
- 3.12 The Children's Services and Learning Customer Care and Complaints Team also log comments and representations. Representations are issues that can be resolved quickly without needing investigation. Comments suggest a need for action but which are not offered as complaints. If a representation cannot be readily resolved within 24 hours then it will become a complaint). The service also deals with and records MP enquiries and compliments. The table below sets out the different types of contacts that the Customer Care and Complaints Team received during 2011-12.

3.13 Contacts Received by Record Type

Table 4 Number of contacts received by Record Type				
Record Type	2010/11		2011/12	
	Number	%	Number	%
Stage 1 complaints (social care)	138	34.93%	182	45.5%
Inclusion and other	34	8.6%	43	10.75%
Schools/LA	23	5.82%	25	6.25%
LGO	6	1.51%	0	0
Comments	6	1.51%	12	3.0%
Referrals	3	0.75%	8	2.0%
Representations	52	13.16%	23	5.75%
MP/Cllr enquiries	57	14.43%	75	18.75%
Compliments	76	19.24%	32	8.0%
Total	395	100%	400	100%

3.11 Table 4 shows a slight increase in the number of contacts received in 2011-12 compared to 2010-11 by 1.5% from 395 to 400. There has been a minimal increase in complaints about schools but a reduction in representations of 55.76%. There was a 31.57% increase in MP/Cllr enquiries. There has been a decrease in compliments from 76 to 32. This is unlikely to be a true reflection of the number of compliments received by staff but recording is historically an issue. All staff should be encouraged to send copies of compliments and letters they receive to the Customer Care and Complaints Team in order that they can be recorded and passed to the Executive Director. It is often very much appreciated by staff when they do receive recognition for good service, but it proves hard for services to remember to do this.

3.12 Monthly Trend by Record Type

Table 5 Children's monthly trend by Record Type													
Type of Record	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Total
Comment	0	1	5	1	0	1	0	0	0	2	1	1	12
Compliment	0	3	1	3	2	3	3	3	3	2	6	3	32
Corporate complaint	2	4	4	3	4	13	1	1	1	3	1	6	43
LGO Complaint	0	0	0	0	0	0	0	0	0	0	0	0	0
MP/Cllr Enquiry	6	7	13	4	8	3	9	4	3	6	5	7	75
Referral	0	0	0	1	1	0	2	1	0	1	0	2	8
Representation	2	3	0	6	3	7	1	1	0	0	0	0	23
School complaint	2	2	0	1	0	3	2	3	3	1	1	7	25
Statutory Complaint	9	10	13	17	13	14	19	23	15	16	16	17	182
Total	21	30	36	36	31	44	37	36	25	31	30	43	400

- 3.13 Table 5 breaks down the numbers of complaints each month during 2011-12. The number of complaints started quite low in April and May, but rose from June, remaining about 13 per month for the rest of the year. The greatest number of complaints (23) were received in November 2011 and the lowest (9) in April 2011. A comparison of 2011/12 against 2010-11 shows no discernable pattern though complaints were higher generally in 2011-12.
- 3.14 Children’s Services and Learning complaints are classified according to the following definitions;
- Social care complaints are those investigated under the statutory regulations
 - All other Children’s Services complaints are investigated using the Council’s corporate complaint procedure
 - Referrals are requests for help which are passed to the relevant council directorate and partner services
 - Representations are enquiries, concerns or comments which can be dealt with and resolved within 24 hours. Any social care comments that cannot be resolved within this time automatically become statutory complaints.
 - MP/Cllr enquiries are progressed by MPs on behalf of a constituent or request for information which need investigation and response by the Directorate.

Complaints by Service Area

- 3.15 Table 6 provides a breakdown of complaints by service area. Many complainants have complained about more than one service area as part of their complaint.

Stage 1 complaints by specific service area

Table 6 Stage 1 complaints by specific service area	
Received between 01/04/2011 and 31/03/2012	
Specific Service Area	Number
Safeguarding: Social Care	182
Commissioning, Education and Inclusion	35
Infrastructure	6
Schools (under Corporate Procedure)	2
LGO Complaints (not premature)	0
Total number of formal complaints	225

- 3.16 Table 7 provides a breakdown of complaints by complaint issue and highlights some of the major themes and issues contained within the contacts and complaints we receive (excluding schools and academies). The issues raised can be classified in 8 specific ways, and the 225 complaints received raised 315 specific issues in total. As most complaints relate to more than one issue, this way of breaking down our complaints allows us to maximise our learning from them. For example, 80.3% of complaints relate to either complaints about staff or complaints about access to services. Many of these relate to the period of generally higher complaints from June 2012 in respect of children’s social care and

are consistent with the period of high staff turnover that impacted upon the wider consistency and quality of service.

Issues

3.17 Breakdown of complaints by complaint issue Statutory & Corporate

Table 7 Complaint Issue	Number	Percentage
Access to Service	76	24.12%
Actions of Staff	177	56.19%
Finance	2	0.63%
Education Complaints	24	7.61%
Environment	2	0.63%
Breach of Confidentiality	9	2.85%
Information related	21	6.66%
Resourcing	2	0.63%
Total	315	

3.18 Many complaints contain more than one issue and at the present time complaints can only be recorded against the specific service as an issue. This database has now been changed to enable us to record the number of complaints by specific service and will be reported in this way from April 2012. Arrangements have been made for complaints to be reported at Divisional Management teams for 2012-13, particularly on Safeguarding which is covered by statutory process.

4.0 Key Findings – Complaints

Whilst not to undermine their legitimacy, it is important to place the level of statutory complaints into the context of the complex, personally distressing nature of children’s safeguarding social work upon both parents and children, and the large number of cases that progress without complaint. The number of formal Stage 1 statutory complaints received for children’s social care services for this year shows an increase of 31.9% on those received in 2010-11. This means that statutory complaints were received in relation to 3.3% of cases supported, roughly 1 case in 30.

4.1 Social Care Activity

Table 8 Children’s Social Care Activity vs Complaints 2011-12			
Referrals	3642	Formal complaints	182
IAs	2742	Representations	43
Total number of Children Looked After at any point	460	Complaints by children (of all formal complaints)	1
Total	6844	Total	225

5.0 Managing Complaints

5.1 All complaints received directly by the Customer Care and Complaints Team are acknowledged within the statutory three days. Complaints were not always received promptly from service areas, and in some cases, were

not reported until the response was sent to the complainant. This is not consistent with the Directorate's policy for managing statutory complaints, and may also relate to turnover in staff. It is being addressed through training and induction materials for new staff.

5.2 Table 9 shows an overall decrease in response rates to complaints in Children's Services and Learning in 2010-11. This may reflect, in part, the organisational and terms and conditions changes and their effects upon staff within the council. The Customer Care and Complaints team has also noted an increase in member queries going directly to staff. This has also contributed to poorer response times as front line staff are not trained in the timescales, and there is no process for chasing up.

5.3 Responses made within timescales

Table 9 Overall Performance Report				
01 April 2010 to 31 March 2011				
Record Type	Acknowledgement		Full Response	
	2010/2011	2011/2012	2010/2011	2011/2012
Safeguarding: Social Care				
Cllr/MP Enquiry	94.60%	91.90%	73.68%	57.30%
Statutory Stage 1	100.0%	96.2%	77.78%	62.70%
Learning Services:				
Corporate Stage 1	100%	97.7%	78.30%	88.1%

5.4 Complaints regarding schools are recorded by the Customer Care and Complaints Team, but complainants are advised that they should complain directly to the school concerned using the complaints process for the school in question.

5.5 Of the 225 Stage 1 complaints received 18.2% were upheld, 23.1% were partially upheld, 54.6% were not upheld

5.6 Proportion of Complaints Upheld 2011-12

Table 10 Children's Services & Learning Directorate 2011 / 2012			
Stage 1			
	Statutory	Corporate	Total
Upheld	31 (17%)	10 (24%)	41 (18%)
Not Upheld	107 (59%)	16 (38%)	123 (55%)
Partially Upheld	37 (20%)	15 (36%)	52 (23%)
Stopped	2 (1%)	0	2 (1%)
Withdrawn	0	0	0
Ongoing	5 (3%)	0	5 (2%)
Not known	0	2 (5%)	2 (1%)
TOTALS	182	43	225

Children's Services & Learning Directorate 2011/12 Stage 2	
Partially Upheld (proceeded to Stage 3) Cross over service with Adults.	1
Not Upheld	2
Withdrawn	1
Total	4

6.0 Action taken to capture learning from complaints and customer feedback

6.1 There are well established systems in place to capture and record details of customer feedback and complaints but, they are not consistently applied. This is being addressed through staff training and managers are asked to complete the Manager's Action Plan, which is included with the complaint notification. The Manager's Action Plan is being redesigned to try to encourage managers to complete them. Failure to complete this is one of the reasons it was not possible to demonstrate learning from complaints in the Ofsted inspections of Safeguarding and Children Looked After complaints. Responses to complaints should contain the following information:

- An acknowledgement of the issues raised by the complaint
- An apology if appropriate or an acknowledgement of the complainant's feelings
- An explanation of the actions to be taken
- What we should have done differently
- What we will do now (actions)
- What we have learned
- What the complainant should do if they remain dissatisfied

6.2 Learning from complaints can be put into three categories, Individual Learning, Team/Service Learning and Organisational learning. During the past year complaints have resulted in the following actions to improve future service. These include:

- Review of the school admission systems
- Review of adoption information sharing processes
- Review of administration message taking procedures in Safeguarding
- A requirement that all Playworkers receive training on Accident procedures

6.3 The Customer Care and Complaints Team will continue to remind and prompt staff and managers of the importance of reporting all compliments received so that a true representation of the views of our customers can be evidenced for service improvement, and senior managers have the opportunity to acknowledge and recognise good service. The Customer Care and Complaints manager will also be reporting on complaints on a quarterly basis to divisional management teams from 2012-13.

7.0 Access to Records (social care only)

7.1 This is an important statutory entitlement under the Data Protection Act that allows anyone who requests access to their Social Care records from a time in care either currently or from an earlier period in their life. The Access to Records facilitation (preparation of files) is now under the management of the Customer Care and Complaints Team for any service user who is not currently receiving a service, this includes information requested by the Police for historical abuse cases. This is a complex task that requires not only copying of records but also the redaction of information that identifies third parties in an individual's record.

7.2 Access to Records requests received

Table 9 Access to Records Requests		
2009/10	2010/11	2011/12
65	111	162

7.3 Table 9 shows that during 2012-13 there was a 45.9% increase in the requests received (from 111 in 2010/11 and a 149% increase since 2009/10 (65)). 12 of these requested information from both Adult Services and Children's Services.

7.4 In 2011-12 due to the large increase in requests we were not able to complete all requests within the statutory 40 days timescale. Where this occurred consent for a longer timescale was sought a new technological tool (Rapid Redact) was tested to help address the rise in demand which has now been adopted.

8.0 Information provided under the Freedom of Information Act.

Table 10: Number of Freedom of Information requests received

Table 10 Freedom of Information Requests		
2009/10	2010/11	2011/12
137	137	207

8.1 Table 10 shows that the number of Freedom of Information requests increased by 51.0% since 2010-11. Demand for FOI requests was stable between 2009-10 and 2010-11.

8.2 47 of these requested information from both Adult Services and Children's Services and Learning Directorate.

8.3 All FOI requests were responded to within the statutory timescale of 20 days this year.

8.4 The largest number of requests were regarding Staff & Employment (44), Children's Financial Spend (38), Safeguarding (36), Service Outcome for CY&P (31). A breakdown of the information requested and who requested it is set out in Tables 11 and 12.

8.5 Both the Access to Records and Freedom of Information databases will

continue to be reviewed and updated to ensure that we continue to improve the service we provide. The service has also started recording estimates of the cost incurred by services in meeting FOI requests. This will be reported in future as these are typically uncontrollable costs in that the Council cannot opt out of providing information due to resources and can only charge for finding and preparing responses to FOI requests that exceed 18 hours. There is no limit on the number of FOI requests that people can make on the Council so there are significant cost risks associated with a rise in these requests.

Table 11 – Breakdown of FOI Requests by type of query

FOI Request classification 2011 - 2012		
	No. of Requests.	%
Accessibility of Provision	7	3.4%
Adult Financial Spend	11	5.3%
Availability of Provision	9	4.3%
Children's Financial Spend	38	18.4%
Deceased Records	0	0.0%
IT Systems/Communications	9	4.3%
Service Outcome for C&YP	31	15.0%
Staff and Employment	44	21.3%
Health and Safety	10	4.8%
Legal / Insurance	9	4.3%
Religion related	3	1.4%
Safeguarding	36	17.4%
TOTAL	207	100.0%

Table 12 – Breakdown of FOI requests by requestor

Requester	Number	%
General	9	4.4%
Councillor	4	2.0%
Independent Agency	52	25.1%
Media	53	26.0%
Member of Public	47	23.0%
Member of Parliament	36	17.3%
Student	3	1.4%
TOTAL	207	100%

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Learning from our Customers

A review of comments and complaints made in

1st April 2011 – 31st March 2012



Southampton City Council
Health and Adult Social Care Directorate

Christine Williams
Customer Care and Quality Manager

Learning from our Customers

'A review of comments and complaints made in the period 2011-12

1 PURPOSE

- 1.1 This annual report provides analysis of comments/concerns, compliments, enquiries from Councillors and MPs, informal complaints (representations), formal complaints as well as Access to Personal Social Care files (Data Protection Act requests) and Freedom of Information Requests for the Health & Adult Social Care Directorate.
- 1.2 To compare these to the previous 12 months and to report on complaints investigated at the external investigation stage of the procedure
- 1.3 The management of complaints forms part of a broader approach to the way the Directorate delivers customer care. The complaints' function is a vital source of information, which assists in the development and delivery of future services.
- 1.4 This report encompasses statistics for all divisions within the Health & Adult Social Care Directorate between 1 April 2011 and 31 March 2012.

2 BACKGROUND

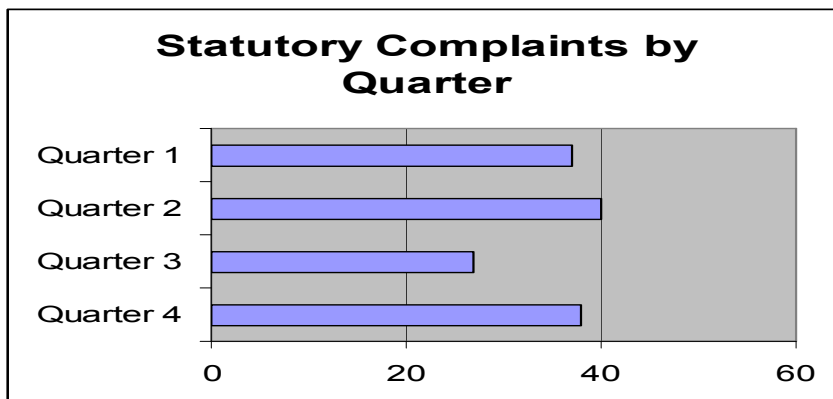
- 2.1 The NHS and Community Care Act 1990 and The Local Authority Social Services and National Health Service Complaints (England) Regulations 2009 require Social Services to set up and maintain a Complaints procedure and to operate that procedure according to specified timescales and methods of investigation and review. The guidance requires that the Annual Report be presented to the Senior Management Team and Members and that this should include a summary of statistical information along with a review of the procedure.
- 2.2 The Health and Adult Social Care Directorate encourages service users to comment on the service provided by Customer Care and Complaints. The absence of complaints does not necessarily mean that service users are happy with the service they receive, so it is important that users feel able to voice their opinions and feel confident that their views will be considered.
- 2.3 This report helps to ensure that this feedback reaches senior, and other managers, within the Directorate so it can inform the way in which we deliver services to our customers.
- 2.4 Complaints are a valuable resource and the feedback gained from them forms both an integral part of the quality assurance process and

also contributes to the overall development and monitoring of services. This feedback mechanism is continually evaluated to make sure that we are developing services in line with our customers' needs and requirements.

3.0 ANALYSIS OF COMPLAINTS.

3.1 For the financial year 2011/2012, there were 142 statutory complaints made about Health & Adult Social Care compared to 111 in 2010/2011. This represents a 28% increase. 67 complaints were investigated under the Corporate Complaints process, these were complaints about Financial issues and adaptations. This compares to 84 in the previous year and represent a 20% decrease. Reflection upon this with Senior Managers in Health and Adult Social Care indicates that this is in part a reflection of the change that saw the inclusion of complaints about Blue Badges classified under the Health and Adult Social Care. They were formerly dealt with as Corporate Complaints. Overall the change in number of corporate and ASC complaints added together was only 14 due to the increase in one being offset by a reduction in the other. Whilst there is still an overall increase Table 2 below indicates an improvement compared to 2008/9 and 2009/10.

Table 1 - 2011/12 statutory complaints by quarter



3.2 The majority of complaints continue to be resolved at the early stages of the procedure as a result of work by the team manager or senior manager. However, where resolution is not possible in this way we occasionally commission an independent investigator to undertake a further investigation.

3.3 The number of statutory complaints requiring independent investigation was three (3), which represents 2.1% of all statutory complaints received. One complaint was stopped at complainants' request. There were 3 Corporate stage 2 complaints all relating to funding issues. One complaint was investigated at Stage 3 of the Corporate Complaints process and the complainant was awarded £50 compensation for time and trouble. For the financial year 2011/12 the cost of independent investigation was £6,401.82.

Table 2 - External Investigation of Complaints (by Independent Investigator)		
Year	Total number of complaints received.	% of complaints requiring independent investigation
2008/2009	225	6 2.6%
2009/2010	221	0 .0%
2010/2011	195	0 .0%
2011/2012	209	3 1.4%

3.4 Table 3 below sets out the number of complaints by age both for Statutory Complaints and Corporate complaints. The highest number of complaints (106, 50.7%) is from the 76+ age group, which should be expected in part because this age group is the largest for in the service population served by Health and Adult Social Care.

Table 3 - Adults Statutory & Corporate Complaints by Age		
Age	Number	%
16 - 19	2	1.0%
20 - 24	10	4.8%
25 - 59	49	23.4%
60 - 64	7	3.3%
65 -75	28	13.4%
76+	106	50.7%
n/a	4	1.9%
Not Known	3	1.4%
Total	209	100.0%

3.5 The number of compliments received fifty three (53) for Health and Adult Social Care has decreased from seventy eight (78) last year. Many of the compliments relate to the appreciation of the hard work and caring attitude of the Health and Community Care staff. This is unlikely to be a true reflection of the number of compliments received by staff as recording is historically an issue. All staff should be encouraged to send copies of compliments they receive to the customer Care and Complaints Team in order that they can be recorded and passed to the Executive Director. It is often very much appreciated by staff

when they do receive recognition of good service, but it proves hard for services to remember to take this action.

Issues and Themes

- 3.6 There were no recurring themes. One complaint resulted in money being paid in recompense for non-provision of a service (£2,200 plus £200 for time and trouble in making the complaint).

Corporate Complaints

- 3.7 For the financial year 2011-2012, there were 67 corporate complaints, which contained 82 issues. Of these 82 issues 60 were concerning financial issues. In 2010-2011 there were 84 Corporate complaints and this therefore represents a 20.24% decrease in the number of Corporate complaints this year. This may be because some of the concerns regarding financial issues are now being dealt with as “business as usual” issues, though there has also been significant effort from the service to learn from these types of complaint that is also leading to improvements in financial processes that are also reducing complaints. In December 2011 the Disabled Parking Badge Team were brought back into Adult Social Care and therefore complaints about this service are no longer processed under the Corporate Complaints procedure but are now dealt with under the Social Services complaints procedure. 17 complaints were received about ‘Blue Badge’ services this year compared to 36 last year.
- 3.8 The Customer Care and Complaints Team also log comments and concerns. Concerns are issues that can be resolved quickly without needing investigation. If a concern can be readily resolved within 24 hours then it will not become a complaint. This service also deals with and records MP and Councillor enquiries and compliments. The table below sets out the different types of contacts that the Customer Care and Complaints Team received during 2011-2012.

Table 4: Contacts received by Record Type		
Record Type	2010/11	2011/12
Adult Statutory Complaint	111	142
Corporate Complaint	84	67
LGO Complaint	2	2
MP/ Cllr Enquiry	48	62
Adult Statutory Concern	13	7
Comment	11	10
Referral	8	10
Compliment	78	53
Total	355	353

3.9 Table four shows that overall we received a similar number of contacts to that of last year (2010/11). There was a 28% increase in Statutory complaints and a 20% decrease in Corporate complaints, though as indicated in para 3.1 some of this is likely to reflect some level of trade-off due to the classification of complaints.

3.10 Monthly Trend by Record Type

Table 5 Adult's monthly trend by Record Type													
Type of Record	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Total
Adult Statutory Complaint	17	8	12	9	19	12	12	7	8	12	10	16	142
Adult Statutory Concern	1	0	0	0	1	1	1	0	0	1	2	0	7
Comment	0	1	4	1	0	1	0	3	0	0	0	0	10
Compliment	6	4	2	7	6	7	3	3	1	3	4	7	53
Corporate complaint	4	3	5	10	10	5	10	9	3	1	5	2	67
LGO Complaint	1	0	0	0	0	0	0	0	0	0	1	0	2
MP/Cllr Enquiry	8	9	7	4	4	8	0	5	1	2	7	7	62
Referral	2	2	0	0	0	1	2	0	0	0	2	1	10
Total	39	27	30	31	40	35	28	27	13	19	31	33	353

3.11 Table 5 above breaks down the numbers of contacts each month during 2011/12. The highest number of complaints (40) were received during August 2011 and the lowest number (13) were received in December 2011.

