

Governance Committee

Monday, 15th September 2014
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Burke (Chair)
Councillor Chamberlain
Councillor Daunt
Councillor Inglis
Councillor Keogh
Councillor Noon
Councillor O'Neill

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

Public Representations

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

Southampton City Council's Priorities:

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

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

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

Use of Social Media:- If, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting

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

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

Dates of Meetings: Municipal Year 2014/15

2014	2015
14 July	9 February
15 September	27 April
15 December	

CONDUCT OF MEETING

Terms of Reference

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

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

Rules of Procedure

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

Business to be discussed

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

Quorum

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

DISCLOSURE OF INTERESTS

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

DISCLOSABLE PECUNIARY INTERESTS

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

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

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

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

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

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

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

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 14 July 2014 and to deal with any matters arising, attached.

5 SOUTHAMPTON CITY COUNCIL COMPLAINTS 2013/14

Report of the Head of Legal and Democratic Services summarising performance from 1 July 2013 until 31 March 2014, attached.

6 LOCALISM ACT 2011 - PROPOSAL FOR A PAN-HAMPSHIRE MEMBERS' CODE OF CONDUCT

Report of Head of Legal and Democratic Services seeking approval for a pan-Hampshire Members' Code of Conduct, attached.

7 ANNUAL GOVERNANCE STATEMENT 2013-14

Report of the Chief Finance Officer seeking approval of the draft Annual Governance Statement for 2013-14, attached.

8 FINANCIAL STATEMENTS FOR 2013/14

Report of the Chief Financial Officer detailing the Financial Statements for 2013/14, attached.

9 INTERNAL AUDIT PROGRESS REPORT - AUGUST 2014

Report of the Chief Internal Auditor outlining progress against the internal audit plan and status of 'live' reports in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards, attached.

10 EXTERNAL AUDIT: ANNUAL RESULTS REPORT

Report of the Chief Internal Auditor summarising the External Auditor's findings from the 2013/14 audit, attached.

Friday, 5 September 2014

Head of Legal and Democratic Services

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY, 14 JULY 2014

Present:

Councillors Burke (Chair), Chamberlain, Daunt, Inglis, Noon, O'Neill and Keogh

Independent Members

Mr David Blake and Mr Geoff Wilkinson

1. **APOLOGIES**

The Committee noted the resignation of Councillor Jeffery, and the appointment of Councillor Keogh in place thereof in accordance with the provisions of Council Procedure Rule 4.3.

2. **ELECTION OF VICE-CHAIR**

RESOLVED that Councillor Keogh be appointed as vice chair for the municipal year.

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

RESOLVED: that the minutes for the Committee meeting held on 28 April 2014 be approved and signed as a correct record.

The Panel noted in regard to minute number 40 of the 28th April 2014 minute that additional information regarding mobile phones would be circulated to Panel Members by email.

4. **STATEMENT FROM THE CHAIR**

5. **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

6. **FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2013-14**

The Committee considered the report of Head of Legal and Democratic Services detailing statistical information for the financial year 2014-15, attached.

RESOLVED that the update of the statistical information for the year 1st April 2013 – 31st March 2014 relating to:

- a. The Freedom of Information Act 2000 and associated legislation;
- b. Data Protection Act 1998; and
- c. Regulation of Investigatory Powers Act 2000

be noted.

7. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2013/14**

The Committee noted of the report of the Chief Financial Officer detailing the Treasury Management activities and performance for 2013/14 against the approved Prudential Indicators for External Debt and Treasury Management.

8. **ANNUAL GOVERNANCE STATEMENT 2013-14**

The Committee noted the Chief Financial Officer seeking to review the draft Annual Governance Statement 2013-14 and to note the status of the 2012-13 Action Plan.

9. **EFFECTIVENESS OF INTERNAL AUDIT**

The Committee noted the report of the Chief Internal auditor that In accordance with the Accounts and Audit Regulations (England) 2011 presenting a report detailing the effectiveness of the role of Internal Audit.

10. **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2013/2014**

The Committee noted the report of the Chief Internal Auditors detailing the Annual Report and Opinion 2013-14 for approval.

DECISION-MAKER		GOVERNANCE COMMITTEE		
SUBJECT		SOUTHAMPTON CITY COUNCIL COMPLAINTS 2013/14		
DATE OF DECISION		15 SEPTEMBER 2014		
REPORT OF:		HEAD OF LEGAL AND DEMOCRATIC SERVICES		
AUTHOR	name:	Customer Relations Manager	tel:	023 8083 3258
	e-mail:	mark.naylor@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY				
N/A				

SUMMARY

This report summarises the type and number of complaints received from the 1 July 2013 and the 31 March 2014.

The Customer Relations Team were formed, after review on the 1 July 2013, therefore the previous Governance Report contained data and observation from 1 April 2012 to 30 June 2013.

Subsequent Governance Reports will return to the 1 April to 31 March format.

The Customer Relations Team administers complaints from all directorates within Southampton City Council and are based in Legal and Democratic Services.

RECOMMENDATION:

That the report be noted.

REASONS FOR REPORT RECOMMENDATIONS

To update members of this Committee on performance trends and any learning points arising out of complaints made by the public via Southampton City Council's Complaint's Procedures during 2013/14. Identifying these issues assists the Council in understanding where things have "gone wrong" in the past year in order to improve service delivery.