3.12 Health & Adult Social Care complaints are classified according to the following definitions.

- Social Care complaints are those investigated under the statutory Regulations
- All other complaints are investigated using the Southampton City Council Corporate Complaints Procedure
- Referrals are requests for help which are passed on to the relevant Council Directorates and partner services
- Representations are enquiries, concerns or comments which can be dealt with and resolved within 24 hours.
- MP/Councillor Enquiries are enquiries/ complaints on behalf of a constituent or request for information which need to be investigation and response by the Directorate

Contact for specific service area

3.13 The following table indicates complaints received by service area. Some complaints we receive contain more than one issue and therefore of the 142 statutory complaints and 67 Corporate complaints received there were

280 issues as set out in Table 6 below. It should be noted that Locality teams deal with over 50% of service support and that the Learning Disabilities Team includes both provider and community team.

Table 6 Statutory and Corporate Complaints by Service Area	
How received	2011/12
Safeguarding	5
Contact Centre	9
Disabled Parking Badges	17
Hospitals – Discharge	11
Learning Disabilities	27
Locality Support Teams and Rehab Teams	79
Day Care Services	7
External Provider - Domiciliary Care –	22
Internal Provider –Residential Care – Domicilliary Care	3
	1
Mental Health Services	20
BSO	0
Finance: Benefits (Assessment)	10
Exchequer Services	13
HSC Billing Enquiries	46
Other Services (eg. Josian Centre Rapid Response, Sensory Services and Supporting	10
Total number of services complained about.	280

- 3.13 It has not been possible to compare these figures to last years as there has been a re-organisation of services within the Directorate. However, as in previous years the greatest number of complaints relate to finance and fieldwork. By fieldwork we mean issues about social care.
- 3.14 Table 7 below provides a breakdown of complaints by complaint issue and highlights some of the major themes and issues contained with the complaints we receive. The issues raised can be classified in 8 specific ways and the 209 complaints received raised 280 specific issues in total. As most of our complaints relate to more than one issue, this way of breaking down our complaints allows us to maximise our learning from them. For example 32% of complaints relate to complaints about the actions of staff, 27% relate to financial issues and 19% to access to services. Many of these complaints relate to staff shortages which resulted in increased waiting times for assessments. The Actions of staff can relate to how people are dealt with, spoken to, mistakes or staff not returning calls.
- 3.15 **Breakdown of complaints by complaint issue Statutory and Corporate. There will be a higher number of issues than complaints as some complaints contain more than one issue**

Table 7 Complaints Issue		
Reason/Issue for complaints	No of issues	%
Access to Services	54	19%
Actions of Staff	90	32%
Communication	45	16%
Disabled Parking Badge	11	10%
Finance	75	27%
Miscellaneous	2	0.7%
Quality of Service	2	0.7%
Resourcing	1	0.3%
Total	280	

4.0 Key Findings - Complaints

Whilst not to undermine their legitimacy, it is important to place the level of statutory complaints into context as follows.

4.1 Social Care Activity

Table 8 Divisional activity			
Referrals	9,814	Formal complaints	209
New Assessments	3,631	Concerns/Comments	17
Reviews	7,366	Referrals	10
No. of People in receipt of services	10,200		

4.2 Of the 10,200 people who received a service from Health and Adult Social Care last year only 2% felt the need to formally complain about the service that they received.

4.3 Outcomes for Adult Statutory & Corporate Complaints

Table 9: Outcomes for Adult Statutory & Corporate Complaints		
Outcome	Number	%
Complaint withdrawn	4	2.0%
No further action	2	10.0%
Not upheld	87	43.0%
Partially upheld	49	24.0%
Upheld	46	22.5%
Upheld following appeal	1	0.49%
Stopped		
Safeguarding investigation	1	0.49%
Appeal process	1	0.49%
Ongoing	12	6.0%
Not known	1	0.49%
Total	204	

- 4.4 Of the 204 outcomes recorded 43% of complaints were not upheld, 24% were partially upheld and 22.5% were upheld. Some complaints were not completed and therefore we did not have an outcome in the year 2011/12.

5.0 Managing Complaints

Responses made within timescales

Adult Social care complaints are assessed by Risk level, Low, Medium and High.

Table 10: Overall Performance Report			
1 April 2011 to 31 March 2012			
Complaint Type	Acknowledgement within timescale	Full Response within timescale	
Cllr/MP Enquiry	93.3%	75.8%	
Adult Statutory Complaint	94.4%	LOW	62.7% (118 complaints)
		MEDIUM	85.7% (21 complaints)
		HIGH	0% (1 complaint)
Corporate Complaint	92.4%	82.4%	

- 5.1 We are unable to compare 2011/12 performance to that of 2010/11 last year as there were major problems with the database. This has now been resolved. We can however compare these figures to 2009/10. The overall performance has improved and in 2009/10 74.6% of Cllr/MP enquiries were responded to within timescale compared to 75.8% this year. With regard to

the Statutory complaints 63.7% of Low category of complaints were responded to within timescale in 2009/10 compared to 62.7% this year and 70.8% of Medium category complaints were responded to within timescale compared to 85.7% this year. Of the High category complaints 87.5% were responded to within timescale in year 2009/2010 compared to 0% this year. Only 1 high category complaint was received in 2011/12 and this was not responded to in timescale. This was three days outside of the 60 day timescale for these complaints.

5.2 Under the Statutory complaints procedure, we aim to send complainants a full reply within 10 working days if possible, or if the matter is more complicated, the target timescale is 20 working days. For extremely complex cases, which may require independent investigation, a target of up to 60 working days may be necessary.

5.3 The Corporate complaints procedure had 3 Stages and the timescales for responding to complaints are: Stage 1 = 10 working days, Stage 2 working = 20 days, Stage 3 = 20 working days.

6.0 Action taken to capture learning from complaints and customer feedback

6.1 There are well established systems in place to capture and record details of customer feedback and complaints but they are not consistently applied. This is being addressed through staff training and managers are asked to complete the Manager's Action Plan, which is included with the complaint notification. The Managers Action Plan is being redesigned to try to encourage managers to complete them. Responses to complaints should contain the following information

- An acknowledgement of issues raised by the complainant
- An apology, if appropriate, or an acknowledgement of the complainant's feelings
- An explanation of the actions to be taken
- What should have been done differently
- What will be done now (actions)
- What has been learned
- What the complainant should do if they remain dissatisfied

6.2 Learning from complaints can be put into three categories, Individual Learning, Team/Service Learning and Organisational Learning. During the past year complaints have resulted in the following actions:

- Charges waived or refunded
- Re-assessment of need
- Review of Care Package / Care Manager
- Improved guidance to Provider agencies
- New process for payment of invoices to Providers
- Review of Policy and Procedure for Disabled Parking Badges

- Line Management action

6.3 The Customer Care and Complaints Team will continue to remind staff of the importance of reporting all compliments received so that a true representation of the views of our customers can be obtained.

The Customer Care and Complaints Team will continue to support operational staff and managers in handling and responding to complaints and will be providing some training for them over the coming year following discussion with the Directorate Management Team. We aim to increase our learning from complaints, to disseminate good practice and to achieve more service improvements as a result.

7.0 Access to Records Requests

This important function is provided Under the Data Protection Act 1998 to anyone who requests access to their social care records.

2009/10	2010/11	2011/12
13	20	40

7.1 The number of Subject Access requests has increased by 100% in the last year.

8.0 Freedom of Information Requests

This service is provided under the Freedom of Information Act 2000 and is facilitated by the Customer Care and Complaints Team.

Numbers of FOI Requests – 2009-10 to 2011-12

2009/10	2010/11	2011/12
56	65	115

8.1 The number of FOI requests has increased by 77% in the last year, resulting in a significant increase in the amount of time spent by staff in services and in the Customer Care and Complaints team meeting the cost of this additional demand. It is not clear what drove this additional demand, but it would not be sustainable.

8.2 FOI requests by Requester. Requests were made by the following people/agencies.

Number of requests Received			
How Involved	Both Directorates (CSL & HASC)	Health & Adult Social Care Directorate	Total
Deceased service user representative	0	3	3
General	1	0	1
Independent Agency	12	20	32
Information Commissioner's Office	0	1	1
Legal/Solicitor representative	0	2	2
Media	10	12	22
Member of the Public	13	16	29
Other LA	0	1	1
Researchers	7	14	21
Service User	0	1	1
Student	0	1	1
Total	43	72	115

2.3 Requests were received regarding the following subjects

FOI Request classification 2011 - 2012	
	No. of Requests.
Accessibility of Provision	13
Adult Financial Spend	42
Availability of Provision	19
Deceased Records	7
IT Systems/Communications	7
Staff and Employment	21
Health and Safety	1
Legal / Insurance	2
Safeguarding	3
TOTAL	115

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Agenda Item 7

DECISION-MAKER	GOVERNANCE COMMITTEE		
SUBJECT	CORPORATE COMPLAINTS 2011-12		
DATE OF DECISION	25 SEPTEMBER 2012		
REPORT OF:	SENIOR MANAGER, CUSTOMER AND BUSINESS IMPROVEMENT		
AUTHOR	Name:	Dennis Gamblin	Tel: 023 8083 4637
	E-mail:	dennis.gamblin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

N/A

SUMMARY

This report summarises performance and issues arising out of the Council's Corporate Complaint's Procedure from the 1st April 2011 until 31st March 2012. Summary reports are also considered by the Management Board of Directors as part of its quarterly performance monitoring process.

RECOMMENDATION:

- (i) That the report be noted.

REASONS FOR REPORT RECOMMENDATIONS

1. To update members of this Committee on performance and any issues arising out of complaints made by the public via to the Corporate Complaint's Procedure during 2011/12. Identifying these issues assists the Council in understanding where things have "gone wrong" in the past year in order to improve service delivery.

CONSULTATION

2. This report is presented to Governance Committee for consultation purposes.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. N/A

DETAIL

4. The effective and responsive management of complaints is a vital part of the Council's overall approach to customer care. In addition the customer feedback that valid complaints provide can be used to improve service delivery, facilitate Council wide learning and demonstrate continuous improvement.
5. The Council operates a three part corporate complaints system:
 - Stage 1 complaints are responded to by the relevant service manager
 - Stage 2 complaints are investigated and responded to by the appropriate Senior Manager
 - Stage 3 complaints are investigated by the Corporate Complaints Officer or by a Senior Officer independent from the service area that is being complained about.

6. A separate process is followed within the Children's Services and Learning Directorate and the Health and Adult Social Directorate, largely as a result of the statutory complaints procedure which applies in these areas. This is reported separately on this Committees agenda.
7. At the end of a Stage 3 investigation, the customer is advised that if they are still not satisfied with the outcome, they may address their complaint to the Local Government Ombudsman. This in effect represents the fourth and final stage from the customer's perspective.

Statistical Information for 2011/12

8. During 2011/12 there were 944 complaints recorded through the Corporate Complaints procedure. This represents a 7% decrease on the 1,016 complaints received in 2010/11. The second consecutive year that there has been a significant decrease in the number of complaints received.
9. A breakdown of the complaints received by each division is set out in Appendix 1 to this report. During 2011/12 the Council's Directorates underwent a major structural change which is not reflected in this report but has now been reflected in the Lagan Complaints module for 2012/13.
10. The distribution of complaints is not spread evenly across all divisions. Complaints are concentrated towards a number of customer facing Services. In 2011/12 five Divisions accounted for over half of the complaints received. The first table below lists the 5 Divisions with the highest proportion of complaints for 2011/12, and compares this with figures for 2009/10 and 2010/11. The second table lists alphabetically those Divisions that have been included in the 5 with the highest proportion of complaints from 2009/10 to 2011/12.
11. It should be noted that during the industrial action in 2011/12 complaints in relation to missed bin collections were treated as an exception to the operation of the Council's normal complaints policy. This was because it affected all or the significant majority of residents in Southampton equally and the duration and impact of the industrial action was a matter outside the Council's control.

Rank of 5 Divisions with the highest proportion of complaints for 2011/12					
2011/12		2010/11		2009/10	
Decent Homes	16.0%	Local Taxation	18.1%	Local Taxation	19.3%
Local Taxation	14.0%	Waste & Fleet Transport	11.3%	Decent Homes	13.2%
Housing Management	11.4%	Decent Homes	11.0%	Waste & Fleet Transport	9.4%
Waste & Fleet Transport	8.2%	Housing Management	9.7%	Leisure & Culture	8.8%
Highways & Parking	7.4%	Highways & Parking	8.4%	Customer Services	8.3%
Customer Services	7.4%				

Divisions with the highest proportion of complaints 2009/10 to 2011/12			
	2011/12	2010/11	2009/10
Customer Services	7.4%	-	8.3%
Decent Homes	16.0%	11.0%	13.2%
Highways & Parking	7.4%	8.4%	-
Housing Management	11.4%	9.7%	-
Leisure & Culture	1.2%	-	8.8%
Local Taxation	14.0%	18.1%	19.3%
Waste & Fleet Transport	8.2%	11.3%	9.4%

12. Complaints are recorded into one of a number of categories. The table below indicates the percentage of complaints within each category and compares this with figures for the last three years.

Category	2011/12	2010/11	2009/10
Discrimination	1%	1%	1%
Misinformation	4%	5%	4%
Charges	14%	10%	4%
Speed	3%	3%	5%
Behaviour	14%	15%	19%
Performance	36%	40%	31%
Other	18%	14%	36%
Avoidable Contact	3%	5%	NA
Disagree with Decision	7%	7%	NA

13. The one significant area that stands out is the increase in the percentage of complaints relating to charges which were at 4% in 2009/10 and risen in each of the two years and made up 14% of complaints in 2011/12.

14. The table below provides a breakdown of this Council's performance in relation to complaints compared to the Council's statistical neighbours. The Corporate Complaints procedure is not a statutory requirement. However failure to have a Corporate Complaints procedure in place would lead to an adverse report from the Local Government Ombudsman (LGO). The systems and processes that individual councils have in place are based on LGO guidance and are tailored to individual council structures and services. Comparison between authorities is therefore difficult. However, comparator information was requested from four authorities within Southampton's Audit Commission statistical neighbours. The responses confirmed that there are *some* similarities in the recording of complaints in these authorities. The following table sets out the overall figures for the number of complaints received.

Authority	Corporate Complaints received 2010/11	Corporate Complaints received 2011/12	Adult population 2010	Complaints per head of adult population 2011/12
Southampton	1,016	944	201,400	0.0047
Portsmouth	807	622	172,800	0.0035
Brighton & Hove	1,804	1,434	217,200	0.0066
Plymouth	1,168	1,234	214,900	0.0057
Bristol	2,917	5,093	368,300	0.0138

Complaints Closed and Resolved During 2011/12

15. The Corporate Complaints Procedure requires that complaints at stage 1 of the process are responded to within 10 working days and complaints at stage 2 and 3, within 20 working days.

The following table shows the number of complaints responded to at each stage of the procedure. Those complaints that cannot be responded to within the target period are frequently those that are more complex, and can involve investigating actions across more than one service area or division. Where this situation occurs the complainant will be contacted and a revised completion date agreed.

Stage	Working days to close 2011/12		Working days to close 2010/11	
	≤ 10 days	> 10 days	≤ 10 days	> 10 days
1	753 (95%)	40 (5%)	764 (90%)	83 (10%)
	≤ 20 days	>20 days	≤ 20 days	>20 days
2	84 (87%)	13 (13%)	71 (80%)	18 (20%)
3	42 (89%)	5 (11%)	34 (87%)	5 (13%)
Total	879 (93%)	58 (7%)	869 (89%)	106 (11%)

N.B. This table shows the number of complaints *completed* in 2011/12 as opposed to the number of complaints *received*.

16. Overall the number of complaints dealt with in 2011/12 saw another small decrease, down 72 on the previous year with a slight improvement on those responded to within the timescales included in the complaints policy. Overall there has been an improvement in response times across all three stages, most significantly Stage 1 responses where there was a five percentage point improvement on complaints dealt with within the 10 day target.

Accessing the complaints process

17. Customers can make a complaint in a variety of ways. The most efficient way from a Council perspective is for customers to use the online complaints form that can be accessed through the Council's website or via email. The updates to Lagan complaints system introduced from the 1st April 2012 include the recording of the method of contact and an analysis of this will be included in next year's report.

Learning from Complaints

18. In addition to using the complaints processes to redress customer dissatisfaction, the feedback generated through complaints is an important tool for improving performance and service delivery. The new monthly and quarterly reports created by CorVu now include a summary of service improvements and lessons learnt.
19. Appendix 2 includes some examples of the initiatives for improvements arising from the consideration of complaints during 2011/12.

Developing the Corporate Complaints Process

20. Questionnaires on satisfaction feedback are sent to customers following the closure of a Stage 1 complaint. The questionnaires are intended to measure the quality and access to the complaints system. In 2011/12 of the 491 questionnaires sent out, 25% (127) were returned. 66% of complainants who fed back described the procedure for making complaints as easy, up from 53% in the previous year, and 19% as difficult.

The detailed response to each of the questions is included at Appendix 3.

The update to Lagan introduced in April 2012 caused a technical problem with the reports that were used to send out questionnaires to complainants. It was therefore decided that because of this and the relatively low response rate that this method of collecting customer feedback would be suspended for 2012/13 whilst alternatives are explored.

21. On the 4th September the Management Board of Directors agreed to a review being undertaken of the complaints procedures, handling and management across all Directorates of the City Council with a view to providing a single harmonised service. (The review will not include the management of complaints referred by the Local Government Ombudsman). Terms of reference for the review were agreed with the aim of any new arrangements being in place for the 1st April 2013. The review will also consider ways of improving response times to complainants and reducing the time spent by staff on investigations.

Freedom of Information and Data Subject Access Complaints

22. Complaints made about responses to requests for information made under the Freedom of Information (FOI) Act or Data Protection Act (DP) are processed outside the corporate complaints procedure. They do not follow the 3 stage process of other complaints, but are reviewed by the Corporate Complaints Officer in a similar way as a complaint at Stage 3. Customers are advised of the outcome of the review and advised that if they still feel unhappy with the response provided by the Council they may escalate their complaint to the Information Commissioner's Office.

The following table provides a summary of the reviews undertaken:

Freedom of Information and Data Subject Access complaints responded to 2011/12		
Division	Type of complaint	Outcome
Children's Services and Learning	Freedom of Information	Original decision upheld
	Data Subject Access Review	Private foster care – small amount of information located and sent
Children's Services and Learning Health & Adult Social Care	Freedom of Information	Requesting the number of social work posts - full disclosure made
Health & Adult Social Care	Freedom of Information	Regarding mothers records further disclosure made
Decent Homes	Freedom of Information	Information not held
Skills, Economy & Housing Renewal	Freedom of Information	Empty properties - Original decision upheld
Planning & Sustainability	Freedom of Information	Original decision upheld – but situation had moved on so able to disclose some more information

Conclusion

23. The Council has continued to promote complaints as a means of addressing customer dissatisfaction and trying to put things right wherever possible. The Corporate Complaints Officer has worked with Capita to develop the Lagan system to record and report complaints and with the Complaints Contact Officers in Directorates to ensure a comprehensive and consistent approach to complaints handling.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

24. N/A

Revenue

25. N/A

Property

26. N/A

Other

27. N/A

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

28. Local authority complaints mechanisms are operated under Section 11 Local Government Act 1972

Other Legal Implications:

29. N/A

POLICY FRAMEWORK IMPLICATIONS

30. The matters set out in this report are consistent with the Council's Constitution and Policy Framework.

SUPPORTING DOCUMENTATION

Appendices

1.	Complaints received by directorate 2011/12
2.	Learning from Complaints
3.	Results of Complaints Questionnaire 2011/12

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

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

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

KEY DECISION No

WARDS/COMMUNITIES AFFECTED None

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Agenda Item 7

Appendix 1

Division	Stage 1	Stage 2	Stage 3	Total
Chief Execs				
Communications	1	0	0	1
Economic Development & Regeneration	3	1	0	4
Legal Democratic	6	1	1	8
Summary of Chief Execs	10	2	1	13
Children Services				
Building Schools for Future & Infrastructure	1	1	1	3
Commission	6	0	0	6
Safeguarding	1	0	0	1
Standards	33	1	1	35
Summary of Children Services	41	2	2	45
Environment				
Environmental Health	7	5	4	16
Highways & Parking	62	6	2	70
Planning	24	10	7	41
Smart Cities	2	0	0	2
Transport	4	1	0	5
Waste and Fleet	71	5	1	77
Summary of Environment	170	27	14	211
Health & Adult Social Care				
H&CC Learning Disability	8	0	0	8
H&CC Local Sup & EMH	50	3	1	54
H&CC Mental Health	6	0	0	6
Summary of H&ASC	64	3	1	68
Neighbourhoods				
Decent Homes	130	15	6	151
Housing Management	88	12	8	108
Housing Solutions	33	4	2	39
Leisure & Culture	10	1	0	11
Services	37	4	2	43
Summary of Neighbourhoods	298	36	18	352
Resources				
Cash Office	1	0	0	1
Customer Services	66	3	1	70
Housing Benefit	33	7	2	42
HR	2	0	0	2
Local Taxation	103	22	7	132
Property and Procurement	6	2	0	8
Summary of Resources	211	34	10	255
Grand Total	794	104	46	944

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Learning from Complaints

Communications

- Complaint about the email being sent anonymously from a generic email - Not to reply anonymously to email enquiries.