CONSULTATION

1. This report is presented to Governance Committee for information purposes.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. N/A

DETAIL

3. 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.
4. At the end of a complaints investigation, the customer is advised that if they are still not satisfied with the outcome, they may pursue their complaint to the Local Government Ombudsman (LGO). This provides the customer with an entirely independent source of redress if they remain aggrieved and the Council works closely with the LGO to resolve outstanding complaints where appropriate. Detail on the LGO procedures and complaints are set out towards the end of this report.

5. It should be noted that the Complaints procedure review was implemented in July 2013 and the complaint reporting data bases were update with these changes. The changes in the makeup of Directorates were reflected in the 2012/13 figures.
6. However total percentages and figures remain reliable and comparable between previous years and present figures.

Corporate Complaints (1 July 2013 and 31 March 2014)

7. From 1st April 2013 to 31st March 2014 the Council received a total of 743 corporate complaints. This represents a 29% decrease on the 944 complaints receive in 2012/13. This is the third consecutive year that there has been a significant decrease in the total number of complaints received.
8. In 2012/13 five customer facing service areas accounted for over half the complaints received in the corporate complaint area. However the adoption of an “immediate service recovery” ethos, customer facing areas have been able to decrease the number of complaints recorded by taking immediate effective action on receipt of an issue from a member of the public. Where immediate action was not possible or the issue is identified as a continuing failure within the service area, matters are recorded as complaints and enter the complaints procedure and therefore recorded as such.
9. By adopting this approach, members of the public are receiving an immediate resolution to the issue, which is generally what is required.
10. Table 1 below lists the five Divisions with the highest proportion of complaints for 2013/14 and compares this with figures for 2012/13 and 2011/12.
11. Table 2 lists alphabetically those Divisions that have been included in the five with the highest proportion of complaints from 2011/12 to 2013/14.

TABLE 1					
Rank of five divisions with the highest proportion of complaints for 2013/14					
2013/14		2012/13		2011/12	
Capita Services	10%	Housing Services	27.7%	Decent Homes	16%
Local Taxation	6%	Waste & Fleet Management	22.5%	Local Taxation	14%
Housing Repairs	6%	Local Taxation	9.5%	Housing Management	11.4%
Waste	5%	Customer Services	6.3%	Waste & Fleet Management	8.2%
Housing Services	4%	Regulatory Services	5.6%	Highways & Parking	7.4%
				Customer Services	7.4%

TABLE 2			
Divisions with the highest proportion of complaints 2011/12 to 2013/14			
	2013/14	2012/13	2011/12
Capita/Customer Services	10%	5.6%	7.4%
Decent Homes	-		16.0%
Highways & Parking	-		7.4%
Housing Services	4%	-27.7%	-
Housing Repairs	6%		-1.2%
Local Taxation	6%	9.5%	14.0%
Waste & Fleet Transport	5%	22.5%	8.2%
Regulatory Services	-	-5.6%	-

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.

TABLE 3			
Category	2013/14	2012/13	2011/12
Discrimination	0%	0.5%	1%
Misinformation	2%	8%	4%
Charges	4%	10%	14%
Speed	2%	3%	3%
Behaviour	11%	17%	14%
Performance	21%	38%	36%
Other	21%	12%	18%
Avoidable Contact	0%	2%	3%
Disagree with Decision	12%	10.5%	7%

13. Table 4 below provides a breakdown of this Council's performance in relation to complaints compared to the Council's statistical neighbours (as used for formal audit purposes). This helps the Council compare like for like in terms of type of authority, geographical area within the country and broadly similar population sizes and make-up. The Corporate Complaints policy is not a statutory requirement. However, failure to have a Corporate Complaints policy in place would lead to an adverse report from the LGO and would likely be viewed as maladministration by the LGO in and of itself.

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, as other Council's may operate variations in their complaints regimes. The following table sets out the overall figures for the number of complaints received.

TABLE 4				
Authority	Corporate Complaints received 2013/14	Corporate Complaints received 2012/13	Adult Population 2011	Complaints per head of adult population 2013/14
Southampton	743	944	236,900	0.0030
Portsmouth	438	580	207,100	0.0021
Brighton & Hove	1786	1657	273,400	0.0065
Plymouth	1329	1131	207,877	0.0064
Bristol	2331	Not available	432,500	0.0054

14. Table 5 below 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.
15. Stage 3 was removed from the complaints procedure at the last review, therefore not included in the 2013/14 figures.

TABLE 5				
	Working days to close 2013/14		Working days to close 2012/13	
Stage	≤ 20 days	> 20days	≤ 20 days	> 20 days
1	90%	10%	753 (95%)	40(5%)
	≤ 20 days	>20 days	≤ 20 days	>20 days
2	81%	19%	47%	53%
3			78%	22%

Children's Services (Social Care) Complaints (1st April 2013 – 30th June 2014)

16. Children's Services and Learning complaints are classified according to the following definitions:
- Social care complaints are those investigated under the Children's Social Care Complaints Policy (which reflects statutory regulations);
 - All other Children's Services complaints are investigated using the Council's Corporate Complaints Policy;

- Referrals are requests for help which are passed to the relevant council directorate and partner services;
17. During the financial year 2013/14, there were 154 Stage 1 complaints made about Children's Social Care. This compared to 179 in 2012/13 and shows a 7.8% decrease in complaints received.
 18. 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 Investigator (external to the Council who is responsible for investigating the complaint) and an Independent Person (whose role is to oversee the investigation to ensure fairness and that the child(ren) involved in the process are represented), to look into complaints at Stage 2 of our procedure.
 19. Only four Stage 1 complaints (1.81%) required independent investigation. No complaints proceeded to Stage 3.
 20. Table 6 sets out the number of complaints which progress to Stage 2, and shows how this has changed since 2011/12 to 2013/14.