Environmental Health

- Complainant had been requested to remove a memorial from an unpurchased grave and felt they had not been given a reason leading to procedures for allowing memorials on unpurchased graves to be reviewed.
- Part of a customer complaint about noise nuisance related to inaccurate records and reporting as a result procedures for recording details of calls to out of hours service have been reviewed.

Highways & Parking

- Complaint that the details relating to charges in Marlands Car Park were not clear as a result sufficient signage put in place at all points of car park to advise customers of 2 tier charging structure
- Customer a disabled parking bay but been turned down. During the investigation of the complaint it was identified that there was no official guidance on the procedure for allowing disabled bays.

Planning

- Complaint included a concern that inaccurate advice had been given by Duty Planning Officer but no record had been kept as a result the process for recording duty calls to be reviewed.

Smart Cities

- Customers Smartcard stopped working. Staff checked the card and agreed that there were no signs of scratching or damage and she told staff that she always keeps the card in her purse. Smartcities will update their terms and conditions to advise how Smart cards need to be stored, including information what could cause a card to cease working.

Waste and Fleet

- Booking made for collection of bulky items but they were not out on time so not collected. Customer called to make another booking and was advised he'd have to make payment again. Customer claimed this was not made clear to him. The councils web pages have been changed the along with the 'wrap up' that Actionline give to ensure that this is clear

Housing Management

- Leaseholder raised issues regarding 'Red Alert' letter relating to increased charges and relating to lease accounts. As a result 'Red Alert' have been amended to make them more prominent, internal communication have be improved, staff advised to monitor accounts when complaints being investigated.

Local Taxation

- Complaint received regarding Council Tax summons - staff attending court advised that to ensure public can attend the court hearing if they want to.
- Customer felt that it was not acceptable to send letters 2nd class giving 7 days to act to avoid losing right to pay council tax by instalments. Standard letters reviewed to make it clear by when a payment must be made to keep the right to pay by instalments.

Results of complaints questionnaire 2011/12



Q1 Before making a complaint were you aware of the Council's complaints process?

Yes	28%	35
No	72%	91

Q2 How did you find out about the Council's Complaints Process?

A friend or relative	1%	1
Council staff (e.g. switchboard, Gateway, local housing office or another council officer)	31%	40
Council publications such as the Council's A-Z guide booklet, How to make a Complaint leaflet, City View	5%	6
The Council's website – Southampton Online	30%	38
Another organisation e.g. Citizens Advice Bureau or a Community Group	2%	3
A Councillor or Member of Parliament	1%	1
Other please state	15%	28

Q3 Which of the following do you feel best describes the procedure for making a complaint?

Very easy	27%	34
Fairly easy	25%	32
Neither easy nor difficult	15%	36
Fairly difficult	9%	8
Very difficult	10%	13

Q4 At what stage was your complaint resolved?

Stage 1	35%	45
Stage 2	7%	9
Stage 3	3%	4
Local Government Ombudsman	2%	2
Don't Know	38%	48

Q5 To what extent do you agree or disagree with the following statements regarding the outcome of your complaint

	Agree Strongly	Agree Slightly	Neither Agree or Disagree	Disagree slightly	Disagree strongly	Not applicable
I agree with the conclusion reached by the person who investigated my complaint	24% 21	11% 14	9% 12	12% 15	23% 29	11% 14
I am satisfied that the conclusion reached by the investigator of my complaint was fair	20% 25	12% 15	10% 13	9% 12	24% 31	10% 13
The investigation addressed all the concerns raised in my original complaint	20% 26	16% 20	8% 10	5% 6	25% 32	9% 11
There was a clear explanation of what would be done/will happen next from the council service	23% 29	17% 21	13% 17	8% 10	14% 18	9% 12
The apology I received was adequate	20% 25	14% 18	13% 17	7% 9	13% 17	16% 20
I was advised how to take my complaint further if I had wanted to	27% 34	9% 12	13% 16	5% 6	13% 17	17% 22

Q6 Overall, how satisfied were you with the result (outcome) of the investigation of your complaint?

Very satisfied	17%	21
Fairly satisfied	21%	27
Neither satisfied nor dissatisfied	12%	15
Fairly dissatisfied	10%	13
Very dissatisfied	31%	39

Q7 If you were not completely satisfied with the result (outcome) of the investigation of your complaint, please say why

Q8 To what extent do you agree or disagree with the following statements regarding the handling of your complaint

	Agree Strongly	Agree Slightly	Neither Agree or Disagree	Disagree slightly	Disagree strongly	Not applicable
My complaint was dealt with within a reasonable time	37% 47	17% 21	9% 12	8% 10	19% 24	5% 6
The attitude of the person/people dealing with my complaint was appropriate	37% 47	21% 27	14% 18	5% 6	9% 12	6% 8
I was kept informed of the progress of the investigation	27% 34	11% 14	10% 13	10% 13	22% 28	7% 9

Q9 Overall, how satisfied were you with the manner in which we handled your complaint?

Very satisfied	23%	29
Fairly satisfied	22%	28
Neither satisfied nor dissatisfied	14%	18
Fairly dissatisfied	12%	15
Very dissatisfied	24%	30

Q10 If you were not completely satisfied with the manner in which we handled the investigation of your complaint, please say why

Q11 If you wish to make any other comment that could be used to improve the complaints service, please make it here.

Are you

Male	33%	42
Female	51%	65

Which of these age groups do you fall into?

Under 18	1%	1
18 to 24	4%	5
25 to 34	9%	12
35 to 44	16%	20
45 to 54	23%	29
55 to 64	13%	16
65 to 74	13%	16
75+	11%	14

Do you have any long term illness, health problem or disability which limits your daily activities or the work you can do?

Yes, limits severely	16%	20
Yes, limits but not severely	15%	19
No	54%	69

To which of these groups do you consider you belong?

a) White

British	73%	93
Irish	5%	6
Any other White background	6%	7

b) Mixed

White and Black Caribbean
White and Black African
White and Asian
Any other Mixed background

0%	0
0%	0
2%	2
1%	1

c) Asian or Asian British

Indian
Pakistani
Bangladeshi
Any other Asian background

0%	0
0%	0
0%	0
1%	1

d) Black or Black British

Caribbean
African
Any other African background

0%	0
0%	0
0%	0

e) Chinese

Chinese

1%	1
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f) Other ethnic group

0%	0
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N.B. Percentages do not total 100% as not all respondents answered all questions

Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	CHAIR'S ANNUAL REPORT ON AUDIT COMMITTEE 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The annual report for the year 2011/12 from the Chair of the Audit Committee is attached for consideration.

RECOMMENDATIONS:

- (i) That the Governance Committee considers and comments on the Chair's Annual Report attached at Appendix 1.

REASONS FOR REPORT RECOMMENDATIONS

1. For the 2011/12 accounting period the Audit Committee formed part of the overall Corporate Governance process. The key role of the Committee was to provide independent assurance to the then Standards and Governance Committee on the adequacy of the Council's risk management framework and the internal control and reporting environment.

Therefore, presentation of an Annual Report to the Governance Committee remains in line with good practice and is also consistent with recommendations made by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its publication 'Toolkit for Local Authority Audit Committees'.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. A self assessment against CIPFA's 'Toolkit for Local Authority Audit Committees', which recommends that Audit Committees periodically review their own effectiveness in discharging their responsibilities, was formerly carried out. One of the actions agreed as a result of this self-assessment was that an Annual Report on the Committee's work should be presented to the Standards and Governance Committee.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

AUTHOR:	Name:	Neil Pitman	Tel:	01962 845139
	E-mail:	Neil.pitman@hants.gov.uk		

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Audit Committee – Annual Report 2011/12
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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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SOUTHAMPTON CITY COUNCIL

AUDIT COMMITTEE – ANNUAL REPORT

2011/12



Cllr D Furnell
(CHAIR)

INTRODUCTION

I have recently taken over as Chairman of the new Governance Committee the successor to the Audit Committee. Ex Councillor Michael Ball was previously the Chairman of the Audit Committee for the last four years and I would like to thank him for the contribution he made to the smooth running of the committee. Over the last year the Audit committee has had a good balance of people with a wide range of experience. There was training instigated for new and existing members at the start of the year and this has continued with new and existing members attending training sessions.

There have been five meetings over the last financial year and there is a clear process of business which needed to be assessed by the Audit Committee. There was a clear diary of decisions which needed to be made and these were followed efficiently.

The committee received several key annual reports during the year:

- Audit Commission – Annual Governance Report & Annual Audit Letter
- Risk Management Action Plan
- Chief Internal Auditors Annual Report
- Strategic Risk Register and Review of Prudential Limits
- Treasury Management Strategy
- Annual Governance Statement

During the year the committee has paid particular attention to any key findings made by the internal and external auditors. They have made recommendations on any failings in internal controls. Overall there have been no serious problems found in internal controls. The previous Chairman's report highlighted poor accounting in schools however, specific issues reported have since have been resolved and this area is under continuing review. Note has also been taken on any changes in accounting standards.

The major change in the past year has been the government's implementation of the transfer of the Audit Commission's work to the private sector. This will take effect from 31 October 2012 with the audit work transferred to the private sector, this has resulted in a reduction of the annual audit fee.

From this financial year the old Audit Committee has been wound up and integrated with the previous Standards and Governance Committee to form the new Governance Committee to fulfil the functions of the two previous committees.

I consider that the Audit Committee has fulfilled its obligations to provide independent assurance on the governance of Southampton City Council.

Cllr David Furnell
Chairman Governance Committee

Purpose of the Report

1. The purpose of this report is to inform the Governance Committee of the work carried out by the Audit Committee during the 2011/12 Municipal year.

Background

2. The Audit Committee, which was created in 2006, provided independent assurance to the, then, Standards and Governance Committee on matters of corporate governance. The Committee's role reflected guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. CIPFA good practice also recommends that an annual report is produced setting out the work that the Audit Committee has undertaken during the preceding year. This is the fourth annual report produced by the Committee.

Membership

4. The Committee comprised seven Members, reflecting the political proportionality of the Council. The Committee was independent of both the Executive and Scrutiny. The Members for 2011/12 were:
 - Cllr Michael Ball (Chair)
 - Cllr Raymond Mead (Vice-Chair)
 - Cllr Edward Daunt
 - Cllr David Fuller
 - Cllr David Furnell
 - Cllr Satvir Kaur
 - Cllr Dr Darren Paffey
5. The Committee was supported by the Chief Finance Officer and the Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all five meetings held during the year.

Terms of Reference

6. The Committee's role and Terms of Reference, approved by Council, were:
 1. To provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement
 2. To be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

3. To have oversight of, and provide 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 cooperation 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).

7. In order to fulfil this remit, there are four significant sources of assurance available for the Committee to draw on:
 - External Audit, provided by the Audit Commission;
 - Internal Audit , provided by the Council's in-house team and led by the Chief Internal Auditor;
 - Annual Governance Statements provided by the Council's Executive Directors; and
 - The Council's strategic and operational Risk Registers

Work Programme 2011/12

8. The Committee met on five occasions during the 2011/12 municipal year:
 - 23rd June 2011
 - 22nd September 2011
 - 6th December 2011
 - 26th January 2012
 - 23rd April 2012

9. A full list of the reports considered during the year is attached at Appendix A. Some of the main issues considered were:

Risk Management

- One of the Committee's key functions was to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework. At its first meeting of the Municipal year, the Committee noted the latest iteration of the Risk Management Strategy and approved the Risk Management Action Plan for 2011/12 and reviewed the status of actions from the 2010/11 Plan.

- The Council's Strategic Risk Register and associated Risk Management Action Plans (RMAPs) are intended to capture the key strategic risks that may prevent or have a significant adverse effect on the achievement of the

Council's key objectives. The Committee reviewed the 2011/12 Strategic Risk Register and was satisfied that the document adequately reflected the key strategic risks facing the Council.

Internal Control

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement. The Committee received the report for 2010/11 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework of governance, risk management and management control was basically sound; however, some weaknesses were identified and evidence was found that the framework was not always consistently applied. Significant issues identified were:
 - In response to local government elector queries raised with the District Auditor, internal audit have supported the Audit Commission in reviewing the way the Council operates its heating charges account. Review highlighted some significant weakness in internal control. Testing carried out identified inadequate controls in place to govern changes made to the record of electricity meters. Additionally the Council had poorly managed commissioned surveys of electricity meters and failed to set up an accurate meter record.
 - Following a number of internal audit reviews during 2010–11, commonalities in control weaknesses were identified exposing both individual service areas and the Council to the risk of loss and / or failure to comply with corporate policy Common failings were identified with regard compliance with:
 - Contract procedure rules;
 - Declarations of interest; and
 - Financial procedure rules
 - The TPY programme ended in March 2011. To continue the improvements identified during the life of the programme a charitable company was created, by TPY members, 'Plus You Limited' (PYL) to deliver the future needs of the area. PYL will take over the ownership of TPY assets and will generate income to re-invest into projects when the funding ceases.
 - At the time of the audit there was no action plan in respect of close down procedures for TPY to hand over to PYL or clear distinction between assets belonging to PYL or the Council. Additionally the succession strategy was pending approval both locally and by the CLG.

- As part of its remit to provide independent assurance on the adequacy of internal control procedures, the Committee reviewed the draft Annual Governance Statement (AGS) and recommended its acceptance to the Standards and Governance Committee. The AGS is a key corporate document that should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where there are gaps or where improvements are required. The Committee was satisfied that the draft AGS was meaningful and that the system of internal control had operated effectively throughout the reporting period. Progress against the Action Plan, put in place to address outstanding issues, was reviewed by the Committee at a subsequent meeting. The Committee also approved the 'assurance gathering process' to support the development of the 2011/12 AGS.

Internal Audit

- The Annual Operational Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. The Committee commented on and approved the revised Annual Operational Internal Audit Plan for 2011/12, which had been updated to ensure that it remained aligned with significant business risks and was responsive to the priorities and concerns of the management team. At its final meeting of the Municipal year, the Committee approved the new Internal Audit Plan for 2012/13.
- At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address any control issues identified.

External Audit

- The Audit Commission's Annual Audit Letter for 2010/11 was presented to the Committee in December, setting out the results of the statutory audit of the Council's 2010/11 financial statements and the assessment of the Council's arrangements to achieve value for money in the use of resources. The key messages in the Annual Audit Letter were:
 - The Auditor issued an unqualified opinion on the financial statements for the year ending 31st March 2011;
 - The Auditor issued an unqualified value for money conclusion stating 'it has been another challenging year for the Council in which you have responded positively to the challenge of continuing financial pressures and maintained your focus on delivering efficient and effective services'.

- The Auditor acknowledged the Council's current and future challenges. Going forward, the Auditor advised of the main challenges to the Council over the forthcoming twelve months:
 - restructuring of the Council's workforce to improve the efficient working of the Council and reduce the number of senior management posts;
 - the delivery of the estates regeneration programme phases 2 and 3; and
 - joint commissioning with the Primary Care Trust for the commissioning of Adult Health and Social Care.

Other challenges the Council will face over the next few years, include:

- changes proposed in the government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;
 - changes proposed in the government's Localism bill, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and
 - government proposals to allow local authorities to retain business rates.
- At each meeting, the Committee received a progress report against the 2010/11 and 2011/12 Audit and Inspection Plans, including the Annual Governance report.
 - Within the year the Audit Committee has responded to a DCLG consultation on the 'Future of Local Public Audit'. The consultation set out proposals to disband the Audit Commission and transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local government framework.

The Audit Committee provided a comprehensive response to a 50 point consultation document to represent the Council's views on central governments proposals

Finance

- The Committee recommended to the Standards and Governance Committee that the Statement of Accounts for 2010/11 be approved.
- In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must approve a Treasury Management Strategy and set certain borrowing limits. The Committee endorsed the Treasury Management Strategy for 2012/13 prior to its submission to Council for final approval.

Conclusion

10. In partnership with the Audit Commission, and with the support of Officers, the Audit Committee provided robust and effective independent assurance to the, then, Standards and Governance Committee on a wide range of risk and internal control issues, thereby making a valuable contribution to the Council's corporate governance arrangements.

Appendix A

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2011/12

23rd June 2011

- Chair's Annual Report on Audit Committee 2010/11
- Audit Commission: Audit and Inspection Plan Progress Report
- Audit Commission: Annual Audit Fee 2011/12
- Annual Governance Statement 2010/11
- Risk Management Action Plan and Review of Strategy
- Chief Internal Auditor's Annual Report and Opinion 2010/11
- Future of Local Public Audit - Consultation

22nd September 2011

- Strategic Risk Register
- Review of Prudential Limits and Treasury Management Outturn 2010/11
- Treasury Management Strategy and Prudential Limits Mid Year Review
- Statement of Accounts 2010/11
- Audit Commission: Annual Governance Report 2010/11 (Draft)
- Future of Local Public Audit - Update
- Internal Audit: Status of Work – August 2011

6th December 2011

- Audit Commission – Annual Audit Letter 2010/11
- Audit Commission: Audit and Inspection Plan Progress Report
- Annual Governance Statement 2010/11: Action Plan Status Report
- Risk Management Action Plan 2011/12: Status Report
- Strategic Risk Register – Update
- National Fraud Initiative 2010/11
- Internal Audit Progress Report – November 2011

26th January 2012

- Annual Governance Statement 2011/12: Assurance Gathering Process
- Audit Commission: Audit and Inspection Plan Progress Report
- Treasury Management Strategy and Prudential Limits 2012/13- 2014/15

23rd April 2012

- Audit Commission: Audit Committee Update
- Internal Audit: Internal Audit Plan 2012/13
- Internal Audit: Progress Report – March 2012

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Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	INTERNAL AUDIT: PROGRESS REPORT AUGUST 2012
DATE OF DECISION:	25 SEPTEMBER 2012
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
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control

In accordance with proper internal audit practices 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; and
- the status of 'live' reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control

The Appendix summarises the activities of internal audit for the period August 2012.

RECOMMENDATIONS:

1. (i) That the Governance Committee notes the Internal Audit Progress report for the period August 2012 as attached.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

DETAIL (Including consultation carried out)

4. The status report for the period August 2012 is attached for consideration in the Appendix.

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The Accounts and Audit (England) Regulations 2011 require the Council to '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:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. 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.	Internal Audit: Progress Report period August 2012
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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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SUBJECT:	Internal Audit: Progress Report
MEETING:	Governance Committee
DATE OF MEETING:	25th September 2012
REPORT OF:	Chief Internal Auditor
REPORT DATE:	August 2012

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	Pending	Cleared	Overdue
Payroll	23/03/10	Corporate Services	Substantial	Substantial	3(2)	-	2(1)	1(1)
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)	-	3(0)	2(0)*
Internet and Email	20/07/11	Corporate Services	Adequate	Substantial	4(0)	-	3(0)	1(0)
School Admissions	19/08/11	Children's Services & Learning	Adequate	Substantial	3(1)	-	2(1)	1(0)
Joint Commissioning Standards	09/09/11	Health and Adult Social Care	Limited	Adequate	26(12)	1(0)	24(11)	1(1)
Repairs and Maintenance	07/10/11	Corporate Services	Adequate	Adequate	3(1)	-	2(0)	1(1)
Grants to Voluntary Organisations	18/10/11	Economic Development	Adequate	Adequate	11(4)	-	6(2)	5(2)
Street Lighting PFI	03/11/11	Environment	Adequate	Substantial	21(0)	1(0)	13(0)	7(0)
Day Care Thematic review	19/03/12	Health and Adult Social Care	Limited	Adequate	28(12)	13(2)	13(10)	2(0)
Licensing	19/03/12	Corporate Services	Substantial	Substantial	6(1)	-	5(1)	1(0)
Bitterne Park Junior School	23/03/12	Children's Services & Learning	Limited	Substantial	28(19)	4(0)	21(19)	3(0)
Locality Teams	20/04/12	Health and Adult Social Care	Adequate	Adequate	4(4)	-	-	4(4)
Payroll	21/05/12	Corporate Services	Adequate	Adequate	22(18)	3(1)	9(9)	10(8)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Teachers Pension	24/05/12	Corporate Services	No	Limited	16(16)	-	7(7)	9(9)
Weston Park Junior School	11/06/12	Children's Services & Learning	Limited	Limited	23(19)	4(2)	15(13)	4(4)
Repairs and Maintenance - Housing	12/06/12	Environment	Limited	Limited	13(5)	7(3)	6(2)	-
IT Solutions Development and Support	28/06/12	Corporate Services	Adequate	Adequate	3(0)	3(0)	-	-
Provider Services	24/07/12	Health and Adult Social Care	Adequate	Adequate	6(1)	2(0)	3(0)	1(1)
Highways	01/08/12	Environment	Substantial	Substantial	2(0)	2(0)	-	-

* Implementation of management actions are contingent on the delivery of the Procurement to Pay initiative (scheduled October 2012)

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

Audit title: Weston Park Junior School (11 Jun 2012)

Original published audit opinion: Limited Assurance

Current audit opinion: Adequate Assurance

Executive summary:

During the financial year the school experienced significant change. The previous Headteacher retired in August 2011 and eight staff members left. The school have an Executive Headteacher and Deputy Headteacher and new staff have been employed. Adverse Ofsted reports resulted in extra training for staff.

Key finding from the audit review highlighted

Financial Procedure Rules were not routinely complied with.

- Changes in staff numbers over the last two years had led to a lack of segregation of duties for key functions leaving staff vulnerable and increasing the risk of fraud.
 - I. The Business Manager was the only member of the school staff undertaking payroll procedures. There were no written payroll procedures for the school which further increased the school's reliance on the Business Manager.
 - II. The Administration Officer was responsible for the collection, recording and banking of income with no reconciliation or monitoring performed by an independent member of staff
 - III. The business manager retained responsibility for raising orders, checking goods received and payment
- Orders were not raised for all purchases as required in the Financial Procedure Rules. Such omission will have greater impact on the school when Purchase to Pay is introduced.
- Inconsistencies were noted between delegated financial responsibilities agreed by Governors and those documented in the schools financial procedures

- Buying into the Insurance Service Level Agreement with the Council provides the school with liability cover as well as covering their assets, however there was no register of key holders for the premises and no inventory of school assets which could jeopardise insurance claims.
- Redundant computer equipment was not being disposed of but was stored in the decommissioned swimming pool area.

Data Security – The ITC Technician backed up the school IT system each evening to external hard drives one of which was left on the school premises and the other taken home. There are significant risks to the security of data taken offsite and leaves the school susceptible to breach of the Data Protection Act

Management actions and update:

Implementation of contracts register
 Review of office layout and security
 Review of banking procedures
 Review of segregation of duties
 Introduction of key register
 Revised IT backup and security arrangements

High priority actions overdue:

Review of financial procedures*
 Register of staff interests**
 Staff training (FOI, DPA)**
 Review of school inventory & disposal policy**
 * review complete, awaiting Governor sign off at September meeting
 ** Policies and procedures have been produced over the summer break and will be implemented during September when staff return for the autumn term

Audit title: Housing – Repairs & Maintenance (12 Jun 2012)

Original published audit opinion: Limited Assurance

Current audit opinion: Limited Assurance

Executive summary:

The housing repairs service is currently undertaking a significant piece of work to establish how the service can become more efficient and improve quality for its customers. The lean process review is establishing if the current processes followed are appropriate and if the quality of service delivered meets expectations.

This Internal Audit review has been undertaken independently of the lean process review and has focussed on specific areas as identified by the Senior Manager for Housing Operations to avoid duplication.

Job Management - Inconsistencies were identified with the recording of jobs on the run sheets and it was difficult to ascertain if the actual time recorded to the job was productive, within budget and met priority timeframes. A Repair Quality Control System is in place to record the quality of the work undertaken on the jobs, however, of the jobs selected for the audit review, none could be found within the system.

A schedule of planned maintenance was not maintained as all works were automatically scheduled within the IWorld system. Exception reports were available within IWorld to ascertain properties which had not been inspected but they were not used.

Stock - No evidence was provided to demonstrate reconciliation of stock used on jobs, held on vans and stored within the depot stores. An annual stock take was not routinely undertaken to ensure the financial values held were correct and there was uncertainty if the current stock list was up to date. Without an overall review of how all trades manage their work and stock, there is a risk of inconsistent practices resulting in inefficiencies and the potential for losses going unnoticed.

Procurement On review of supplier payments a number of suppliers were identified with significant spend, however, they did not appear on the contractor list supplied by Business Support. No formal contract register was in place and therefore limited assurance can be given that the correct procurement processes have been adhered to.

Safeguarding of assets - There were inconsistencies with the overnight storage of vehicles. Some are held off site and some were retained on site. The fleet register records the trade the van has been allocated to but does not report if it has been given to a specific tradesman or if the van is retained on site when not in use or taken home. Van stock was not routinely checked on the vehicles and without clear allocations and security arrangements the Council would be liable for costs incurred in the event of theft or damage to a vehicle.

Mobile Phones - Although there was a local policy in place not all officers who have a Council mobile had signed an agreement to state that they will pay for private calls. Only mobile phone statements with costs in excess of £70 were monitored and therefore any abuse of the mobile phone policy would not be identified for those under this threshold. There was no monitoring schedule in place to record deductions from salaries or alternative payments for the use of mobile phones for personal calls. For the year 2011/12 total cost of calls reimbursed was £255.47 against an accumulated mobile phone bill of approximately £40,000.

Management actions and update:

Run sheets have been reviewed to ensure consistency
Review of suppliers completed & communicated to staff
Update & review of fleet register completed
Stock accounts set up for all van stocks
Confirmation of divisional arrangements for maintaining declarations of interest disseminated to all staff

High priority actions overdue:

None

4 Internal Audit Performance

% of plan completion

Analysis of audit activity to date confirms that 21% of the 2012/13 audit plan (including 2011/12 c/f) is complete or work in progress.

Consultation on revised standards

Organisations in the UK public sector are currently covered by different internal audit standards, with the local government sector using the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code)

As organisations work more closely together in formal partnership and informal arrangements, and internal auditors work across the public sector, the following weaknesses in the current situation have become apparent:

- A lack of consistency across the UK public sector and inconsistent update processes for the standards in use;
- Different guidance for different, but related, sectors; and
- No structure to articulate public sector needs and influence best practice development.

A collaboration announced by CIPFA and the IIA in May 2011 has led to an agreement between relevant internal audit standard setters to develop a set of internal audit standards applicable to all areas of the UK public sector.

It is proposed that the Public Sector Internal Auditing Standards (PSIAS) will come into force from the 1 April 2013.

During July the Internal Audit Standards Advisory Board (IASAB) invited a period of consultation on the new PSIAS. The Chief Internal Auditor is in the process of compiling a response to the consultation for which submissions are required by 14 September 2012.

5 Planning and Resourcing

The internal audit plan for 2012-13 was approved by the Management Board of Directors and the Audit Committee in April 2012. The audit plan will remain fluid to ensure internal availability to react to the changing needs of the Council. Progress against the plan is detailed within section 7

6 Fraud and Irregularities

Within the year we have assessed and where appropriate, advised, investigated or supported the investigation of seven allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act (Whistleblowing) Policy. Of these:

- 1 was investigated, but with no further action required;
- 1 was investigated to assist police with their enquiries
- 2 resulted in disciplinary action; and
- 3 remain ongoing

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
2011/12 Audit Plan					
Housing and Council tax Benefits	✓	✓	✓	✓	16 Apr 2012
Locality Teams	✓	✓	✓	✓	20 Apr 2012
Payroll	✓	✓	✓	✓	21 May 2012
Teachers Pension	✓	✓	✓	✓	24 May 2012
General School Review – Weston Park Junior School	✓	✓	✓	✓	11 Jun 2012
Repairs and Maintenance - Housing	✓	✓	✓	✓	12 Jun 2012
General School Review – Harefield Primary School	✓	✓	✓	✓	12 Jun 2012
Computer Installations and Operations	✓	✓	✓	✓	13 Jun 2012
Main Accounting System	✓	✓	✓	✓	27 Jun 2012
IT Solutions Development and Support	✓	✓	✓	✓	28 Jun 2012
Provider Services	✓	✓	✓	✓	24 Jul 2012
Highways Futures	✓	✓	✓	✓	01 Aug 2012

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Financial Management	✓	✓	✓	✓	24 Aug 2012
Across School Thematic review	✓	✓	✓	✓	
General School Review – Redbridge Community School	✓	✓	✓	✓	
Procurement	✓	✓	✓	✓	
Debtors	✓	✓	✓	✓	
Mobile Phone Policy	✓	✓	✓	✓	
Sports and Recreation Partnership	✓	✓	✓	✓	
Human Resources	✓	✓	✓	✓	
2012/13 Audit Plan					
Annual Governance Statement	✓	✓	✓	✓	29 May 2012
Teachers Pensions	✓	✓	✓	✓	
Street Cleansing and Parks & Open Spaces	✓	✓	✓	✓	
PUSH	✓	✓	✓	✓	N/A
Solent Sea Rescue Organisation	✓	✓	✓	✓	N/A
Reactive Fraud	N/A	N/A	N/A	N/A	N/A

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Precautions against fraud	N/A	✓			
National Fraud Initiative	N/A	✓			
Capital Programme Management	✓	✓			
General school reviews	✓	✓			
Schools Grant Funding	✓	✓			
Heating Charges	✓	✓			
European Funding	N/A	✓			
Procurement	✓	✓			
Public Health	✓	✓			
Cash Collection and Banking	✓				
MARP - Multi Agency Resource Panel	✓				
Fraud Thematic Review(s)	✓				
Change Programme					
Corporate Communications and Marketing					
Health and Safety					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Information Governance					
Human Resources					
Contract Management					
Project management					
Strategic Service Partnership					
Electoral Registration					
Code of Conduct (Members and Officers)					
Effectiveness of the Role of Internal Audit	N/A	✓	✓	✓	
Housing rent collection and Debt Management					
Housing and Council Tax Benefits Administration					
Accounts Payable					
Accounts Receivable					
Financial Management					
Council Tax					
NNDR					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Main Accounting System					
Payroll					
IT Applications & Operating Systems					
Network Management and Security					
Internet/e-mail					
Inventory Management					
Development Management					
Southampton New Arts Centre (SNAC)					
Across Schools -Thematic Review					
Locality Teams - Statutory Schools Work / Providers					
School support services					
Highways					
Street Lighting PFI					
Waste and Recycling Services					
Itchen Bridge					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (<i>proposed</i>)
Housing Operation Transformation					
Sustainability (Use of Natural Resources / Carbon Reduction)					
Estate Regeneration					
Think Local, Act Personal - (Personalisation)					
Joint Commissioning					
Safeguarding					
Financial Assessment Process					
PARIS					

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	INTERNAL AUDIT STRATEGY 2012-15
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

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

- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control

In accordance with proper internal audit practices the Internal Audit Strategy should be presented to the Governance Committee, in its capacity as the member body charged with governance.

The strategy outlines how the Council's internal audit service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on Southampton City Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of Southampton City Council's internal control, risk management and governance systems through the strategic audit plan, in a way which affords due consideration to the Council's key objectives and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the External Auditors and other external review bodies; and
- provision of assurance and advisory services by internal audit.

The Internal Audit Strategy 2012-15 is presented at Appendix 1.

RECOMMENDATIONS:

- (i) That the Governance Committee notes the Internal Audit Strategy 2012-15 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Governance Committee is required to receive the Internal Audit Strategy.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The Internal Audit Strategy 2012-15 is attached for consideration in the Appendix.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

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KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Internal Audit Strategy 2012-15
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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)

1.	None	
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INTERNAL AUDIT STRATEGY

2012 – 2015

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1. INTRODUCTION

1.1 Background

- 1.1.1 The requirement for an internal audit function in local government is detailed in the Accounts and Audit (England) Regulations 2011, which states that a relevant body must 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' in relation to internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's *Code of practice for internal audit in Local Government in the United Kingdom (2006)* ["CIPFA Code"].
- 1.1.2 The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council ["the Council"] lies with the Head of Finance & IT, as the authority's Chief Finance Officer.
- 1.1.3 The purpose of internal audit is to provide independent and objective assurance to the Council on risk management, control and governance, by evaluating their effectiveness in achieving the Council's stated priorities.

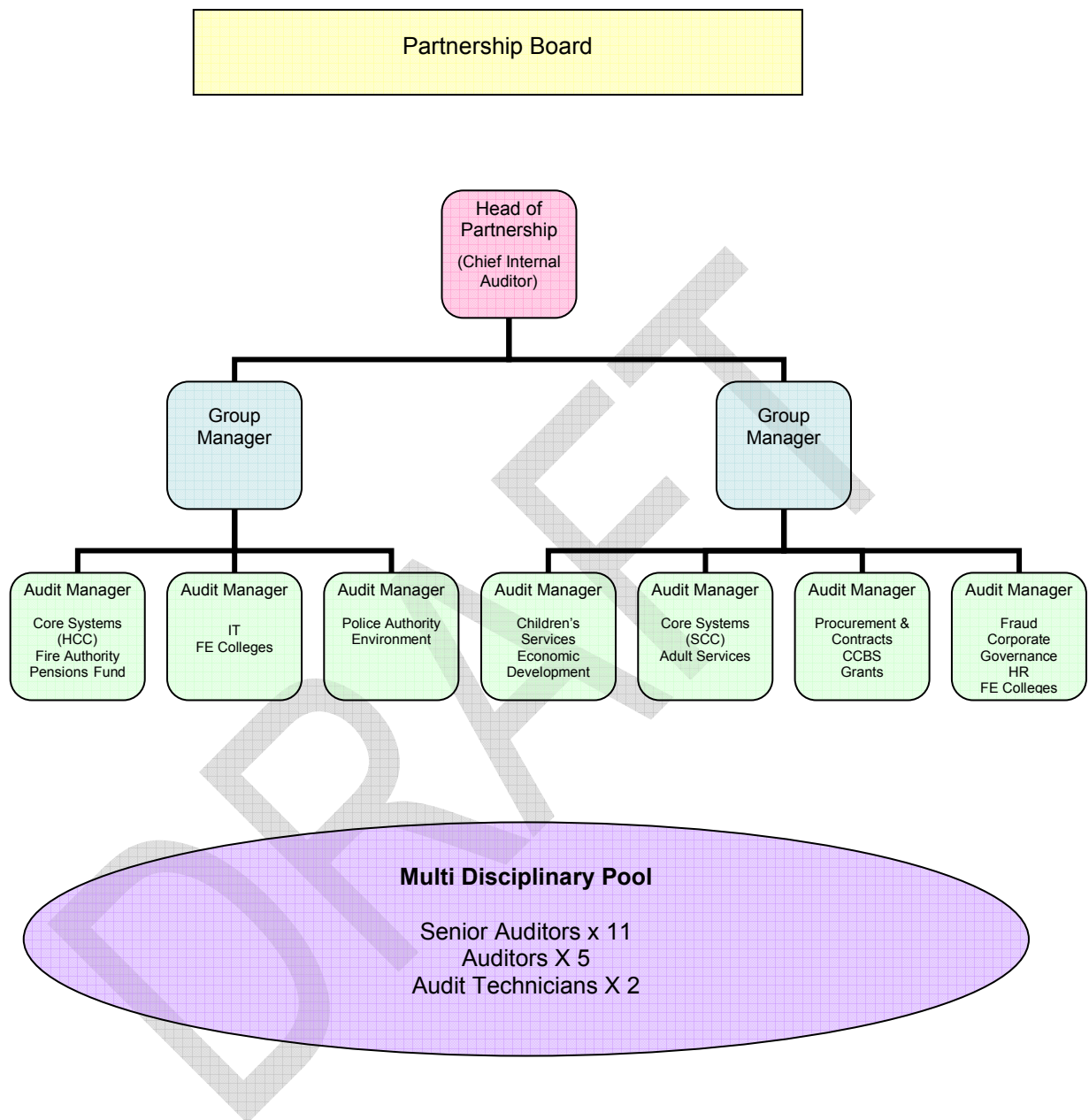
1.2 Internal Audit Partnership

- 1.2.1 On 1 February 2012 Southampton City Council entered into a collaborative partnership with Hampshire County Council for the provision of internal audit services
- 1.2.2 The development of the Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.
- 1.2.3 The Partnership blends the individual requirements of participating organisations through unique Audit Strategies and governance reporting with the continuity of a modern risk based internal audit approach and reporting protocols enabling efficient and effective service delivery
- 1.2.4 The Partnership has ambition to optimise realised benefits across a wider public sector base, in particular through pooled expertise, business resilience and the economies of scale partnership working offers.
- 1.2.5 The Internal Audit Partnership has a vision to deliver

"A collaborative Audit Partnership delivering an innovative, customer focussed service aligned to business needs and improved outcomes through:

- *A seamless, flexible and efficient service working across all partners;*
- *Key specialism's reflective of and adaptive to business need;*
- *Best practice that is embraced, developed and promoted; and*
- *A forward looking Audit Partnership supporting change and transformation across all partners."*

1.2.6 The Internal Audit Partnership is structured to maximise shared expertise and resilience across partnering organisations:



1.3 Internal audit strategy

1.3.1 The Council's Internal Audit Strategy 2012 – 2015 is to be presented to the Governance Committee, in its capacity as the member body charged with governance.

- 1.3.2 The strategy outlines how the Council's internal audit service will be managed, delivered and developed to facilitate:
- delivery of an internal audit opinion on Southampton City Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
 - audit of Southampton City Council's internal control, risk management and governance systems through the strategic audit plan, in a way which affords due consideration to the Council's key objectives and significant risks;
 - continuous improvement of the internal control, risk management and governance framework and processes within the Council;
 - identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
 - effective cooperation with the External Auditors and other external review bodies; and
 - provision of assurance and advisory services by internal audit.
- 1.3.3 This strategy is based on the Risk Based Internal Auditing ["RBIA"] concept. RBIA is a methodology that clearly links internal auditing to the organisation's overall risk management framework and therefore priorities and objectives, enabling internal audit to provide assurance that risks are being managed effectively.
- 1.3.4 In the published 'Southampton City Council Plan 2011-14' the Council has identified seven key priorities which underpin all of the Council's work:
- 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; and
 - Reshaping the Council for the future – customer focus and increasing the proportion of council spend on direct service delivery
- 1.3.5 The RBIA methodology ensures internal audit effort is aligned with the Council's priorities in the planning and performance of its work.
- 1.3.6 The Chief Internal Auditor is responsible for ensuring the internal audit strategy is reviewed annually (minimum) and the Governance Committee will be required to approve any significant amendments.

2. INTERNAL AUDIT TERMS OF REFERENCE

2.1 Purpose

- 2.1.1 These *Terms of reference* set out the purpose, authority and principal responsibilities of internal audit within Southampton Council [the Council].
- 2.1.2 Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 2.1.3 Internal audit may provide independent and objective advice specifically to help management improve the Council's control environment.
- 2.1.4 Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- 2.1.5 Internal audit aims to provide high quality services that:
- add value and contribute to the achievement of the Council's aims and objectives;
 - support elected Members and officers of the Council in the effective discharge of their responsibilities;
 - specifically support the Head of Finance & IT, in the discharge of duties as proper officer;
 - are innovative and challenging, shaping the values and standards of the organisation; supporting and promoting the need for sound internal controls; and, encouraging management to take ownership of processes, systems and policy; and
 - maintain a level of independence and integrity which supports the proper delivery of the internal audit function

2.2 Statutory framework

- 2.2.1 Internal audit is a statutory function within the Council under a duty 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'

[Regulation 6 of the Accounts and Audit (England) Regulations 2011]. These standards for proper practices are laid down in the CIPFA Code.

2.3 Accountability

- 2.3.1 The Chief Internal Auditor reports to the Head of Finance & IT who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972 for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.
- 2.3.2 The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.
- 2.3.3 The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.
- 2.3.4 Where it is considered necessary to the proper discharge of internal audit functions, the Chief Internal Auditor has direct access to elected Members of the County Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).
- 2.3.5 Accountability for response to internal audit's advice lies with management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of internal audit to review the policies, procedures and operations at a later date.
- 2.3.6 The Chief Internal Auditor must be satisfied that management accepts accountability for, and provides an adequate response to, issues raised through internal audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the relevant Director and/or the Governance Committee.

2.4 Scope of internal audit work

- 2.4.1 Internal audit's remit extends to the whole of the Council's internal control, risk management and governance environment which comprise the policy, procedures and operations in place to:
- establish and monitor the achievement of the Council's objectives;
 - identify, assess and manage the risk to achieving the Council's objectives;
 - advise on, formulate and evaluate Council policy;
 - ensure the economical, effective and efficient use of resources;
 - ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
 - safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
 - ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes;
 - manage the risk of fraud; and
 - work in partnership with other bodies, protecting the Council's interests in the delivery of shared objectives

- 2.4.2 Internal audit will devote particular attention to any aspects of internal control, risk management and governance affected by material changes to the Council's risk environment.

2.5 Responsibility

- 2.5.1 Directors are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of the Council's objectives.
- 2.5.2 The Chief Internal Auditor is responsible for the management of a professional internal audit service, which follows the CIPFA Code and which advises Directors in the effective discharge of their responsibilities.

2.6 Independence

- 2.6.1 Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. In practice, independence will be achieved through internal audit:
- having no executive or operational responsibilities;
 - operating in a framework that allows unrestricted access to Members and senior management;
 - reporting in its own name;
 - rotating responsibilities for audit assignments within the internal audit team;
 - completing individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
 - ensuring the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

2.7 Strategy

- 2.7.1 The Chief Internal Auditor will produce an audit strategy for the Council, detailing how the internal audit service will be delivered and developed in accordance with these terms of reference and how it links to the Council's objectives and priorities. The strategy will be approved (but not directed by) the Governance Committee. The strategy will be reviewed annually.
- 2.7.2 The strategy will be implemented through the determination and delivery of a strategic risk-based audit plan, developed in consultation with the Head of Finance & IT, senior management and the Governance Committee.

- 2.7.3 The annual operational plan will be designed to enable the Chief Internal Auditor to deliver annually, an independent and objective opinion on internal control, risk management and governance, by measuring and evaluating their effectiveness in supporting or delivering the Council's stated objectives.
- 2.7.4 The annual operational plan will be subject to ongoing review and adjustment during the course of the year, to ensure it remains aligned with the Council's key objectives and risks and is responsive to the priorities and concerns of the Management Board of Directors

2.8 Internal audit resources

- 2.8.1 The Chief Internal Auditor will be professionally qualified (CPFA, CMIIA or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.
- 2.8.2 The Head of Finance & IT, will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.
- 2.8.3 The Chief Internal Auditor will appoint staff with the range of knowledge, skills, qualifications and experience required to deliver the audit strategy to the standards laid down in the CIPFA Code.
- 2.8.4 If the Chief Internal Auditor, Governance Committee or Directors consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the CIPFA Code is prejudiced, they will advise the Head of Finance & IT, accordingly.