TABLE 6		
External Investigation of Complaints (Stage 2)		
Year	No of Stage 1 Complaints	Percentage (and number) progressing to Stage 2
2011/12	182	2.19% (4)
2012/13	179	1.12% (2)
2013/14	221	1.81% (4)

21. Complaints unresolved after Stage 3 can be referred to the LGO.
22. Table 7 shows a slight increase in the total number of contacts (complaints, representations, comments and compliments etc) received in 2013/14 compared to 2012/13.
23. 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 Relations Team in order that they can be recorded and reported to the relevant service Director so that good service can be recognised.

TABLE 7				
	2013/14		2012/13	
Record Type	Number		Number	
Stage 1 complaints	154		179	
Comments	10		14	
Referrals	7		5	
Compliments	63		52	
Total	234		383	

24. Table 8 provides a breakdown of complaints by complaint issue and type and highlights some of the major themes and issues contained within the contacts and complaints we receive (these include complaints regarding schools and academies which investigate their own complaints which we pass to them if reported to us). As most complaints relate to more than one issue, this approach to breaking them down allows us to maximise our learning from them. For example, many of the complaints relate to either complaints about service provision, complaints about individual staff or poor communication. Some of these are consistent with the period of high staff turnover that impacted upon the wider consistency.

TABLE 8	
Complaint Issue	Number
Communication/Information	95
Unhappy with social worker	22
Unhappy with service provided/received	154
Policy/Procedure	5
Financial Issues	3
Eligibility Criteria	6
School Admissions	6
Bullying/ Exclusions	2
Environment Housing	3
TOTAL	296

25. Table 9 shows an overall increase in response rates to complaints in Children's Services and Learning in 2013/14.

TABLE 9				
Overall Performance Report -01/04/2013 to 31/03/2014				
Record Type	Acknowledgment		Full Response	
	2013/14	2012/13	2013/14	2012/13
Safeguarding: Social Care				
Stage 1 complaint	98.65%	97.2%	84.16%	55.4%
Learning Services				
Corporate Stage 1 Complaint	84.16%	97.4%	75%	70.3%

26. The below tables indicate the outcomes of complaints.

TABLE 10				
Stage	Upheld	Partially Upheld	Not Upheld	Stopped / Withdrawn
Stage 1 (statutory)	36	43	140	2
Stage 1 (Corporate)	2	2	12	0
Stage 2 (statutory)	1	1	1	1
Stage 2 (Corporate)	0	2	0	0
Stage 3 (statutory)	0	1	0	0
Total	39	49	153	3

Remedies Used

TABLE 11	
Type	Number
Apology	32
Explanation	21
Review process / policy	4
Training Needs	6
Reimbursement of expenses	2
Meeting offered	2
School Place offered	4

Health & Adults Services (Social Care) Complaints (1st April 2013 – 30th June 2014)

27. For the financial year 2013/14, there were 154 statutory complaints made about Health & Adult Social Care compared to 114 in 2012/13. This represents a 35% increase.
28. 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 stage two investigations are undertaken by the Customer relations Team.
29. Table 12 sets out the number of complaints by age both. The highest number of complaints (77, 55.2%) is from the 76+ age group, which should be expected in part because this age group is the largest in the service population served by Health and Adult Social Care.

TABLE 12		
Adults Complaints by Age		
Age	Number	Percentage
16-19	0	0%
20-24	6	3.9%
25-59	40	26%
60-64	4	2.6%
65-75	17	11%
76+	85	55.2%
Not known	2	1.3%
TOTAL	154	100%

30. Table 13 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 nine specific ways.

TABLE 13	
Reason / Issue for complaint	No of Issues
Disabled Parking Badge	4
Eligibility	11
Finance	57
Information / Communication	14
Miscellaneous	
Housing	1
Environment	0
Policy and procedure	1
Unhappy with care manager	11
Provider Services	15
Unhappy with service	81
TOTAL	195

31. The majority of complaints were regarding service provision and professional practice.

TABLE 14	
H&ASC AND CORPORATE COMPLAINTS BY SERVICE AREA	
How Received	2013/14
Safeguarding	0
Contact Centre	0
Disabled Parking Badges	6
Hospital Discharge team	8
Learning Disabilities	12
Locality Support Teams and Rehab Teams	35
Day Care Services	8
External Provider – Domiciliary Care	20
Internal Provider – Residential Care	4
Internal Provider – Domiciliary Care	2
Mental Health Services	13
Finance: Benefits (Assessment)	7
Exchequer Services	3
Debtors Team	4
Direct Payments/Personal Budget	7
Sensory Services	2

32. Whilst not to undermine their legitimacy, it is important to place the level of Stage 1 complaints into the context of the large number of critical and intimate services provided to vulnerable adults whose well-being is dependent upon them.