2.9 Rights of access

- 2.9.1 In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.
- 2.9.2 Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

2.10 Due professional care

- 2.10.1 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.
- 2.10.2 Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

- 2.10.3 Internal auditors will apprise themselves of the CIPFA Code and will work in accordance with the standards laid down in the Code.
- 2.10.4 Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the Council's laid down procedures.
- 2.10.5 Internal auditors will treat the information they receive in carrying out their duties as confidential. The Chief Internal Auditor is responsible for determining an Access Policy to outline the parameters for authorised disclosure of audit information, files and records. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

2.11 Reporting to third parties

- 2.11.1 Subject to the prior approval of the Senior Manager, Finance, the Chief Internal Auditor may agree to provide an opinion to a third party on internal control, risk management and governance e.g. partner organisations.

2.12 Ownership of documentation

- 2.12.1 Internal audit files and working papers, which demonstrate compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, are the property of the Council.
- 2.12.2 Internal audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of a fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed.

2.13 Review of the internal audit terms of reference

- 2.13.1 These *Terms of reference* will be reviewed annually (minimum) and the Chief Internal Auditor will advise the Governance Committee on their content and the need for any subsequent amendment.

3. INTERNAL AUDIT SERVICES

3.1 Range of Internal Audit Services

3.1.1 A range of internal audit services is provided. The approach will be determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the Council's success, the risks inherent in the achievement of those objectives and the level of confidence required that controls are well designed and operating as intended.

3.1.2 The range includes:

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Advisory services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.
- **Fraud and irregularity investigations:** in which
 - specialist skills and knowledge will be provided to assist in an investigation, or lead an investigation where appropriate; and
 - fraud prevention controls and detection processes are assessed to ascertain their effectiveness

4 DEVELOPING THE AUDIT PLAN

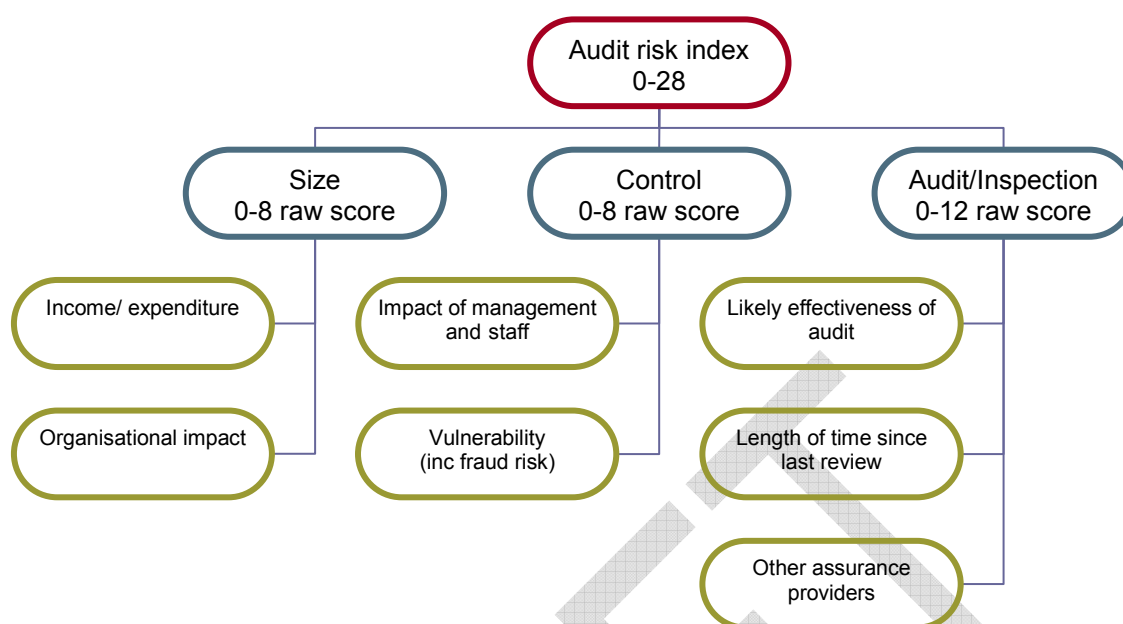
4.1 The audit universe

- 4.1.1 The requirement for internal audit to provide a clear opinion on internal control, risk management and governance arrangements, flowing from the Council's key objectives, provides a clear focus for the audit approach.
- 4.1.2 Internal audit will define the 'audit universe', from the Council's key priorities and delivery framework (Council Plan, Risk Register etc), ensuring it contains the main business processes, projects, assets, performance and compliance issues significant to the Council's strategic direction, risk environment and goals. Definition of the audit universe will enable internal audit to demonstrate support to the annual corporate governance statement and will encompass the following core principles:
- focus on the Council's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions within a framework of controls and managing risk;
 - developing the capacity and capability of members and officers to be effective; and
 - engaging stakeholders to ensure robust public accountability.
- 4.1.3 The audit universe will be subject to ongoing review and adjustment, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the Management Board of Directors. Amendments will be identified through internal audit's ongoing contact and liaison with senior officers and those responsible for the governance of the Council

4.2 Identifying audit needs

- 4.2.1 Internal audit will include assessments of the effectiveness of the corporate risk management and performance management frameworks within its programme of work, to support the Council's development of risk and performance management and to identify the extent to which internal audit is able to rely on these assurance functions.
- 4.2.2 The corporate risk register and performance framework will be used to inform the risk assessment of the audit universe, but will be supplemented with internal audit's own assessment of risk and materiality.
- 4.2.3 Internal audit's assessment of risk will provide for a systematic appraisal of the elements of the audit universe to enable auditable areas to be risk scored and indexed relative to all other areas.

Audit risk index



- 4.2.4 The risk profile of the audit universe will form the basis of a three-year strategic plan of internal audit work and will be updated at least annually to take cognisance of changing priorities within the Council. The three-year strategic plan will be presented to senior management and the Governance Committee, identifying the specific services, activities, processes or projects that present the highest inherent risks.

4.3 Producing the audit plan

- 4.3.1 An annual operational plan will be derived from the three year strategic plan using a risk based approach, whereby audits will be selected based on greatest perceived inherent risk. A timing algorithm will be included to ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems to materialise within the rest of the audit universe.
- 4.3.2 Other review work, based on criteria other than risk, may also be built into the plan. These may include grant certification work or other mandatory audits. They may also include audits or reviews requested by management or the Governance Committee, but will not include the direct delivery of executive responsibilities or functions.
- 4.3.3 A contingency allocation will also be built into the plan for investigations, reactive counter fraud work and other unplanned enquiries. Any commissioned review work must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance. Any displacement of a previously planned review by unplanned work will be clearly justified.

- 4.3.4 The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources. Management and the Governance Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.
- 4.3.5 The annual operational plan will be submitted to the Head of Finance & IT, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Head of Finance & IT, and the Governance Committee.

4.4 Relationship with other assurance providers

- 4.4.1 The availability of objective assurance from other assurance providers will be considered in determining audit needs.
- 4.4.2 The Chief Internal Auditor will meet regularly with the External Auditor to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The External Auditors will have the opportunity to rely on the work of internal audit where appropriate.
- 4.4.3 Where internal audit needs to work with the internal auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party will be clearly defined, agreed and documented.
- 4.4.4 Internal audit will ensure awareness of and seek to place reliance on the work of other review bodies where appropriate.

5 DELIVERING THE AUDIT

5.1 Objectives of the internal audit review

- 5.1.1 Any audit work intended to provide an audit opinion will be undertaken using a risk-based approach.
- 5.1.2 The purpose of the internal audit review will be to provide assurance to management, in relation to the business, activity, system or processes identified in the operational audit plan, that:
- the framework of internal control, risk management and governance is appropriate and operating effectively; and
 - risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.
- 5.1.3 The Chief Internal Auditor will produce and maintain an "Internal Audit Manual" that defines the processes and procedures to be followed by the service in the conduct of its work to ensure appropriate professional standards are met.

5.2 Planning

- 5.2.1 For each internal audit review, a written 'Audit Outline', based on the operational plan, will be discussed, prepared and agreed with management. The audit outline, prepared in standard format, will establish the scope of the review, detailing management objectives, key risks, and timing for the assignment.
- 5.2.2 The audit outline will identify the lead auditor and audit team member(s) conducting the review. It will identify the 'audit sponsor' i.e. Director with overall strategic responsibility for the management objectives under review. It will also identify the 'key audit client', i.e. the System owner or other senior officer responsible for the operational delivery of the management objectives under review.
- 5.2.3 The audit outline will list, as far as is practicable, the intended circulation for the final internal audit report. This may be subject to change at the discretion of the Chief Internal Auditor depending on the findings and outcomes of the review.
- 5.2.4 The audit outline will be approved by the Group Manager and relevant officer of the departmental management team as evidence they accept the objectives of the review.

5.3 Documenting the audit work

- 5.3.1 All internal audit assignments and documentation will be documented within the MK Insight audit management system. All will be subject to review by a qualified and experienced member of the audit team. The purpose of the review is to ensure that sufficient evidence has been obtained and recorded to support the auditor's conclusions and professional judgements.

- 5.3.2 Assignment documentation should be sufficiently complete to enable an experienced internal auditor with no previous connection with the review to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached. Review and documentation of review points will be evidenced through the MK Insight audit management system.
- 5.3.3 Documentation of the work must make clear the link between key risks, controls, assurances given and work done to support those assurances.
- 5.3.4 Significant controls will be verified for evidence that the actions are working as intended through adoption of an appropriate testing strategy. Testing will be sufficiently detailed to enable re-performance to deliver the same conclusions.
- 5.3.5 Exceptions arising from control evaluation and testing will be recorded and appropriately cross-referenced within MK Insight.

5.4 Audit file structure

- 5.4.1 A standard audit file structure has been adopted within MK Insight and will be used in the conduct of all audit reviews.
- 5.4.2 MK Insight records key target dates and achievements. MK Insight policies require the Group Manager to sign off the file at the end of each assignment.

5.5 Audit supervision and review

- 5.5.1 The Chief Internal Auditor is ultimately responsible for delivery of the audit work to the defined standard. In practice, responsibility for supervising specific assignments will be delegated through the Group Manager(s); this will include:
- detailed planning of the exercise;
 - managing each assignment on time, within budget and to the appropriate quality standard;
 - discussing and agreeing the scope and operation of the exercise with the auditor(s);
 - actively liaising with the auditor(s) to monitor progress on the exercise;
 - ensuring adequate audit work has been performed to deliver an audit opinion;
 - managing client expectations;
 - reviewing audit work, action plans and reports produced by the auditor(s) at appropriate stages during the progress of the assignment; and
 - a quality review of the conduct of the audit and an assessment of the performance of the auditor(s).

6 INTERNAL AUDIT REPORTING

6.1 Accountability for risk

- 6.1.1 Internal audit will consider their evaluation of the framework of internal control, risk management and governance and will advise management where they consider that risk is not appropriately controlled. Management may either accept the advice and implement actions to address weaknesses or deficiencies in controls; or formally reject it.
- 6.1.2 Where internal audit believes that the risk falls outside usually accepted parameters or that the rejection of their advice and the absence of satisfactory mitigating action leave the Council exposed to significant risk, they will bring the matter to the attention of the relevant Director. If the Director elects to accept the risk, the Chief Internal Auditor will ensure the Head of Finance & IT and Chief Executive are appropriately informed.

6.2 Assignment reporting

- 6.2.1 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.
- 6.2.2 Any key (serious) issues arising during the course of the audit review will be promptly reported to the Group Manager(s) to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.
- 6.2.3 Internal audit reports will be used to record:
- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance:

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

- An executive summary of assurance in respect of each key risk identified, to include:
 - areas of good practice identified;
 - any opportunities for efficiency gains identified including any examples of “over management” of risk; and
 - a summary of findings/observations, to include an explanation of the risk, its potential impact and the identified control weaknesses.
- audit’s observations or findings that led it to its conclusion on the effectiveness of risk management, control and governance;
- the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion; and
- a prioritisation of the actions using the following categories:

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

6.2.4 The final report will be issued in the names of the auditor conducting the review. Final reports will be copied to:

- the audit sponsor;
- the audit client;
- the relevant directorate management team lead; and
- copies may also be provided to the External Auditor as requested.

6.3 Action tracking

6.3.1 Management is accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales.

6.3.2 Internal audit will request progress reports in respect of management actions from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider management’s response and evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up visit) is required by internal audit.

- 6.3.3 Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the audit sponsor (i.e. relevant Director), the Head of Finance & IT, the Management Board of Directors (MBoD) and the Governance Committee, as deemed appropriate.
- 6.3.4 Management actions will be tracked by internal audit to implementation or, as occasionally happens in times of rapid change, to obsolescence. The audit sponsor will be notified through the MBoD report (see below) that an audit has been closed.

6.4 Reports to Management Board of Directors & Governance Committee

- 6.4.1 A status report on internal audit work will be presented to MBoD and Governance Committee on a quarterly basis (approximately). This report will include a summary of:
- audit opinion and current status of 'live' internal audit reports i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and control;
 - executive summaries of all internal audit reports published since the last report concluding a 'limited' or 'no' assurance opinion;
 - latest positions statements from management in addressing issues raised in reports where fundamental weaknesses have been identified or the framework is ineffective or absent, including high priority actions where implementation is overdue;
 - a summary of internal audit performance, planning and resourcing issues; and
 - an update on progress of the annual audit plan.

6.5 Annual audit opinion

- 6.5.1 A formal annual report to the Governance Committee, Management Board of Directors and Head of Finance & IT (as proper officer), presenting the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal control and in preparing the Annual Governance Statement.
- 6.5.2 The format of the Chief Internal Auditor's report will follow that set out by the CIPFA Code and will include:
- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
 - disclose any qualifications to that opinion, together with the reasons for qualification;
 - a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - any issues considered by the Chief Internal Auditor to be particularly relevant to the Annual Governance Statement;
 - a comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
 - comment on compliance with the CIPFA Code and internal audit's quality assurance programme.

7 RESOURCING INTERNAL AUDIT

7.1 Principles

- 7.1.1 The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.
- 7.1.2 If the Chief Internal Auditor, Governance Committee or Directors consider that the terms of reference or level of internal audit resources in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with CIPFA's Code, they should advise the Head of Finance & IT accordingly.
- 7.1.3 To support the achievement of the audit strategy and operational plan, the Chief Internal Auditor will consider:
- the Council's broad arrangements for controls assurance, corporate governance, risk management, partnership working and change management;
 - the approach to staffing, including flexible working arrangements and the use of other sources of professional advice and support;
 - job descriptions and person specifications for each established post;
 - the structure of the Internal Audit service team.

7.2 Staffing

- 7.2.1 Internal audit have adopted a matrix-style delivery structure. By using a resource pool of multi-disciplinary auditors, capable of forming into teams as audit projects demand, the service will be able to ensure:
- efficient use of audit resources in delivery of the audit plan;
 - ability to respond quickly to service demands, particularly for unplanned work;
 - opportunities for skills transfer, staff development and breadth of experience for all team members;
 - sharing of the knowledge base; and
 - rotation of ongoing audit responsibilities within the team to maintain objectivity and independence.
- 7.2.2 The structure hierarchy supports a clear career progression pathway within the service, aligning roles and grades with professional qualifications and experience. All senior members of the team are required to hold a relevant professional qualification.
- 7.2.3 The ongoing partnership for the delivery of internal audit services with Hampshire County Council provides a significant opportunity to further share areas of expertise and generate economies of scale through joint training and development.

7.3 Training and continuing professional development

- 7.3.1 The Chief Internal Auditor will ensure that appropriate provision is made for maintaining and developing competence of audit staff.
- 7.3.2 Professional competence is dependent on development of a range of skills, behaviours and attitudes. A Learning and Development Plan will be produced annually, as part of the service plan. The plan will be aimed at supporting the provision of formal and effective training, backed up by opportunities for relevant work-based experience, to enable staff to carry out their work in accordance with the required professional and operational standards. The plan will be reviewed quarterly by the Chief Internal Auditor.
- 7.3.3 The approach to learning and development, applicable to all internal audit staff, aims to support:
- achievement of relevant professional qualifications, e.g. CCAB, CMIIA, MAAT, CISA;
 - continuing professional development;
 - technical, personal and professional updates;
 - IT skills development; and
 - management development.
- 7.3.4 Other generic training will be provided as required to meet operational needs.
- 7.3.5 Managers, supervisors and individuals all share responsibility for the identification of learning and development needs and for developing and implementing learning and development plans to meet the needs of the internal audit service and individual staff members.

8 QUALITY ASSURANCE

8.1 CIPFA compliance

- 8.1.1 The internal audit team will work to the CIPFA Code to maintain consistency and “seamless” service provision. This requirement will be enforced through appropriate supervision, and supervisory/management review of all audit working papers, action plans and audit reports.
- 8.1.2 All internal audit reviews will be conducted using a standard audit methodology and suite of working papers, to ensure consistency of approach and documentation.
- 8.1.3 Members of the team required to conduct supervisory reviews will be members of a relevant professional body and will be bound by that body’s Code of ethics and professional guidance.
- 8.1.4 The Chief Internal Auditor will put in place a performance management framework that enables internal audit to demonstrate it is:
- meeting its aims and objectives
 - compliant with the CIPFA Code;
 - efficient and effective; and
 - continuously improving.
- 8.1.5 A suite of performance indicators has been developed and performance against those indicators will be reported in the Chief Internal Auditor’s Annual Report.
- 8.1.6 Feedback forms are distributed to key contacts at the end of each audit assignment to assess the value of the assignment to management and to seek suggestions for improvement. All completed forms will be reviewed by Audit Manager(s) / Group Manager(s) and the auditor conducting the assignment and responded to appropriately.
- 8.1.6.1 The Accounts and Audit (England) Regulations 2011 requires that an annual review of the effectiveness of internal audit is carried out and that the Governance Committee considers the results of the review. At appropriate intervals, the Chief Internal Auditor will delegate one of the professionally qualified internal auditors to perform an internal quality review or will commission an external quality review of the internal audit service. In each case the remit will be to assess the standards achieved by internal audit as measured against the CIPFA Code. The Chief Internal Auditor will:
- provide the reviewer with written terms of reference making clear their expectation that the review will be performed with scrupulous rigour;
 - address the findings of the review objectively and without prejudice; and
 - make the report, their response to it and any action plans arising from it available to the Governance Committee and the Senior Manager, Finance..

Neil Pitman, Head of Partnership (Chief Internal Auditor)
September 2012

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	STRATEGIC RISK REGISTER
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	HEAD OF FINANCE AND IT
STATEMENT OF CONFIDENTIALITY	
Not applicable	

BRIEF SUMMARY

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.

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.

RECOMMENDATIONS:

- (i) Note the 'Strategic Risks' for 2012-13 (Appendix 1); and
- (ii) Note the 'Summary of Directorate Risk Registers' (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1. The report is presented to the Governance Committee as the member body responsible for providing independent assurance on the adequacy of the risk management framework and the internal control and reporting environment.
2. In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

DETAIL (Including consultation carried out)

3. Risk Management is a key component of the Council's governance framework and is recognised as such in:-
 - The CIPFA/SOLACE Corporate Governance Framework; and
 - CIPFA's guidance on the Annual Governance Statement.
4. The Accounts and Audit (England) Regulations 2011 also state that the council is responsible for ensuring that "the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk".
5. The Strategic Risks for 2012-13 have been developed by the Management Board of Directors ("MBoD") and has been informed by the following:
 - A review of the 2011-12 Strategic Risks;
 - The "Main Risks" and "Challenges" in the 2012-13 Directorate Business Plans;
 - A review of 'Core Cities' Strategic Risk Registers (where available and

recently updated – 6 out of the 8 core cities);

- A review of Strategic Risk Registers for neighbouring authorities (where available and recently updated).

6. The risk registers provide evidence of a formal commitment by the council to develop and implement actions to manage risks to an acceptable level and within an agreed timescale.
7. Each of the identified risks has an associated 'Risk Management Action Plan' ("RMAP"). The RMAPs associated with the Strategic Risks are reviewed by MBoD whilst it is the responsibility of the respective 'Directorate Management Teams' to review those associated with the directorate risks.
8. MBoD has previously expressed a wish that the risk registers are developed and managed in such way that are 'truly useful as a management tool'. MBoD has agreed to hold three 'risk workshop review' sessions per annum to both formally review the Strategic Risks and to provide an opportunity to develop an increased understanding and awareness of key risks across the organisation. The first of these sessions is to be held on 23rd October.
9. 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.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10. No alternative options have been considered.

RESOURCE IMPLICATIONS

Capital/Revenue

11. NONE

Property/Other

12. NONE

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

13. The Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

14. NONE

POLICY FRAMEWORK IMPLICATIONS

15. NONE

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SUPPORTING DOCUMENTATION

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

Appendices

1.	Strategic Risks 2012-13
2.	Summary of Directorate Risk Registers

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.	None	
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Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	N/A
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Risk Registers - STATUS REPORT

The following is a summary of the status of the Risk Registers as at the end of Q2 – 2012.