TABLE 15			
DIVISIONAL ACTIVITY			
Referrals	9,641	Formal complaints	154
New Assessments	4,813	Concerns / comments	11
Review	5,059	Referrals	7
No of People in receipt of services	9,239		

33. **OUTCOMES**

Outcome	Number
Complaint withdrawn	3
Not Upheld	65
Partially Upheld	24
Upheld	41
Safeguarding investigation	0
Ongoing	10
TOTAL	154

34. Adult Social care complaints are assessed by risk level. Complaints are classified as low, medium and high risk as follows:
- *Low risk* - an unsatisfactory service or experience not directly related to care and which has no or minimal impact or risk to provision of care.
 - *Medium risk* - Service or experience below reasonable expectations in several ways, but not causing lasting problems. Has potential to impact on service provision. Some potential for litigation
 - *High risk* - Significant issues regarding standards, quality of care and safeguarding or denial of rights. Complaints with clear quality assurance or risk management issues that may cause lasting problems for the organisation and so require investigation. Possibility of litigation and adverse local publicity. Alternatively, serious issues that may cause long-term damage, such as grossly substandard care, professional misconduct or death. Will require immediate and in –depth investigation. May involve serious safety issues. A high probability of litigation and strong possibility of adverse national publicity
35. These risk levels will affect the pathway and timescale of how we deal with these complaints. (See Table 17).
36. Overall performance has declined since last year and the reasons for some of the delays are reported to have been shortages of staff in some services.
37. Under the adult social care complaints procedure, the council aims to send complainants a full reply within 20 working days if possible, or if the matter is more complicated, this can be extended and the complainant informed. For extremely complex cases, which may require independent investigation, a target of up to 60 working days may be necessary depending on risk category or number of people to be interviewed.

TABLE 17

OVERALL PERFORMANCE REPORT					
Complaint Type	Acknowledgement within timescale		Full response within timescale		
Adult Statutory Complaint	2013/14	98.8%	LOW	2013-14	65.9% (27)
	2012/13	94.6%		2012-13	59.1% (93)
			MEDIUM	2013-14	46.75% (72)
				2012-13	60.0% (15)
			HIGH	2013-14	33.3% (1)
				2012-13	100% (2)

2013/14 CONCLUSIONS

38. Overall the total number of complaints dealt with in 2013/14 decreased by 9.6%:
 - a. **Corporate**
 Complaints decreased by 21%
 Stage 1 response within target time remained static
 Stage 2 response within target time saw significant improvement
 - b. **Children’s (learning Services)**
 Complaints increased by 19%
 Stage 1 response within target time saw significant improvement
 Stage 2 response (independent investigation) remained static.
 - c. **Adults**
 Complaints increased by 35%
 Stage 1 response within target time saw a decrease in performance
 Stage 2 response within target time remained static
39. Figures have been quoted for council areas PRIOR to the restructure. This has allowed for comparison for year on year figures.
40. 2014/15 report will contain figures for the current council structure ie the three directorates and the 2013/14 figures contained in this report will be converted to the new structure. This will provide a comparison on a like for like basis.

Learning from Complaints

41. Each complaint when finalised is returned to the Customer Relations Team with a feedback/lessons learned document completed by the Investigating Manager
42. Whilst many issues are unique to that particular complaint, some highlight deficiencies in policy and process. They also highlight good or poor practice within individual departments or services.

43. These forms are returned with an Action Plan. This plan gives time scales for issues to be rectified. The return rate of completed forms varies. Directorate Management teams are impressing upon Service Managers the value of feedback and all missing or blank forms are actively pursued to ensure they are now completed.
44. The Customer Relations Team monitor these sheets to:
 - a. ensure that the action plan is completed;
 - b. identify issues forming patterns or trends;
 - c. identify learning for individuals, teams or services as a whole.
45. Individual "lesson learned" continue to be recorded and improvements to services are made on those individual basis. Examples of this are:
 - a. The changes made in relation to call handling;
 - b. Review of leaflets and Information handed out by Social Care Teams (on going);
 - c. Update to Web pages where information was out of date or confusing to customers.
46. The Customer Relations Team Manager attends, every quarter, the Directorates management team meetings. Quarterly figures are presented and trends and lessons identified. Action plans are then endorsed by senior managers and used to improve performance and direct change in the following three months, before figures etc are presented again. This allows continuous improvement, but in small manageable pieces, identifying trends early and providing solutions quickly.
47. The Customer Relations Team have recently reviewed the information available to service managers, dealing with complaints, available on the intranet site. New templates and guides have been prepared and the Customer Services Team have embarked on a programme of attending Service Manager Meetings, updating staff with common issues regarding complaint investigation, process and providing feedback regarding dissatisfaction expressed by customers after receiving stage 1 replies. Children's Services is the first to benefit from this approach. When complete, Adult services will follow and then Corporate Service Teams.
48. The most significant issue recorded as cause for complaint continues to be communication, especially with individuals but also with individual departments. This is more noticeable in Children's and Adult Services.
49. Whilst the pressure on Corporate Teams is lessened by the availability of online forms and electronic contact processes, Social Care clients rely and require either face-to-face contact or telephone contact with staff who carry their own work load. This, coupled with the fact that most Social care staff spend a considerable time out of the office, leads to frustration and complaint on behalf of the customer.
50. Whilst clients are able to contact departments within the Social Care arena, it is the length of time for staff to re contact the customer that causes the frustration. Service managers are actively encouraging staff to manage expectation, both at the time of taking any message and also with the staff's own contact with the customer.

51. By managing this expectation the number of formal complaints is likely to drop as many complainants feel obliged to follow the complaints procedure as the lack of communication has meant they have been unable to solve or deal with the initial issues they have had.
52. As with the Corporate Teams, a “service recovery” ethos is being adopted in Social Care where encouragement is given to try to deal with issues quickly without leading to formal complaint procedure. However it is unlikely to have the same impact in Social care because of the very nature of the work and individuals being dealt with by the service. None the less there will be an impact as clearly some situations can be dealt with in a swift manner.

Local Government Ombudsman (LGO) Complaints 2013/14

53. Attached to this report is the Local Government Ombudsman’s Annual Review for the year ending 31st March 2014 (Appendix 1). 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 & Democratic Services. The Legal Services Manager (Corporate & Environment) administers 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 Legal Services Manager (Corporate & Environment) acts as a single point of contact (Link Officer) for the Ombudsman in relation to areas of concern (including all complaint investigations), advice and training.
54. The LGO has once again changed the way that it records complaints and reports statistical information to Council’s and no longer publishes comparison data between authorities. The Council has attempted to reconcile the differences in the information it holds about complaints received versus that recorded against the Council by the LGO but the LGO has declined to share the full statistical information upon which it’s published reports are based, despite and FOIA request from the Council for the base line data. A comparison of the Council’s own information against the information it has been able to obtain from the LGO shows that the Council actually received 32 of the 48 complaints registered against us (the remaining 16 having been dealt with by the LGO without reference to the Council).
55. A significant and major change to the LGO’s way of working this year has been the introduction of anew decision outcome classification. The LGO previously recorded local settlements within their own discreet category. This allowed Council’s to resolve fairly minor or trivial matters without an admission of fault (matters that could be resolved by a simply apology or corrective action for example) and to reach a negotiated settlement on complex matters where it would simply not be resource or cost effective to fully defend the matter to the conclusion of an investigative process (and would not therefore be an appropriate use of public funds / in the public interest to defend). This category of decision has been removed and ALL complaints, where the Council enters into any form of agreed settlement, whether with an admission of fault or not, is now recorded as ‘maladministration’ against the Council. While Council’s and the Local Government Association has protested this change and pointed out it may result in some Council’s being less willing to resolve matters without protracted investigation and increased cost, the LGO has expressed the view that their new system of recording is more ‘transparent’ for the public and has therefore declined to change it..

The key change we foresee in relation to this is that Council's will be less willing to apologise for how customers perceive they have been treated in future (i.e. as a goodwill gesture to reflect a customer service ethos) unless there is very clear evidence of actual rather than perceived fault on behalf of the Council. This will in turn potentially have an increased burden in defending claims rather than settling them early as a finding of 'maladministration' carries significant reputational damage for an authority whilst local settlement does not.

56. Key points to be noted from 2013/14 performance to date include:

- The Ombudsman notified the Council about a total of 32 complaints in all categories during the period 1st April 2013 – 31st March 2014 against Southampton City Council. . This compares with a figure of 27 for the previous full year total, which remains broadly consistent in terms of volume.
- For April 2013 – March 2014, the breakdown of what complaints related to and what the outcomes were are as follows:

Category	No of complaints
Adult Care Services	11
Benefits & Tax	1
Corporate & Other Services	3
Education & Children's Services	3
Environmental Services & Public Protection & Regulation	4
Highways & Transport	3
Housing	3
Planning & Development	4
TOTAL	32

Category	No
Premature complaint	3
Outside Jurisdiction	5
Investigation complete and satisfied with authority's actions of proposed actions and not appropriate to issue report S30(1B)	14
Not investigated	5
Not upheld: No Maladministration	2
Upheld: Maladministration, No Injustice (no report required)	1
Still to be determined	2
TOTAL	32

57. There are no significant changes in either the categories of complaints received or any material increase or decrease in complaints against any particular service area and statistics, therefore, remain on trend, with a focus on complaints predominantly relating to the areas where the Council provides the highest levels of sensitive frontline services.
58. Seventeen complaints were referred to the Ombudsman's investigation teams (compared to 12 last year) and have either been determined or carried over to this year due to the complexity of the issues involved. Seven complaints are currently under detailed investigation in the current year from April 2014.
59. There were no significant changes to procedures or actions arising out of any of the complaints where minor errors were found by the Ombudsman and no compensation payments made in 2013/14. Minor corrective action was taken in a very small number of cases, including reissue of more detailed decision letters and, in one case, the Council agreed to pursue a claim for damaged belongings against a care home which had lost the belongings of a resident the Council had placed with them.
60. 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 Council took an average of 18 days between April 2013 and March 2014 to respond to investigations.
61. 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 held over July and August 2013 and training is now being delivered to Directorate and Divisional management teams through 1-1 contact with the Customer Relations Team as part of an ongoing programme of service improvement rather than through one off corporate training events. The need for more generic training will be reviewed again next year after all changes to the internal complaints reporting processes and changes to the organisation structures have fully bedded in..
62. Full details of all LGO decisions can be reviewed on the Ombudsman's website at www.lgo.org.uk, using the search by subject area or authority function along with a digest of cases, fact sheets on service specific areas, special interest reports etc should the Committee require any further information in this regard. It should be noted however that not all SCC decisions have been uploaded to the site at the date of writing.
63. From April 2013 the LGO has moved to a process of publishing 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 in all reports are redacted or anonymised to comply with data protection requirements but the media and public have full access to all decisions made against any named authority once this occurs. Reports do not however appear to be being uploaded in a consistently timely fashion and the LGO has indicated they are working to improve this.
64. In conclusion there are no major issues or concerns or significant learning points arising from any of the complaints that were referred to and/or upheld by the Ombudsman this year.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