LIKELIHOOD	IMPACT				
	5 Negligible	4 Marginal	3 Significant	2 Critical	1 Catastrophic
Very High A	Yellow	Red	Red	Red	Red
High B	Yellow	Yellow	Red	Red	Red
Significant C	Yellow	Yellow	Yellow	Red	Red
Low D	Green	Yellow	Yellow	Yellow	Yellow
Very Low E	Green	Green	Green	Green	Green
Almost impossible F	Green	Green	Green	Green	Green

LIKELIHOOD (probability)		Very High	Highly likely to occur
A	Very High	Highly likely to occur	
B	High	Will probably occur	
C	Significant	Might occur	
D	Low	Could occur but unlikely	
E	Very Low	May only occur in exceptional circumstances	
F	Almost Impossible	Highly unlikely to occur	

	IMPACT (consequence)				
	5 Negligible	4 Marginal	3 Significant	2 Critical	1 Catastrophic
Service delivery / key priorities	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives.	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered.	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k < £500k	Loss or loss of income £500k < £5m	Loss or loss of income £5m < £10m	Loss or loss of income > £10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

Strategic Risk Register

Position as at 14th September 2012

Portfolio	Description of Risk	Current Risk Score	Likelihood	Impact	Comments
RED RATED RISKS					
1	Resources Failure to address the ongoing financial pressures in a sustainable way	C2	Significant	Critical	Management Action plan in place
2	Leaders The council is unable to manage customer demand, expectations or standards which impacts on both reputation and community engagement across the city.	C2	Significant	Critical	Management Action plan in place
3	Leaders 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.	C2	Significant	Critical	Management Action plan in place
AMBER RATED RISKS					
4	Environment and Transport Major incident or service delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.	C3	Significant	Significant	Management Action plan in place
5	Leaders Reduced capacity and spread of skills to be flexible, responsive and to deliver services, priorities and support organisational change.	C3	Significant	Significant	Management Action plan in place
6	Resources Failure to ensure effective systems are in place to manage health and safety risks	C3	Significant	Significant	Management Action plan in place
7	Children's Services Maintaining a robust safeguarding culture whilst reducing capacity (Children).	D2	Low	Critical	Management Action plan in place
8	Adult Services Maintaining a robust safeguarding culture whilst reducing capacity (Adults).	D3	Low	Significant	Management Action plan in place
9	Efficiency and Improvement The impact of national policies / trends on key service priorities or objectives is not identified or assessed sufficiently early	D3	Low	Significant	Management Action plan in place
10	Communities Increased potential for community tension/unrest as a result of the current economic climate.	D3	Low	Significant	Management Action plan in place
GREEN RATED RISKS					
	None				

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.

Summary - Directorate Risk Registers

Position as at 14th September 2012

Directorate	Description of Risk	Current Risk Score	Likelihood	Impact	Comments
RED RATED DIRECTORATE RISKS					
1	Childrens Services & Learning	A3	Very High	Significant	Management Action plan in place
2	Failure to recruit and retain a full and competent workforce in Protection and Court services	B2	High	Critical	Management Action plan in place
3	Failure to deliver demand-led services within overall budgets	B3	High	Significant	Management Action plan in place
4	Inability to respond effectively to child protection demands	B3	High	Significant	Management Action plan in place but to be updated
5	Priority services are affected by industrial action putting residents at risk	B3	High	Significant	Management Action plan in place but to be updated
6	Failure to progress viable development schemes	B3	High	Significant	Management Action plan in place but to be updated
7	Failure to deliver the agreed efficiency programme resulting in adverse consequences on the council's budget	B3	High	Significant	Management Action plan in place but to be updated
8	Delivery of the Southampton Transitional Employment Programme ("STEP")	B3	High	Significant	New risk - Action plan being developed
9	Capacity to respond to the demand for complex care services which are continuing to rise due to demographic and economic changes	C2	Significant	Critical	Management Action plan in place
10	Failing to manage the current infrastructure to meet the needs of growing numbers of young children needing school places.	C2	Significant	Critical	Management Action plan in place
11	Not ensuring rigorous management of the health and safety of staff and users of council services	C2	Significant	Critical	Management Action plan in place
12	Objections to consents and orders delaying or failing projects	C2	Significant	Critical	Management Action plan in place but to be updated
13	Failure to secure landowner / leaseholder consent	C2	Significant	Critical	Management Action plan in place but to be updated
AMBER RATED DIRECTORATE RISKS					
13	Health & Adult Social Care	C3	Significant	Significant	Management Action plan in place
14	Decision making nationally that intensifies and accelerates the need to change direction with diminishing resources to manage the change	C3	Significant	Significant	Management Action plan in place
15	Workforce skills or capacity do not meet the needs of statutory service delivery, response to demand and required changes due to local and national policy	C3	Significant	Significant	Management Action plan in place
15	Working with a limited and often unstable market which can lead to failure of provision due to poor quality, safeguarding issues, business closure or providers not meeting their contractual obligations	C3	Significant	Significant	Management Action plan in place

16		Rising cost of specialist out of area placements for certain care groups due to lack of provision within the city	C3	Significant	Significant	Management Action plan in place
17	Childrens Services & Learning	Damage to leadership role of SCC in services to children and young people as a consequence of changes in government policy	C3	Significant	Significant	Management Action plan in place
18	Environment and Economy (Environment)	The level of infrastructure funding secured by SCC is insufficient to meet all of our aspirations.	C3	Significant	Significant	Management Action plan in place but to be updated
19		Adverse impact of environmental conditions (ie. weather) on highway infrastructure.	C3	Significant	Significant	Management Action plan in place but to be updated
20		Reduced capacity to deliver services and priorities with reduced staff & financial resources	C3	Significant	Significant	Management Action plan in place but to be updated
21		The Decent Homes Transformation Programme will not succeed without effective Trade Union consultation and engagement and empowerment of staff.	C3	Significant	Significant	Management Action plan in place but to be updated
22		Ability to respond appropriately to changes to the legislative and regulatory framework, including the de-regulation agenda.	C3	Significant	Significant	Management Action plan in place but to be updated
23	Environment and Economy (Economic Development)	Failure to secure relevant grant funding opportunities due to the reduction of external funding opportunities and government grants.	C3	Significant	Significant	Management Action plan in place but to be updated
24		Reduced capacity / skills shortages following organisational changes / reconfiguration	C3	Significant	Significant	Management Action plan in place but to be updated
25		Significant changes in national policy / legislation affecting current services.	C3	Significant	Significant	Management Action plan in place but to be updated
26		Ability to respond appropriately to changes to the legislative and regulatory framework, including the de-regulation agenda.	C3	Significant	Significant	Management Action plan in place but to be updated
27		Failure to secure external funding for major projects or to support community groups / activities.	C3	Significant	Significant	Management Action plan in place but to be updated
28		Failure to secure grant funding opportunities.	C3	Significant	Significant	Management Action plan in place but to be updated
29		Eastpoint demolition.	C3	Significant	Significant	Management Action plan in place but to be updated
30		Deliver 'young offenders' programme of work placements/pre-employment training.	C3	Significant	Significant	Management Action plan in place but to be updated
31	Corporate Services	There is insufficient capacity to deliver both the directorate key priorities in addition to responding to increasing demand for advice / support from other directorates in this period of significant change	C3	Significant	Significant	Management Action plan in place but to be updated
32	Childrens Services & Learning	Business continuity arrangements fail to address a major disruption to service.	D2	Low	Critical	Management Action plan in place
33	Environment and Economy (Economic Development)	Failure to retain relevant grant funding e.g. SNAC / NCIP.	D2	Low	Critical	Management Action plan in place but to be updated
34		Failure to achieve various pre-conditions attached to development / legal agreements.	D2	Low	Critical	Management Action plan in place but to be updated
35	Environment and Economy (Environment)	Failure to secure external funding for major projects or to support community groups / activities.	D3	Low	Significant	Management Action plan in place but to be updated

36		Failure to maximise the efficiency and effectiveness of the supply chain, and internal and external partnerships, will lead to the collapse of key Transformational projects.	D3	Low	Significant	Management Action plan in place but to be updated
37		Staff of residents are put at risk due to a major incident or event or failure in health and safety practices resulting in serious injury or death.	D3	Low	Significant	Management Action plan in place but to be updated
38	Corporate Services	The required / expected outcomes and savings from the Partnerships are not delivered for 2012-13.	D3	Low	Significant	Management Action plan in place
39		Preparedness and potential adverse financial impact of the localisation of Council Tax	D3	Low	Significant	Action plan to be developed
40	Health & Adult Social Care	Failure to maintain a robust information governance culture leads to inability to meet statutory and legislative obligations.	D3	Low	Significant	Management Action plan in place
41	Health & Adult Social Care	Incident or prolonged disruption affecting normal service delivery.	D3	Low	Significant	Management Action plan in place
42	Environment and Economy (Economic Development)	Risk of challenge through OJEU process.	D3	Low	Significant	Management Action plan in place but to be updated
43		Failure to deliver commitments or achieve agreed performance or savings targets due to industrial relations issues.	D3	Low	Significant	Management Action plan in place but to be updated
44		Partnership opportunities and benefits not being fully realised with Private Sector companies, other departments and/or voluntary organisations.	D3	Low	Significant	Management Action plan in place but to be updated
45		Failure to achieve high level of design quality with reduced resources.	D4	Low	Marginal	Management Action plan in place but to be updated
46		Failure to deliver commitments, achieve performance targets or demonstrate performance due to insufficient resources.	D4	Low	Marginal	Management Action plan in place but to be updated
GREEN RATED DIRECTORATE RISKS						
None						
DIRECTORATE RISKS STILL TO BE SCORED						
47	Environment and Economy (Environment)	Failure to satisfy our residents and stakeholders aspirations for future service delivery/standards across the city.				Not scored - Action plan to be updated

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.

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	AUDIT COMMISSION: ANNUAL GOVERNANCE REPORT 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The Annual Governance Report summarises the findings from the 2011/12 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 Governance 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 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 report as attached, has been discussed and agreed with the Chief Executive, Director of Corporate Services and Head of Finance and IT. The following Audit Commission reports are attached for consideration in the appendix:

- Annual Governance Report 2011/12

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

AUTHOR:	Name:	Neil Pitman	Tel:	01962 545139
	E-mail:	Neil.pitman@hants.gov.uk		

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Audit Commission: Annual Governance Report 2011/12
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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 2011/12



Agenda Item 12

Appendix

 **audit.**
commission

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Key messages

This report summarises the findings from the 2011/12 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.

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.

I have not yet identified any audit adjustments that were above my materiality threshold (£11.897 million) for 2011/12. I did identify a number of more minor errors and officers have made changes to your financial statements to amend each of these. None had an impact on the Council's general fund balance or other useable reserves at 31 March 2012.

I recognise that the preparation of the Council's financial statements requires considerable effort from the Head of Finance and his team. Therefore I wish to thank the finance staff for their positive approach and co-operation during my audit, without which the audit would not have been completed as smoothly or efficiently.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

As a Council you have put in place proper arrangements to secure economy, efficiency and effectiveness. You have also recognised that you have limited resources and therefore now need to make tough decisions on the services that you will provide to the residents of Southampton. You have:

- delivered your 2011/12 budget, reporting a £6.9 million surplus after delivering more than the planned savings and receiving an unplanned VAT refund from HMRC (£4 million);
- approved a balanced budget for 2012/13 that included freezing the Council Tax and requiring savings totalling £13.8 million to be delivered. Plans have been developed to realise the savings and these have been robustly challenged;

- adopted a medium term financial plan that assumes a reduction in funding of 7 per cent in each year and requires total savings of £55 million, phased £25 million in 2013/14, and £15 million in both 2014/15 and 2015/16. You have recognised that the scale of these savings requires a more radical approach to redesigning services and reducing costs. Continued engagement with staff and citizens is critical to this, alongside your change programme, efficiencies programme and planned 'lean' review;
- prepared well for the implementation of the new Housing Revenue Account (HRA) finance regime and the implications of the Localism Act, although you have not yet modelled the implications of the retention of business rates because the department of Communities and Local Government's consultation process has not ended and the final guidance on the changes has still to be issued by the Department; and
- made progress with partnership working through the Street Lighting and Highways Maintenance contracts and continuing to work closely with the Primary Care Trust. This learning on partnership working arrangements should prove invaluable when delivering services over the medium term.

It is important that you now:

- deliver the efficiencies and savings included in your financial plans through your change programme, efficiencies programme and lean review; and
- continue to engage with staff and citizens and capitalise on the learning from partnership working as the Council makes difficult decisions about the services that it delivers in the future.

Certificate

I expect to be able to certify the closure of your 2011/12 financial statements by 30 September 2012. I have not received any objections to the Council's 2011/12 financial statements from electors and I have no outstanding matters or correspondence with electors. Officers have also confirmed that electors did not exercise their right to inspect the Council's 2011/12 financial statements.

Before I give my opinion and conclusion

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

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: Threats and safeguards

Threat	Safeguard
One of the members of my team has a relative working for the Council.	I have ensured that this officer is not involved in the audit of the payroll system or in service areas where his relative is employed. There were no transactions relating to or made by the relevant officer that were selected at random or tested.
A former employee of the Audit Commission is employed in your Finance Department. The Audit Manager was the line manager for this individual when he worked for the Audit Commission.	I have reviewed the Audit Manager's work, including any that involved this ex employee of the Audit Commission.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Governance Committee to:

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected 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 audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

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.

I have carefully considered each of the adjustments made to your financial statements during the audit. None of these adjustments are above my materiality level (£11,897k) or impact on the Council's general fund and other useable reserves at 31 March 2012. The adjustments were needed to correct more minor errors, omissions, misstatements or typographical errors in the notes to the core statements, and some inconsistencies between primary statements and supporting notes. A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the accounting code of practice. Errors of this type are not unusual within the general accounts production process and in my view should not overly concern those charged with governance in approving the accounts.

Audit risks and my findings

In my July 2012 Audit Plan, I reported to you the additional risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
<p>Equal pay claims, assessment of the provision and accounting</p> <p>The Council will need to determine the level of its provision for equal pay claims. It will need to determine how to account for payments made during 2011/12 and the disclosure of the provision in its 2011/12 financial statements.</p>	<p>The Council has decided to make full disclosure of its provision for equal pay claims in its 2011/12 financial statements and to restate its prior year comparatives. It will also account for all of the compensation payments that have been made during 2011/12.</p> <p>I am satisfied with the Council's assertion that the payments that have been made to staff in respect of equal pay claims are 'compensation' and not arrears of pay. I have reviewed the disclosures that are made in the 2011/12 financial statements and the accounting treatment of the compensation payments that have been made during 2011/12.</p> <p>There are no matters arising that I need to bring to your attention.</p>
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of Financial Reporting Standard (FRS) 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets due to the number and different locations, collections and other items involved.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Southampton City Council this is likely to include your art and museum collections.</p>	<p>My testing of how you have recognised, valued and disclosed material heritage assets has not revealed any significant matters that I should bring to your attention.</p>

Risk

New Housing Revenue Account (HRA) financing regime
Following the implementation of the new HRA financing regime the Council has borrowed in excess of £73.8 million in March 2012, in order to finance the payment of the settlement to the CLG on 28 March 2012.

Finding

I have substantively tested the borrowing of these funds and payment made to the CLG. I have also reviewed the disclosure of these transactions in your 2011/12 financial statements and there are no significant matters arising. Officers have added a brief summary of the implementation of the new HRA regime to the 'Accounting Issues And Developments' section of the financial foreword to the financial statements.

Existing PFI schemes

The Council has a number of material PFI schemes in operation that it continues to disclose in its financial statements.

I have reviewed the treatment of PFI schemes and Non-PFI partnerships in your 2011/12 financial statements. There are no issues that I need to bring to your attention.

Valuation of property, plant and equipment

The valuation of property, plant and equipment (PPE) may be misstated due to inaccurate valuations, the misclassification of assets or applying an incorrect valuation method or basis.

I did find some misstatements but these have been corrected:

I have reviewed the valuation of property, plant and equipment (PPE). There were five properties totalling £4.93 million that have been reclassified as 'Assets held for sale' because they meet the requirements of the accounting standard (IFRS5). These had been disclosed as 'surplus assets'.

The transfer of assets from 'investment properties' to 'PPE' totalling £7.18 million has been reversed, because the specific assets are held for investment purposes. Similarly a transfer of a £1.3 million property in previous years has now been reversed because that asset too is held for investment purposes.

Accounting for schools

Property, plant and equipment maybe materially misstated due to the incorrect inclusion or omission of schools in the balance sheet.

I have reviewed the Council's approach to the inclusion of schools in its financial statements and have no matters that I need to bring to your attention.

Significant weaknesses in internal control

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

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control identified in previous audits have been followed up during the audit and are relevant to the preparation of the financial statements.

Table 3: Internal control issues and my findings

Description of weakness	Findings	Management action
<p>1. Heating charges to tenants and leaseholders</p> <p>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. Last year I identified three key areas where additional work was required.</p> <p>I have therefore continued to work with your Internal Auditors and Housing officers to review the progress the Council has made in addressing each of my recommendations.</p>	<ul style="list-style-type: none"> ■ Officers have evaluated the effectiveness of the new 'System link' meter record, and consider the implementation as a success. The installation of smart meters into properties has also been started with 91 per cent of the first phase of 747 landlord meters now installed; ■ The designations of five of the meters in the remaining six properties have been determined. The recovery of any overcharges from energy suppliers is being addressed through the final meter readings and invoices; and ■ The annual gas servicing cycle continues to be used to review gas meters. Ninety nine per cent had been completed by 31 August 2012. 	<p>Officers need to:</p> <ul style="list-style-type: none"> ■ ensure that the implementation of smart meters is completed in all Council owned properties; and ■ confirm the designation of the remaining meter as part of the Automatic Meter Reading (AMR) installation works.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have reported my findings in table 4 below. I have no other matters I wish to report.

Table 4: **Other matters**

Issue	Finding
Accounting policy 1(u) – Property ,Plant and Equipment: Depreciation	I have reviewed the Council's accounting policies for depreciation of property, plant and equipment (PPE) and checked the application of the policies on a sample of PPE. I found the Council had not consistently applied its accounting policy in respect of assets under construction. The inconsistencies that I noted have been addressed in the revised financial statements.

Whole of Government Accounts

Alongside my work on the financial statements, I am also reviewing and reporting to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I will complete my work by 30 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. On 2 July 2012, in my 2011/12 Audit Plan, I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 5: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: 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.	Without proper arrangements, the Council will not be able to model the resources available to it accurately, and divide them between services to deliver aims and priorities in a planned and sustainable manner.	Last year we reported the Council had a track record of strong financial management but that it faced a significant challenge over the medium term because of reducing funding from central government. The Council reported a surplus of £6.9 million for 2011/12; after delivering more savings than planned and receiving an unbudgeted refund of VAT from HMRC. The actual 2011/12 outturn was £4.8 million better than the Quarter 3 forecast. This was due to a combination of factors including conservatism in divisional forecasting, issues that only crystallised in Quarter 4, slippage in savings profiling, and a moratorium on spend towards the year end. Finance staff are working with departments to consider how they can ensure departmental forecasting is as robust as possible. This will allow the corporate centre to manage risk across the Council and take early enlightened decisions in the light of this.

Criteria	Risk	Findings
		<p>The Housing Revenue Account reported a revenue surplus of £1 million and an under spend of £1.4 million on its capital programme. This evidences the strength of current arrangements.</p> <p>In 2012/13 the Council froze Council Tax and set a budget that required services to identify and deliver £13.8 million of savings. The plans to do this are fully developed and have been robustly challenged. Although it is early in the year, the Council's track record of strong financial management arrangements suggests this should be achieved.</p>
	<p>The Council's funding over the medium term is uncertain, due to the local government resource review. This makes it more difficult for the Council to identify the scale of savings needed and to develop sufficient plans to deliver them.</p>	<p>The medium term financial forecasts suggest the scale of challenge will increase in the years ahead, as it faces more falls in central government funding. The Council has forecast reductions in funding of 7 per cent a year, which means it needs to find £55 million in savings; £25 million in 2013/14 and then savings of £15 million in both 2014/15 and 2015/16.</p> <p>The Council recognises the scale of this will require a different more radical approach and it has launched a change programme to look at ways of redesigning services and reducing costs. Staff have been asked for ideas to reshape the Council and these will feed into an efficiencies programme, underpinned by a lean review of how services are delivered. Alongside this, departments have continued work started in 2011/12 to identify savings proposals for 2013/14.</p> <p>The continued engagement of staff and citizens will be critical in meeting this challenge, as the Council will have to make some difficult decisions over the next year about whether it can continue to offer the current range of services and, if so, how and to whom.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>The current financial climate means the Council has to monitor performance closely and maximise the opportunity for cost reductions. Challenging</p>	<p>We have previously reported the Council's arrangements for securing economy, efficiency and effectiveness are fit for purpose and these have continued to work properly in 2011/12. The Council has prioritised spending on its corporate aims, but the financial position meant limited funds to support revenue investments. The Council found extra money to increase council tax discounts, improve safeguarding arrangements for children, and to expand the highways</p>

Criteria	Risk	Findings
<p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>whether services are running economically, efficiently and effectively can reduce the need for unnecessary service cuts.</p>	<p>improvement programme.</p> <p>Residents were consulted on where to target savings and this showed a preference for concentrating on core services and reducing levels of service, rather than stopping them. The Council reduced pay and froze increments and identified £12 million of efficiency savings, service reductions and additional income. Service reductions reflected consultation responses and were principally focused on cessation of non-statutory services, staff cuts and cessation of grant funding for the voluntary sector.</p> <p>The value for money profile published by the Audit Commission in May 2012 indicates that net spend per head is in line with the average of other unitary councils. A comparison of services with other unitary councils indicates that the spend on adult social care per adult is in the lowest third, while environmental services and sustainable economy per head of population are at the average of other unitary councils. The comparison also highlighted that the:</p> <ul style="list-style-type: none"> ■ spend on council tax and housing benefits administration is in the highest third, which is influenced by the higher case load and number of dual benefit claims received by the Council; ■ planned spend on children's services per young person (aged 0 to 17) is in the highest 20 per cent reflecting the level of children in need or with special educational needs, and the level of respite care provided which has risen sharply from 140 in 2008/09 to over 600 by 2011/12; ■ spend on culture and sport per head of population in 2010/11 was in the highest third. The Council's spend on libraries is higher than the average of other unitary councils although this is matched by higher than average adult satisfaction levels. The higher spend on sports and recreation was measured before these services were outsourced through a competitive tendering exercise; and ■ spend on housing services is in the highest 20 per cent, the improvement of the housing stock across the city having been a priority area for the Council.

Criteria	Risk	Findings
	<p>The Coalition introduced a number of changes to local government financing, alongside a localism agenda that sees greater devolution of power to local government. Implications need to be factored into financial plans to minimise budgetary risk.</p>	<p>The Council has sound performance management arrangements in place. It has identified 14 'Critical Key Performance Indicators' (CKPIs) which are the focus for corporate level reporting. Directorates also prepare plans that include CKPIs and report quarterly against these. Where performance is below target action plans for improvement are established e.g. improving children's oral health.</p> <p>The Council has prepared well for the changes to the HRA finance regime and the implications of the Localism Act. However it has not yet modelled the implications of business rate retention, because the Department of Communities and Local Government's (CLG) consultation process has not ended and the final guidance on the changes has still to be issued by the Department.</p>
	<p>My previous years' work has identified a number of areas where I judged that failure to take action could put at risk the Council's achievement of good value for money. They were partnership working, collaboration with the Primary Care Trust and estates regeneration.</p>	<p>To assess progress in strengthening partnership working, we reviewed the follow up work undertaken by internal audit on the actions agreed with management in their 2010/11 reports on Street Lighting and Highways Maintenance. The Council had made good progress implementing the actions relating to the management of the Highways Maintenance contract but progress had been slower on those for the Street Lighting contract.</p> <p>The Council has continued to work closely with the Primary Care Trust (PCT) to deliver adult health and social care services in the City, while retaining control of its budgets in 2011/12. The planned Adult Learning Disability pooled budget is still being developed with the PCT before being implemented.</p>

Criteria

Risk

Findings

The Council has continued to push ahead with its ambitious estate regeneration plans, which remain a strategic priority. Contracts have been awarded for three of the four lots in phase 2 and the decision has been made to start phase 3, which will involve redeveloping Townhill Park and the Weston shopping parade. A slight delay in initiating the Townhill Estate works was to allow the Council to work through the implications of increased rental values afterwards. A consultant has been engaged to consult with residents and stakeholders, and prepare a city-wide regeneration framework.

In summary, the Council have made progress in the areas we identified as risks to achieving value for money. In particular, the learning on partnership working arrangements should prove invaluable as the Council reviews how it delivers services over the medium-term.

Fees

I reported my planned audit fee in the July 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 6: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	315,360	315,360
Claims and returns [delete if not applicable]	66,000	66,000
Non-audit work	0	0
Total	381,360	381,360

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Authority financial statements

I have audited the financial statements of Southampton City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Southampton City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

September 2012

Appendix 2 – Draft letter of management representation

Southampton City Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Southampton City Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of the Comprehensive Income and Expenditure account, the Balance Sheet, the Movement in Reserves Statement and the Cash Flow statement was made to:

- fully disclose the Equal Pay Provision;
- to reflect changes in the Cipfa Service reporting Code (Sercop) 2011/12;
- to correct the misclassification of some balances in previous years; and
- to amend lines in the cash flow statement that had incorrectly included the proceeds of short term investments that had been included elsewhere in the statement.

Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Southampton City Council

- I confirm that this letter has been discussed and agreed by the Governance Committee on 25 September 2012.

Signed

Andrew Lowe
Head of Finance

Date: September 2012.

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
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.



DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	AUDIT COMMISSION: ANNUAL AUDIT LETTER 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The Annual Audit Letter presents the results of the District Auditor's statutory audit of the Council's 2011/12 financial statements and the assessment of arrangements to achieve value for money in the Council's use of resources.

The Annual Audit Letter is to be presented to those charged with governance but will not, as historically has been the case, be further presented to Full Council

RECOMMENDATIONS:

- (i) That the Governance Committee note the Letter, make such comments as are appropriate / necessary and identify any issues they feel are worth exploring as set out in the 2011/12 Annual Audit Letter.

REASONS FOR REPORT RECOMMENDATIONS

1. Under the statutory Code of Audit Practice, the Audit Commission is required to issue a report to those charged with governance, summarising the conclusions from their audit work.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. Under Regulation 27 of the Accounts and Audit (England) Regulations 2011 the Annual Audit letter must be published and copied to all Members of the Council. The Annual Audit letter attached at Appendix 1 sets out the Audit Commission's conclusions of the Council's 2011/12 accounts.

The Annual Audit Letter confirms the District Auditors conclusions to:

- issue an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certify completion of the audit.

The Annual Audit Letter, as attached, has been discussed and agreed with the appropriate officers.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

6. None

POLICY FRAMEWORK IMPLICATIONS

7. None

AUTHOR:	Name:	Neil Pitman	Tel:	01962 545139
	E-mail:	Neil.pitman@hants.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.	Annual Audit Letter 2011/12
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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)

1.	None	
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September 2012

Members
Southampton City Council
Civic Centre
Southampton
S014 7LY

Direct line

0844 798 1740

Email

k-handy@audit-
commission.gov.uk

Dear Member

Southampton City Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Southampton City Council.

Financial statements

On 25 September 2012 I presented my Annual Governance Report (AGR) to the Governance Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Governance Committee, I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certified completion of the audit.

Duties under the Audit Commission Act 1998

I have not taken any action using my powers under the Audit Commission Act 1998 in respect of my audit of your 2011/12 financial statements.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, the Director of Corporate Services and the Head of Finance. While this has been another challenging year for the Council I wish to thank the finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Governance Committee for their support and co-operation during the audit.

Yours sincerely

Kate Handy
District Auditor

DRAFT

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2011-12 AND REVIEW OF 2010-11 ANNUAL GOVERNANCE STATEMENT
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	HEAD OF FINANCE AND IT
STATEMENT OF CONFIDENTIALITY	
Not applicable	

BRIEF SUMMARY

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

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

RECOMMENDATIONS:

- (i) Review the draft AGS (Appendix 1) and to be satisfied that the statement is meaningful and that the system of internal control has operated effectively throughout the reporting period;
- (ii) Note the status of the 2010-11 AGS Action Plan.

REASONS FOR REPORT RECOMMENDATIONS

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

DETAIL (Including consultation carried out)

- 2 Regulation 4 (2) of the Accounts and Audit Regulations (England) 2011, requires local authorities to 'conduct a review at least once a year of the effectiveness of its system of internal control' and 'to prepare a statement on internal control in accordance with proper practices'.
- 3 The purpose of the AGS is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
- 4 The review of the effectiveness of the Council's overall corporate governance arrangements requires the sources of assurance, which the council relies on, to be brought together and reviewed with any significant gaps in assurance or areas for improvement being recorded and disclosed within the AGS.

- 5 Assurance on the adequacy and effectiveness of the governance framework is sought from a range of sources including Internal Audit, External Audit, Risk Management, Legal and Regulatory Assurance, assurances provided by Directors (via Self Assessment Statements), and external inspection or review and reports. The foregoing sources of assurance are underpinned by a range of corporate policies and procedures.
- 6 A 'Controls Assurance Management Group' comprising the Section 151 Officer, Monitoring Officer, Head of Corporate Policy and Performance, Chief Internal Auditor and the Chair of the Governance Committee (formerly Audit Committee) is responsible for drawing together, evaluating and, where necessary, challenging the sources of assurance and supporting evidence in addition to drafting the AGS. This group also has responsibility to monitor and review progress of any agreed actions arising from the AGS throughout the year.
- 7 The draft AGS was referred to the Management Board of Directors on 4th September for review and comment.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 8 No alternative options have been considered.

RESOURCE IMPLICATIONS

Capital/Revenue

- 9 NONE

Property/Other

- 10 NONE

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

- 11 The Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

- 12 NONE

POLICY FRAMEWORK IMPLICATIONS

- 13 NONE

AUTHOR:	Name:	Peter Rogers	Tel:	023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk		

SUPPORTING DOCUMENTATION

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

Appendices

1.	Draft Annual Governance Statement 2011-12
2.	2010-11 Annual Governance Statement – Action Plan

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
--	----

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.	N/A	
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Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	N/A
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ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

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

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

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

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

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

ANNUAL GOVERNANCE STATEMENT

3. THE GOVERNANCE FRAMEWORK

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

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

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

The City of Southampton Strategy sets out a 20-year vision, up to 2026, which underpins aspirations for the city. The key priorities and challenges within this strategy were reviewed and revised during the course of 2010-11.

In April 2011 Southampton Connect was established as a successor to the Southampton Partnership to build upon our unique city collaborative ethos, relationships and networks. Southampton Connect brings together the private, public, community and voluntary sectors to work together in tackling the key city challenges facing Southampton thereby securing quality of life improvements for all those who live, work and visit the city.

The Southampton Connect Plan 2011-14 was launched in October 2011 and was developed in order to formalise Southampton Connect's work programme. It includes a long term vision for the city and describes a number of 'Priority Projects' that Southampton Connect will deliver. The Plan is based on a single comprehensive assessment of needs in the city, supported by resident feedback and both city profile and ward profiles.

The Southampton City Council Plan 2011-14 sets out the most important things that the council wants to achieve by 2014. It sets out the Council's commitment and overall approach to secure on-going improvements across the range of council services provided to residents, businesses and visitors to the city. The Council Plan is updated annually to reflect achievements in the previous period and priorities for the forthcoming period.

- **Reviewing the authority's vision and its implications for the authority's governance arrangements**

The Council has seven priorities and four key City challenges that shape the Council's policy framework plans and budget, and hence the Council's policy decision making and resource allocation process.

The Council has adopted a Code of Corporate Governance ("CCG") which identifies in one document how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Monitoring Officer and is reviewed formally by Council's Governance Committee (formerly the Standards and Governance Committee) on a biennial basis. The Governance Committee assumed the responsibilities of both the Audit Committee and Standards & Governance Committee with effect from May 2012.

- **Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources**

The Southampton City Council Plan 2011-14 includes information 'How we performed on our key indicators', the key achievements in the previous period. It also includes Customer Feedback and the

ANNUAL GOVERNANCE STATEMENT

Challenges, Opportunities and Risks identified for the forthcoming period. In respect of the seven priorities, the Plan sets out 'What we said we would do in the previous period', 'How did we do' and 'What we will do' in the forthcoming period'.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

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

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council's Constitution contains both an Officer Code of Conduct and a new Members Code of Conduct under the Localism Act 2011. In addition, a 'Disciplinary Policy and Code of Conduct' is in place for employees and sets out the standards of service and conduct that are expected of employees. The Council also has in place an Anti Fraud and Anti Corruption Policy and Strategy which is published on the internet.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution includes information on how the council operates, how decisions are made and the role of overview and scrutiny. The Head of Legal, HR and Democratic Services conducts an annual review of the Council's constitutional arrangements, which is considered by the Council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the Council in May. All reports submitted to the Executive, the Council, a Committee or a Sub-Committee for a decision must receive corporate clearance in respect of legal, financial and policy implications prior to publication. Report authors' are also required to identify and report on any significant risks within the body of the report. In addition, there is published information on the Council's internet site regarding how the system of decision-making in Southampton works and how the public can have their voice heard ('Having Your Say').

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

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on "The role of the chief financial officer in local government" (2010). The Head of Finance and IT (CFO) is professionally qualified and is a key member of the Management Board of Directors, helping to develop and implement strategy and deliver the strategic objectives of the authority. The CFO has direct access to the Chief Executive and is actively involved in ensuring all immediate and longer term risks and opportunities are considered, and ensuring the strategic

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objectives are aligned to the longer-term finance strategy. The CFO has an input into all major decisions, and advises on financial matters to the Executive. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose.

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

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

• Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

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

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

• Whistle blowing and for receiving and investigating complaints from the public

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

Complaints from the public are dealt with in accordance with the Complaints Policy which has been formally approved and is published on the intranet. Separate policies are in place relating to complaints about Councillors and complaints in relation to social services and schools.

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

The Council has a Member Development Strategy in place which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes include the following:-

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

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Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as on-going professional competence. Individual learning and development priorities are then used to develop Directorate Learning and Development plans. In addition, a 'Foundations of Management' programme is in place for all new managers who require an understanding of what is expected of them and provides an opportunity to develop core skills that will assist them in performing effectively in their role.

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

The views of customers are at the heart of the Council's service delivery arrangements and the views of customers and staff are actively sought by services via questionnaires, text messaging, focus groups and community consultation events. 'Consultation' and 'Other ways to have your say' internet pages provide opportunity for stakeholders to voice their opinions and shape service delivery. For the first time, the Council has led a Southampton Connect effort to produce a single Southampton Profile which reflects consultation feedback where this is available. This is in addition to taking account of formal external assessments and comparative benchmarking data and other market research which the council uses to get opinions and perceptions on a variety of issues affecting life in the city. The feedback from stakeholders informed the Council Plan (2011-14).

In addition, Southampton Connect brings together the private, public, business, community and voluntary sectors to work together in tackling the key city challenges. This approach builds upon the city's unique collaborative ethos, relationships and networks, and represents a new way of working together to improve Southampton for the benefit of all those who live, work or visit the city.

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

A new revised Partnership Code is in place and forms part of the Council's Constitution. The Code has been developed to ensure that sound governance arrangements are in place. This forms an important element of the Council's overall framework for partner and partnership engagement and will continue to be reviewed as the partnership working arrangements develop and evolve.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

- the work of Members/Officers within the Council;
- audit and other periodic reports from the Head of Internal Audit;
- the Annual report and opinion of the Head of Internal Audit;
- the Audit Committee (now called the Governance Committee);
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual governance report and the Annual Audit Letter.

• **The Authority**

The Council's Constitution forms the cornerstone of effective corporate governance. Whilst the Council's constitutional arrangements continue to be recognised as being of a high standard, Full Council agreed in 2002 that it would, on an annual basis, robustly review the Constitution and its operation. Full Council is the ultimate decision-making body as to the Council's Constitution. The purpose of the annual review and subsequent report is to bring forward any proposed changes to the Constitution, these having been considered by Governance Committee with a view to building upon the constitutional arrangements for the Council.

• **The Executive**

The Executive ('the Cabinet') make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council, and planning and licensing matters which are dealt with by specialist regulatory Panels. Proceedings of the Cabinet take place in accordance with Article 7 of the Council's Constitution.

• **Audit Committee**

The Council has a formally constituted Audit Committee (now called the Governance Committee) whose role it is to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

A range of service reports are submitted to the Governance Committee including the following:

- the Head of Internal Audit's annual report and opinion;
- review of the effectiveness of the system of internal audit;
- the Internal Audit Strategy and annual operational plan;
- summary internal audit reports across all portfolios;
- reports of external audit and inspection agencies;
- assurances that action is being taken on risk and control-related issues identified by the internal and external auditors and other assurance providers;
- the effectiveness of the Council's internal control, risk management and associated anti-fraud and anti-corruption arrangements;
- Treasury management Strategy; and
- the Council's Annual Governance Statement, financial statements and external auditor's opinion;

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- **Standards and Governance Committee**

The Council has a Standards and Governance Committee (now called the Governance Committee) with specific responsibility 'to lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct'. The Standards and Governance Committee receives a number of reports during the year including the draft report on 'Changes to the Constitution' (in its governance role) prior to the report being presented to Full Council. This Committee is also responsible for reviewing and approving the updated Code of Corporate Governance.

Note: From May 2012 a new 'Governance Committee' was created and has assumed the responsibilities of both the Audit Committee and Standards & Governance Committee.

- **Overview and Scrutiny Committees**

Overview and Scrutiny is a key mechanism for enabling Councillors to represent their constituents' views to the Executive to inform policy development. There is an Overview and Scrutiny Management Committee (parent committee) which manages this process and, in addition, a Health Scrutiny Panel. The Committee appoints other Panels as necessary to undertake the statutory review of the activities of key partners and to carry out scrutiny inquiries, which support the work of the Executive and the Council as a whole. These arrangements allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, relationship with key partners and local service delivery. The Overview and Scrutiny Management Committee also monitors the decisions of the Executive. Members can 'call-in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Executive reconsider the decision. The Overview and Scrutiny Management Committee are also consulted by the Executive on forthcoming decisions and the development of Policy Framework plans.

- **Risk Management**

The Council's overall strategy and approach to risk management is overseen by the Management Board of Directors.

The Council has in place a Risk Management Strategy and Policy which is reviewed annually and submitted to the Governance Committee for approval. In addition, an annual Risk Management Action Plan is developed with progress against the agreed actions being reported to the Governance Committee bi-annually. The Council has in place a 'Strategic Risk Register' which seeks to identify the key risks that may prevent or have a significant adverse affect on the achievement of the Council's key objectives. In addition, each Directorate develops and maintains its own risk register based on the 'key priorities and risks' identified as part of the corporate business planning process. Risk management also features as an integral part of the Council's Project Management methodology.

- **Chief Financial Officer**

The Council conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010).

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• **Internal audit**

The Council has a shared Internal Audit service whose role is to provide an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance. Internal audit may also provide an independent and objective consultancy service, specifically to help management improve the Council's internal control, risk management, and governance. The Council's Internal Audit Strategy was approved by the Audit Committee in September 2007 and reviewed in June 2009. The Strategy outlines how the service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on the Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of the Council's internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council's key priorities and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance, consultancy and advisory services by internal audit.

The Head of Internal Audit reports to the Governance Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Head of Internal Audit has the authority to independently report at any time to the Chief Executive, Head of Finance and IT (CFO), Officers and Members.

In accordance with the Accounts and Audit (England) Regulations 2011, an annual review of the effectiveness of the system of internal audit is undertaken and reported to the Governance Committee. The Council's external auditors seek to place reliance on the work carried out by internal audit wherever possible.

In 2011/12 the delivery of a shared audit service with Hampshire County Council was progressed to build on the shared role for the Head of Internal Audit and this formally commenced in February 2012. This will further enhance the service providing depth of experience and expertise and improving resilience.

• **Other review/assurance mechanisms**

Assurances are sought from Directors regarding the effectiveness of the key controls within their areas of operation. The assurances are obtained via a 'Self Assessment' statement which is required to be completed in full and with due diligence by each Director. Internal Audit undertakes a sample check of the completed self assessments and supporting evidence and provide an overall opinion on the level of assurance that can be placed on the returns.

The review is further informed via the completion of a "Controls Assurance Framework" document developed in line with CIPFA guidance. It identifies the key components of the Council's overall governance and internal control environment. The document records the key controls in place and sources of assurance and identifies any gaps in key controls or assurance noting any improvements planned for the forthcoming period to address the identified gaps.

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5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Issue	Action	Responsible Officer	Target for completion
1.	The Partnership Code and Toolkit, that was adopted as part of the Council's constitution in 2009, no longer reflects the revised approach to partnership working.	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.	Director of Corporate Services / Director of Environment and Economy	May 2012
2.	A biennial review of the Review of the Council's Code of Corporate Governance ("CCG") was due in April 2012.	A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legislation that potentially impact on the CCG. The CCG will therefore be subject to an annual 'light touch' review as part of the review of the constitution.	Director of Corporate Services	May 2013 and annually thereafter
3.	The reduction in the number of Directorates and Director roles together with the rationalisation of management posts has reduced overall capacity and resilience.	A new Workforce Strategy (People Plan) has been drafted and it is intended to formally adopt this and start to implement its first "Foundation Year" in the Autumn .	Director of Corporate Services	Autumn 2012

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

Signed

.....
Alistair Neill
 (Chief Executive)

.....
Councillor Richard Williams
 (Leader of the Council)

on behalf of Southampton City Council

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Annual Governance Statement 2010-11 Action plan: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2010-11:

Extract from the 2010-11 AGS – ‘Significant Governance Issues’				Update		
	Issue	Action	Target Date	Status	Responsible Officer	Comments
1.	Guidance in respect of the governance of partnerships, including how it relates to shared services, to be reviewed and updated to reflect changing circumstances.	The Partnership Code and Toolkit, adopted as part of the Council's Constitution in 2009, is to be reviewed to ensure that it is aligned with the revised approach to partnerships as reflected in the new Southampton Connect collaborative model . Formal shared service arrangements with other authorities or organisations are generally governed via contracts or Service Level Agreements. As these expand a review may be required to consider whether a revision to the Constitution and guidance is required.	May 2012 (in expectation that it will require a change to the Constitution and would need to be presented at the Council's Annual General Meeting).	Completed	Director of Economic Development / Director of Corporate Services	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.
2.	Ensure consistent understanding of the council's corporate standards by relevant officers.	A review of corporate standards is to be undertaken to ensure that the arrangements currently in place are appropriate, robust and fit for purpose. This will then shape and inform the associated training and development activities which are targeted to commence from October 2011 onwards.	March 2012	Completed	Director of Corporate Services	Corporate Standards are reviewed when changes to legislation, case law or the Constitution require. Developing the Council's (Officers and Members) understanding and compliance with standards is a core function of the Corporate Services Directorate and is delivered throughout it's day to day activities via corporate legal, finance and policy teams using 1-1 or team / divisional advice and guidance as appropriate. This approach has a more positive and resource appropriate impact than structured training events and has been found to deliver better understanding and compliance than formalised annual training.