65. N/A

Revenue

66. The cost of settling complaints under each complaint policy is set out above. The overall cost of providing the Customer Relations Team is met from within existing budgets.

Property

67. N/A

Other

68. N/A

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

69. Local authority complaints mechanisms are operated under Section 111 Local Government Act 1972.

Other Legal Implications:

70. N/A

POLICY FRAMEWORK IMPLICATIONS

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

SUPPORTING DOCUMENTATION

Appendices

1	LGO Annual Letter 2013/14
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Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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7 July 2014

By email

Ms Dawn Baxendale
Chief Executive
Southampton City Council

Dear Ms Dawn Baxendale

Annual Review Letter 2014

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

Developments at the Local Government Ombudsman

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.

Future for local accountability

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

Local authority report – Southampton City Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Southampton City C	15	4	4	5	5	5	6	4	48

Decisions made

Local authority	<u>Detailed investigations carried out</u>		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Southampton City C	8	10	2	11	1	13	45

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	LOCALISM ACT 2011 – PROPOSAL FOR A PAN-HAMPSHIRE MEMBERS’ CODE OF CONDUCT		
DATE OF DECISION:	15 SEPTEMBER 2014		
REPORT OF:	HEAD OF LEGAL AND DEMOCRATIC SERVICES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

This report provides an update for the Committee on progress with exploring the options for a pan-Hampshire Members’ Code of Conduct. At its meeting on 22 November 2013, HIOWLA (Hampshire and Isle of Wight Local Authorities) Leaders agreed that all HIOWLA authorities would be asked to review and, where necessary, revise their existing Code and Standing Orders, with a view to ensuring that these include the proposed core provision to achieve consistency of approach to Member Conduct. Since that time the Head of Legal Services at Hampshire County Council has led on redrafting proposals which can now be placed before the committee.

RECOMMENDATIONS:

- (i) That the Committee agrees to recommend to Council that in the interests of achieving a consistent approach to Member Conduct across the HIOWLA authorities, the Members’ Code of Conduct be amended to include provision regarding gifts and hospitality as detailed in the report.

REASONS FOR REPORT RECOMMENDATIONS

1. To ensure greater consistency of the Members Code of Conduct across Hampshire authorities.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Not to revise the code. It would be prudent to achieve consistency of approach if at all possible hence the recommendations.

DETAIL (Including consultation carried out)

3. Previously the Head of Legal and Democratic Services has advised that following the adoption of local Codes officers were to explore scope for cooperation and collaboration with other local authorities in Hampshire, in

connection with the development of a pan-Hampshire Members' Code of Conduct and arrangements for handling complaints. The issue has been considered by HIOWLA Leaders at various meetings over the last year or so and it was agreed in November 2013 there is merit in exploring scope for a Hampshire-wide code of conduct.

HIOWLA's considerations

4. At its meeting on 22 November 2013, HIOWLA considered the finalised report of the Clerk to HFRA (reproduced in Appendix 1 to this report). An appendix to the report set out the core provision to be made in the Codes of Conduct and Standing Orders of HIOWLA to achieve consistency of approach to Member Conduct.
5. HIOWLA Leaders considered that it would be in the interests of the Members of the constituent authorities, a number of whom are Members of more than one authority, and the public that those authorities serve, to adopt a consistent approach to the registration and disclosure of Members' pecuniary and non-pecuniary interests. It was considered that such an approach would reduce confusion as to when relevant interests should be disclosed, and would minimise the risk of inadvertent failure to comply with relevant requirements. HIOWLA Leaders agreed that Option 2 was the preferred way forward. Option 2 reflects current Council code requirements save for gifts and hospitality obligations.
6. Under the Localism Act 2011, it is for each local authority to adopt and, where necessary, revise its code of conduct. It was agreed by HIOWLA Leaders that all their authorities would be asked to review and, where necessary, revise their existing Code and Standing Orders, with a view to ensuring that these include the core provision set out in the appendix to the report.