Appendix 2

Extract from the 2010-11 AGS – ‘Significant Governance Issues’				Update		
	Issue	Action	Target Date	Status	Responsible Officer	Comments
3.	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.	Governance arrangements for health and safety accountabilities to be through a Health and Safety Management Board comprising the Chief Executive and Directors. This Board is to meet on a quarterly basis.	March 2012	Completed	Director of Corporate Services	A Health and Safety Board and Steering Group has now been established. The former comprises the Chief Executive, the Leader of the Council and Directors and meets on a quarterly basis. The Steering Group comprises the Director of Corporate Services, Head of Property & Procurement, Health & Safety Coordinators and Senior Managers. It is charged with reviewing proposals, monitoring progress and supporting the Head of Property and Procurement in implementing policies within their Directorates.
4.	Changes being made to directorate and management structures in order to develop and improve the organization and ensure that effective services are delivered to its customers	The changes to directorate and management structures are intended to focus on delivering high quality, low cost services that meet customer needs and will be reflected in the employment (job description), constitutional and governance framework to ensure clarity of roles and responsibilities.	March 2012	Completed	Chief Executive / Director of Corporate Services	<p>In April 2011 a new structure was implemented with a 50% reduction in the number of Directorates and Director roles.</p> <p>In July 2011, the second phase of the organisational restructure began involving the rationalisation of management posts. This established new directorate management teams and, as a consequence, this created a need to realign responsibilities across senior management and directorate support posts. This phase of the restructure commenced in October 2011. All key restructure exercises are intended to be completed September 2012.</p> <p>In relation to Adult Health and Social Care and Children's Services and Learning, the intention is not to merge the two Director roles prior to March 2013. In this period the two Directors will continue to develop closer working between the two directorates including merged support where appropriate in order to maximise efficiencies / improve service support and provision.</p>

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	STATEMENT OF ACCOUNTS 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	HEAD OF FINANCE & IT (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2011/12, which were signed by the Chief Financial Officer (CFO) on 29 June 2012, are submitted for approval to the Governance Committee. The statutory deadline for approving the accounts is the 30 September. The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting. However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Governance Committee after the completion of the Audit on 30 September 2012.

RECOMMENDATIONS:

It is recommended that the Governance Committee:

- (i) Approve the Statement of Accounts 2011/12 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 2011/12 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 2012.

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 Committee are detailed below.

CHANGES TO THE 2011/12 ACCOUNTS

5. The main changes to the 2011/12 Accounts are:
 - The adoption of FRS (Financial Reporting Standard) 30 Heritage Assets within the Financial Statements; and
 - The full disclosure of the £12M Equal Pay Provision, provided in the 2009/10 Statements, which was previously redacted.
6. **Heritage Assets** - The adoption of FRS 30 Heritage Assets, which is a change in accounting policy, requires the Council to restate the previous year's Balance Sheet and Comprehensive Income and Expenditure Account for the impact of including Heritage Assets on the Balance Sheet as if they had always been accounted for on this basis. As required by the Code of Practice the Balance Sheets as at 1 April 2010 and 31 March 2011 have been restated.
7. There is no discernable impact on the prior years Comprehensive Income and Expenditure Account, as noted in our Accounting Policy, the only Heritage Assets brought onto the Balance Sheet are the Works of Art valued at £190M which are considered to have an infinite life and the reclassification of some Historic Buildings and Ancient Monuments from Property, Plant and Equipment to Heritage Assets of approximately £5.5M including:
 - The Tudor House Museum;
 - Gods House Tower;
 - The Bargate;
 - The Wool House;
 - Tudor Merchants Hall; and
 - Town Walls and various Vaults
8. **Equal Pay Provision** - The Council raised a £12M Equal Pay Provision in the 2009/10 Financial Statements which was not fully disclosed in either the 2009/10 or the 2010/11 Financial Statements on the grounds that, the Monitoring Officer felt that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation.

9. The £12M Capitalisation Direction received was fully utilised in 2009/10, financing the Equal Pay provision over the maximum period allowed of 20 years. Although the Equal Pay provision was redacted from the 2009/10 and the 2010/11 Financial Statements, the Minimum Revenue Provision was calculated having taken into account the capital financing requirement arising from the capitalisation direction.
10. 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

11. 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 draw from reserves of £1.5M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2012. Compared to this working budget, the Council's actual expenditure for the year is £6.9M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	3,833
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	129
Exceptional Income – VAT	2,746
Other Variations	215
Total	6,923

12. Against this are requests to carry forward budget of £786,000 (of which £521,000 relates to central repairs and maintenance) which were approved by Council in July 2012. Further draws on the overall favourable position of £6.7M (approved by Full Council) include:
 - Organisational Development Reserve (£2.2M) – 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 £2.2M into the Organisational Development Reserve which is used for restructuring, re-training, additional HR resourcing, redeployment and redundancy costs in future years. Of this sum £0.8M is required to meet the costs associated with the ongoing work to implement Equal Pay. This will increase the total sum set aside in the Organisational Development Reserve in 2012/13 to almost £7.3M.

- Change Programme (£1.0M) – The Change Programme was approved by Cabinet on 21 November 2011. The aim of the Programme, which comprises a number of major pieces of work, is to ensure that the Council responds to the enormous changes facing the public sector and transforms the way we do business, reducing our costs and becoming a fit for purpose organisation by 2015. In order to help provide capacity and investment where required to take these major pieces of work forward, it is proposed that £1.0M of the under spend from 2011/12 is set aside for this purpose to be allocated by the Change Programme Steering Group on a business case basis. This will increase the total sum set aside to fund the Change Programme to almost £2.5M, an element of which is already committed.
- Marlands House Vacation (£1.0M) – Work associated with the implementation of the Accommodation Strategy (including the major works associated with the civic centre) is underway, and we are now looking to the next phase of the Strategy. Further rationalisation of office accommodation can be achieved as a result of vacating Marlands House, delivering ongoing revenue savings and avoiding future capital spending commitments. However, additional one off revenue funding is required to facilitate this and it is proposed that £1.0M of the under spend from 2011/12 is added to the Strategic Reserve to ensure that this can be achieved.
- Interest Equalisation Reserve (£1.0M) – In achieving interest rate savings, the Council has exposed itself to variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt, and maintained at a prudent level to help to manage volatility in the future and ensure that there is minimal impact on annual budget decisions. It is recommended that an additional £1.0M is added to the Interest Equalisation Reserve to ensure that adequate provision is made for the future increase in interest costs associated with the ongoing utilisation of variable interest rates. This will increase the total sum set aside in the Interest Equalisation Reserve to almost £3.1M.
- Additional Contribution to DRF Funding (£0.3M) – It is forecast that additional capital expenditure of £0.3M in relation to SeaCity will need to be funded in 2012/13. It is proposed to fund this from revenue and utilise an element of the 2011/12 under spend for this purpose.

GENERAL FUND BALANCES

13. The General Fund balance stands at £23.5M and is used as a working balance and to support future spending plans. This compares to a balance of £17.4M at the end of 2010/11.
14. Commitments were proposed which following approval by Council in July left an uncommitted value of balances totalling £5.5M in the medium term.

15. At this time the Executive, having considered additional priorities that they wished to progress in the current year, put forward proposals for new one off expenditure in 2012/13. These initiatives which were approved by Council totalled £240,000 and will be funded from balances. The Chief Financial Officer (CFO) recommends that the minimum level of the General Fund Balance should be £5.0M, which has been derived by looking at a risk-based approach to the overall General Fund Revenue Account and after funding these one off spending proposals they will reduce to £5.3M.

HOUSING REVENUE ACCOUNT (HRA)

16. 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 surplus of £472,000. Actual net expenditure for the year is a surplus of £998,000 which compared to the budgeted deficit results in an under spend of £526,000. This is made up as follows:

	£000's
Net Saving on Total Repairs	172
Savings on Supervision & Management	359
Increase in Direct Revenue Financing	(71)
Reduction in Capital Financing Charges	103
Reduction in Dwelling Rent Income	(39)
Other Variances	2
Total	526

17. The Localism Act which passed into law in November 2011 enabled the reform of council housing finance. The HRA subsidy system has now been abolished and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required a readjustment of each authority's housing-related debt based on a valuation of its council housing stock. The Department for Communities and Local Government's (CLG) issued the final Settlement Payment Determination in February 2012.
18. As the Council's debt level generated by the housing reform model was higher than the Subsidy Capital Financing Requirement (SCFR), the Council was required to pay the CLG the difference between the two, which was £73.8M. This payment was funded through new borrowing from the Public Works Loan Board (PWLB)

CAPITAL EXPENDITURE

19. In 2011/12 the Council spent £102.0M on capital projects. This was £14.8M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2012/13. Of this expenditure £79.9M related to the General Fund and £22.1M to the HRA.

THE COLLECTION FUND

20. The Collection Fund had a deficit for the year of £2.4M. There was a surplus brought forward from 2010/11 of just under £4.1M, to give a surplus to be carried forward of £1.7M. When setting the Council Tax for 2012/13 in February 2012, it was estimated that there would be a surplus of £435,800 to be carried forward.
21. This estimated surplus was taken into account in setting the 2012/13 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 2011/12. This leaves a surplus of £1.2M that will be carried forward to 2012/13 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 2013/14 is set.

PENSIONS

22. In 2011/12 the Council paid an employer's contribution of £23.3M 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 to 2013/14 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010.
23. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2012 was £484.0M, compared to its estimated liabilities of £868.5M, giving an estimated deficit on the Fund of £384.5M (£303.5M in 2010/11).
24. 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

25. 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.
26. The Accounting Policies are described in detail on pages 16 to 33 of the Financial Statements and cover such items as:

- Property, Plant and Equipment
- Depreciation
- Heritage Assets
- Pensions
- Accruals
- PFI contracts
- VAT
- Leasing

The Governance Committee will be asked to review the policies adopted and note the new Heritage Asset policy adopted for 2011/12 under 'Accounting Issues and Developments' on page 9. 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 Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

FINANCIAL STATEMENTS AMENDMENTS

27. There were a number of mainly presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 29 June 2012 and presented for Audit.
28. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms on request from the report author, the main adjustments were:
 - Grants and Contributions (Note 42) - £209k amendment to amounts received in year (no Balance Sheet or Comprehensive Income and Expenditure Statement (CIES) impact) and the related impact on the Cash Flow Statement and Notes.
 - Cash Flow Statement and Notes - In addition to the amendment required due to the Grants and Contributions adjustment above, minor adjustments required with respect to Agency Creditors (plus - £9k) and Cash Flows from Financing Activities (minus £9k), and Depreciation (minus - £630k) and Impairment (plus £630k).
 - Collection Fund - £67k reduction to Income Collectable from Business Ratepayers offset by reduction to Payment to the National Pool (late adjustment to the NNDR3 Return).
 - HRA Property Plant and Equipment (PP&E) - A Balance Sheet adjustment was required between PP&E (minus - £388k) and the Capital Adjustment Account (plus £388k) with respect to HRA PP&E being overstated by £388k. Although, there is no impact on the Council's retained reserves, adjustments were also required to the CIES, the Movement in Reserves Statement (MIRS) and the related disclosure note; the Cash Flow Statement and related disclosure notes; the HRA CIES and related notes; and the Amounts Reported for Resource Allocation Decisions disclosure.

- Sundry Debtors and the Capital Adjustment Account (CAA) - Sundry Debtors and the CAA required amendment due to an overstatement of approximately £4.4M within Sundry Debtors;
- Surplus Assets (PP&E) - Balance Sheet adjustments were required between Surplus Assets (minus £8.5M, and minus £4.9M) and Investment Property Assets (plus - £8.5M) and Assets Held for Sale (plus £4.9M). This is because surplus Investment Property Assets should continue to be treated as Investment Property and surplus assets held for sale i.e. those surplus assets that are actively being marketed and are likely to be sold within the next 12 months, should be categorised as such. (Additional disclosure note added as none previously recognised).
- Explanatory Forward and Exceptional Items - Additional disclosure added to Explanatory Forward and Exceptional Items Note 6 with regard to the £73.8M HRA Self Financing Settlement paid to the Department for Communities and Local Government (DCLG) and the related PWLB Loans.

29. 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

30. The capital implications were considered as part of the Capital Outturn report presented to Council on 11 July 2012.

Revenue

31. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 11 July 2012.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

33. Accounts and Audit Regulations 2011

Other Legal Implications:

34. None.

POLICY FRAMEWORK IMPLICATIONS

35. 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:	
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SUPPORTING DOCUMENTATION

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

Appendices

1.	
2.	

Documents In Members' Rooms

1.	Latest Draft Financial Statements 2011/12
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 30 June 2012

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)
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1.		
2.		

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Agenda Item 16

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW
DATE OF DECISION:	25 SEPTEMBER 2012 14 NOVEMBER 2012
REPORT OF:	HEAD OF FINANCE AND IT (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

The Council approved a number of indicators at its meeting of the 15 February 2012. Following the September update of the Capital Programme and an analysis of Treasury Management activity in 2011/12 and between April and August 2012 these have been reviewed for 2012/13 and are reported in accordance with CIPFA's code of practice on Treasury Management and in line with the approved Treasury Management Strategy.

The core elements of the 2012/13 strategy are :

- To make use of short term variable rate debt to take advantage of the continuing current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock 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.

RECOMMENDATIONS:

Governance Committee is recommended to

- (i) Note the current and forecast position with regards to these indicators and to endorse any changes.
- (ii) Note that the continued proactive approach to Treasury Management has led to reductions in borrowing costs and safeguarded investment income.
- (iii) Note changes to the 2011/12 Capital Financing Requirement to that reported in the Outturn report due to an amendment to the funding of the programme with a reduction in capital contributions and a corresponding increase in borrowing.

Council is recommended to

- (i) Approve any changes to the Council's Prudential Indicators as detailed within the report.
- (ii) Continue to delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example increase the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to this strategy.
- (iii) Note that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income.
- (iv) Note changes to the 2011/12 Capital Financing Requirement to that reported in the Outturn report due to an amendment to the funding of the programme with a reduction in capital contributions and a corresponding increase in borrowing.

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. None.

DETAIL (Including consultation carried out):

CONSULTATION

- 3 The capital update report on which this report is based have been subject to their own 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 will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable. A Glossary of Treasury Terms is attached as Appendix 1 for reference.
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 treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:
 - Liquidity Risk (Inadequate cash resources)
 - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
 - Inflation Risks (Exposure to inflation)
 - Credit and Counterparty Risk (Security of Investments)
 - Refinancing Risks (Impact of debt maturing in future years).
 - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).
7. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its 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 15 February 2012.
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2031&Ver=4>
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 table below shows the actual position as at 31 March 2012 and the estimated position for the current and next two years based on the capital programme submitted to council on the 12 September 2012.

11. It should be noted that there has been an increase in the CFR compared to that reported within the outturn report submitted to Council on the 11 July 2012. This is due to a reduction in funding from contributions accounted for in the year and a corresponding increase in borrowing following an amendment made as part of the audit of the 2011/12 accounts. There is provision within the revenue budget for these borrowing costs.

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Balance B/F	360	444	445	448	450
Capital expenditure financed from borrowing	21	15	13	12	13
HRA Debt buyout	74	(8)	0	0	0
Revenue provision for debt Redemption.	(7)	(8)	(7)	(8)	(8)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(2)	(2)
Cumulative Maximum External Borrowing	445	441	448	450	453

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
General Fund	271	265	274	273	272
HRA	174	176	174	177	181
Total CFR	445	441	448	450	453

The above limits are set to allow maximum flexibility within TM, for example a full debt restructure. Actual borrowing as shown in the tables below is significantly below this and reflects decisions taken to use internal balances and cash rather than to physically borrow and shows the position at a point in time. No new borrowing is expected to take place until the second half of the financial year.

	Balance on 01/04/2012 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/8/2012 £M	Increase/ (Decrease) in Borrowing £M
Short Term Borrowing	0	0	0	0	0
Long Term Borrowing	300	(5)	0	295	(5)
Total Borrowing	300	(5)	0	295	(5)

	Balance on 01/04/2012 £M	Balance as at 31/8/2012 £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Borrowing	300	295	352	355	352
Other Long Term Liabilities	72	72	74	78	83
Total Borrowing	372	367	426	433	435

Authorised Limit and Operational Boundary for External Debt

12. The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's **Affordable / Authorised Borrowing Limit** was set at £911M for 2012/13 (£832M for borrowing and £79M for other long term liabilities).
13. 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 2012/13 was set at £869M (£794M for borrowing and £75M for other long term liabilities).
14. The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of August 2012, borrowing at its peak was £300M and there is no proposal to change these limits at this time.

Upper Limits for Fixed and Variable Interest Rate Exposure

15. 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 2012/13 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

16. The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance, the highest to date is 15%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the PWLB for variable debt. There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, to allow for flexibility in case of any slippage in expected capital receipts.

Maturity Structure of Fixed Rate Borrowing

17. 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 31/8/2012 £M	Average Fixed Rate as at 31/8/2012 %	% of Fixed Rate as at 31/8/2012	Compliance with set Limits?
	%	%				
Under 12 months	0	45	10	2.67	4.13	Yes
12 months and within 24 months	0	45	3	1.97	1.19	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	99	3.23	39.52	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	10	4.68	3.97	Yes
30 years and within 35 years	0	75	5	4.60	1.99	Yes
35 years and within 40 years	0	75	25	4.62	9.93	Yes
40 years and within 45 years	0	75	53	3.61	21.01	Yes
45 years and within 50 years	0	75	46	0.35	18.25	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			252	3.47	100.00	

Please note: the TM Code Guidance Notes (page 15) states:

“The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment”.

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

Total principal sums invested for periods longer than 364 days

18. This indicator allows the Council to manage the risk inherent in longer term investments and the limit for 2012/13 was set at £50M. Due to the current uncertainty in the market no more investments will be made unless the markets settle down and our advisors recommend it.

HRA Limit on Indebtedness

19. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing. The following tables show this plus the movement in year.

HRA Limit on Indebtedness	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Revised £m	2013/14 Revised £m	2014/15 Revised £m
HRA Debt Cap (as prescribed by CLG)	199.6	201.3	199.6	199.6	199.6
HRA CFR	174.2	175.5	174.2	177.5	181.4
Difference	25.4	25.8	25.4	22.1	18.2

HRA Summary of Borrowing	2012/13 Estimate £m	2012/13 Revised £m	2013/14 Revised £m	2014/15 Revised £m
Brought Forward	174.2	174.2	171.7	177.5
Maturing Debt	(8.6)	(8.6)	(8.8)	(5.4)
New borrowing	4.8	6.1	14.6	9.3
Carried forward	170.4	171.7	177.5	181.4
HRA Debt Cap (as prescribed by CLG)	201.3	199.6	199.6	199.6
Headroom	30.9	27.9	22.1	18.2

Ratio of Financing Costs to Net Revenue Stream

20. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Actual %	2012/13 Approved %	2012/13 Estimate %	2013/14 Approved %	2014/15 Approved %
General Fund	6.30	6.84	6.47	7.42	7.17
HRA	4.65	10.92	8.98	11.05	10.84
Total	7.12	8.84	8.13	9.36	8.93

SUMMARY

21. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity up to the 31 August 2012. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken 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 Treasury Management activity is prepared. This is presented to Cabinet as part of the Quarterly Revenue Financial Monitoring report and is available in Members Rooms.

RESOURCE IMPLICATIONS

Capital/Revenue

23. The Capital implications were considered as part of the Capital Update report submitted to Council on the 12 September 2012.
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.	Glossary of Treasury Terms
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Documents In Members' Rooms

1.	QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 3
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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 2012/13 TO 2014/15 – Council 15 February 2012	
2.	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTURN 2011/12 – Council 11 July 2012	

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

WARDS/COMMUNITIES AFFECTED:	N/A
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GLOSSARY OF TREASURY TERMS

<p>Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bank Rate: The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”. This rate is also referred to as the ‘repo rate’.</p>
<p>Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.</p>
<p>Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.</p>
<p>Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR): The Council’s underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.</p>
<p>Capital receipts: Money obtained on the sale of a capital asset.</p>
<p>CD’s: Certificates of Deposits with banks and building societies.</p>
<p>Cost of Carry: The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.</p>
<p>CPI : Consumer Price Index – the UK’s main measure of inflation.</p>

<p>Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.</p>
<p>Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.</p>
<p>Counterparty List: List of approved financial institutions with which the Council can place investments with.</p>
<p>Diversification /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.</p>
<p>Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.</p>
<p>Federal Reserve: The US central bank. (Often referred to as "the Fed").</p>
<p>General Fund: This includes most of the day-to-day spending and income.</p>
<p>Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.</p>
<p>LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.</p>
<p>LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.</p>
<p>LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which</p>

would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

IFRS:

International Financial Reporting Standards.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

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

Money Market Funds (MMF):

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

Minimum Revenue Provision (MRP):

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

Multilateral Development Banks:

See Supranational Bonds below.

Non Specified Investment:

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

Operational Boundary:

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

Premiums and Discounts:

In the context of local authority borrowing,

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

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

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

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

Prudential Code:

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

Prudential Indicators:

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

Public Works Loans Board (PWLB):

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

Quantitative Easing (QE):

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

Revenue Expenditure:

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

RPI :

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

(Short) Term Deposits:

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

Specified Investments:

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

Supported Borrowing:

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

Supranational Bonds:

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

T-Bills:

Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are

issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.

Treasury Management Code:

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

Treasury Management Practices (TMP):

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

Temporary Borrowing:

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

Unsupported Borrowing:

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

Yield:

The measure of the return on an investment instrument.

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