Proposed Amendments to the Council's Members' Code of Conduct

7. The full core provision relates to:
 - a. personal interests;
 - b. gifts and hospitality; and
 - c. the exclusion of Members from meetings at which any discussion or vote takes place on a matter in which the Member has a disclosable pecuniary interest, unless a dispensation has been granted.
8. Only minor revisions regarding gifts and hospitality are required to accord with HIOWLA's recommendations. For completeness the other proposals are detailed below.
9. With regard to personal interests, a number of HIOWLA authorities (including Southampton) already require there to be at least some registration and/or disclosure of personal interests. In order to achieve a consistent approach in this regard by Hampshire and Isle of Wight local authorities, it is proposed that all the authorities include in their Members' codes of conduct the following core provision relating to personal interests. This element does not require any changes to the Council's current Code:

10. It is further proposed that there would be a requirement to disclose a personal interest orally at a meeting, where it is relevant to an item of business being considered at that meeting. There would be no requirement to enter the interest in the published register of interests, although the oral disclosure at a meeting would be recorded in the minutes of that meeting. Once the interest has been disclosed, there would be no requirement for the Member to leave the room, and the Member would be able to participate in discussion and vote on the matter. Again, the Council already has this provision in its Code.
11. With regard to gifts and hospitality, the Council's Members' Code of Conduct does not currently make provision for registering receipt of gifts or hospitality. This provision was dropped when the new Code was adopted in July 2012. However, it is the view of the Head of Legal and Democratic Services that such a provision would be sensible to ensure transparency. In addition the officer requirement remains but has been revised, updated and the minimum threshold raised to £50. It would be prudent to apply the same standards and thresholds to members. The only exception would be to the official Mayoral events attended through the Mayor's Office as these are formal arrangements, the details of which are already available for inspection if needs be. Practically, acceptance of gifts and hospitality, provided reasonable, does not impinge on members attending functions or accepting small gifts (which is rare) etc. A number of the HIOWLA authorities have adopted a requirement to register receipt of gifts or hospitality, with the threshold of value for registration varying between £25 and £50. It is proposed that all of the HIOWLA authorities include in their Members' codes of conduct the following core provision:

"A Member shall enter in the authority's register of interests the receipt of any gift or hospitality, where the Member estimates the value to be at least £50, within 28 days of receipt."
12. The Council's register of interests is maintained by the Democratic Services Manager and notification from a Member would be in writing/by e-mail.
13. With regard to making provision for the exclusion of a Member of the Authority from a meeting while any discussion or vote takes place on a matter in which the Member has a disclosable pecuniary interest, unless a dispensation has been granted, the current Code already makes provision for this, there is no need to make any amendment.
14. It is proposed therefore that the Council's Members' Code of Conduct be amended to include the core provision relating to gifts and hospitality, as detailed above.
15. In summary, the proposals accord with good practice, ensure consistency and transparency. The main risk of not adopting a pan-Hampshire Members' Code of Conduct is that having to adhere to a number of slightly different rules on registering and disclosing interests may lead to confusion for multi-hatted Members. Members of the public may also be confused regarding the nature of, and reason for, the different rules applying to this aspect of Members' conduct. There is no risk associated with adopting a pan-Hampshire Members' Code of Conduct.

RESOURCE IMPLICATIONS

Capital/Revenue

16. There are no resource implications of the proposed action.

Property/Other

17. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

18. Localism Act 2011

Other Legal Implications:

19. None

POLICY FRAMEWORK IMPLICATIONS

20. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1.	Report of the Clerk to HFRA
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

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

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

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt / Confidential (if applicable)
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1.	HRFA Report on revised code recommendations	
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1 Summary

- 1.1 This report follows on from a discussion at HIOWLA on 22 June 2012, when Members resolved that further work be undertaken to explore the options for a pan-Hampshire Members' Code of Conduct. The report sets out an analysis of the main options, with the advantages and disadvantages in each case, and identifies one particular option for consideration as a way forward.
- 1.2 It is not within the scope of the report to provide detailed guidance on the requirements of the Localism Act regarding Member conduct. Members are referred to the report of 22 June 2012, which included a summary of the changes introduced by the Localism Act. Where further or more detailed advice on these requirements is sought, Members should refer to their authority's monitoring officer.

2 Background

- 2.1 The Localism Act 2011 has amended the arrangements governing standards of member conduct that were previously set out in the Local Government Act 2000. Local authorities, including fire and rescue authorities and national park authorities, were therefore required to put in place revised arrangements in this regard from 1st July 2012. The only exception would be to the official Mayoral events attended through the Mayor's Office as these are formal arrangements, the details of which are already available for inspection if needs be.
- 2.2 At the HIOWLA meeting on 22 June 2012, it was reported that Members of Hampshire Fire and Rescue Authority ("HFRA") had identified that there was potential scope for co-operation and collaboration between authorities in implementing some or all of these arrangements. HFRA Members had asked that this be raised within the HIOWLA arena so that such potential could be further explored.
- 2.3 HFRA comprises 25 Members – 19 Members of Hampshire County Council, and three Members of each of Portsmouth and Southampton City Councils. A number of HFRA Members are also members of district councils and/or parish councils. The previous arrangements under the Local Government Act 2000 required all such authorities to adopt a code of conduct based on a statutory Model Code, with only very limited scope for variation. Under the Localism Act, it is possible for each authority to adopt a different Code. HFRA Members recognised that this could create potential for confusion, if the ethical standards to which they must adhere vary depending on the capacity in which they are acting, or which authority's meeting they are attending. It was felt that this may increase the risk of inadvertent failure to comply.
- 2.4 It was considered that the same situation and risk may arise for Members who are "double" or "triple-hatted" in other settings e.g. a district councillor who is also a parish councillor and/or a member of one of our two national park authorities. There is also the possibility that Members representing their authorities on joint committees would be subject to differing codes of conduct

while engaged on essentially the same business. This may cause confusion not only for Members, but also for stake holders and members of the public.

- 2.5 The meeting resolved: “That the HIOWLA authorities expressed support for a pan-Hampshire code of conduct and that Kevin Gardner (*on behalf of the Clerk to HFRA*) would lead on the project to explore co-operation and collaboration between the HIOWLA authorities to produce a joint code to implement the requirements of the Localism Act on Members’ conduct.”
- 2.6 It was acknowledged that, for reasons of timing, each of the HIOWLA authorities would need to proceed to put in place their own arrangements from 1 July 2012, to ensure that they complied with the Localism Act. However, this left open the possibility of those authorities agreeing to adopt a different code, which could be a pan-Hampshire Code, at a later date.
- 2.7 There was no wish from the meeting to explore further co-operation in the form of a joint standards committee or joint arrangements for complaints handling. These aspects have not been explored further, therefore.
- 2.8 In considering the options for a pan-Hampshire Code, a period of time has been allowed for the Localism Act arrangements to bed down, to establish whether, and the extent to which, the potential confusion and perceived issues relating to “multi-hatted” members have materialised in practice. Members’ experience of this will be invaluable in judging whether there is indeed a need for greater consistency in approach.
- 2.9 This paper sets out the suggested options for greater collaboration.
- 2.10 It should be noted that, in some situations, the degree to which a Member may participate in debate or voting on an item of business may be affected by common law principles relating to bias and predetermination, rather than by the requirements of their authority’s Code of Conduct regarding disclosure of interests. This position would continue to apply, unaffected by any of the proposals below. Should such an instance arise, advice should be sought from the relevant authority’s own legal officers.

3 Option 1 – Consistent Approach to Disclosable Pecuniary Interests

- 3.1 At the HIOWLA meeting on 22 June 2012, the Regulations on disclosable pecuniary interests (“DPIs”) had only recently been published, and had yet to come into force¹. These are now in place and provide a basic level of commonality across all of the authorities as to the requirements upon Members for the registration and disclosure of pecuniary interests. The first option therefore involves a view that, in the light of experience in practice, this now secures a sufficient level of consistency and that no further provision is required.
- 3.2 The advantages of this option are:

¹ 1 The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, which came into force on 1 July 2012

- It strikes a balance between consistency in the key area of registration and disclosure of significant pecuniary interests, while recognising that authorities have discretion to adopt additional provisions where they consider this appropriate to local needs
- It is easy to implement, representing the status quo

3.3 The disadvantage of this option is:

- The ability for authorities to adopt additional provisions in their codes enables further requirements to be adopted on the registration and disclosure of pecuniary interests other than DPIs (e.g. gifts and hospitality), and non-pecuniary interests. This may still lead to confusion for multi-hatted members therefore, who would still need to adhere to slightly different rules on registering and disclosing interests.

4. **Option 2 – Consistent Approach to Pecuniary and Non-Pecuniary Interests other than DPIs (“Personal Interests”)**

- 4.1 This option goes one step further than Option 1 and would involve all authorities adopting a common set of requirements concerning registration and disclosure of those pecuniary interests that do not meet the description of a DPI, and non-pecuniary interests. Further, there could be consistency as to when a Member, who has a DPI or other interest in a matter being considered at a meeting, is required to leave the meeting room for that item.
- 4.2 Research suggests that a common approach may be achievable here.
- 4.3 Personal Interests: A number of the Hiowla authorities already require there to be at least some registration and/or disclosure of personal interests. The Localism Act reduced the scope of interests legally required to be registered and disclosed, leaving the making of additional provision to local discretion. There is a feeling that some disclosure of personal interests remains appropriate in the handling of certain potentially sensitive types of business (e.g. planning applications, the award of grants and contracts), where reliance solely on the rules relating to DPIs would not afford a sufficient level of transparency.
- 4.4 A number of authorities regard a “personal interest” as arising in an item of business where it relates to or is likely to affect any of the following bodies of which the Member is a member: a public or charitable body, any body to which the Member has been appointed by the authority, any political party, trade union or other body one of whose principal purposes is to influence public opinion or policy.
- 4.5 Similarly, a number of authorities provide that a “personal interest” will also arise where a decision on an item of business might reasonably be regarded as affecting the well being or financial position of the Member, a member of the Member’s family or person with whom they have a close association, more than other council tax payers, ratepayers or inhabitants of the authority’s area.

- 4.6 Based on the current range of approaches, a possible basis for a common, proportionate approach would be a requirement to disclose a personal interest orally at a meeting, where it is relevant to an item of business being considered at that meeting. There would be no requirement to enter the interest in the published register of interests, though the oral disclosure at a meeting would be recorded in the minutes of that meeting. Once the interest has been disclosed, there would be no requirement for the Member to leave the room, and the Member would be able to participate in discussion and vote on the matter. There would be no requirement to include the interest in the register of interests which is published on the web.
- 4.7 Although many of the Hiowla authorities accept the principle that there should be some registration and/or disclosure of personal interests, the detailed provisions adopted by the authorities vary. Acceptance of a need for change on the part of some authorities would be required, as the price to be paid for achieving a common Hiowla-wide approach.
- 4.8 Gifts and Hospitality: A number of authorities have adopted a requirement to register the receipt of gifts or hospitality. The general threshold of value for registration varies, between £25 and £50. It may be possible to reach agreement in principle that such a requirement should be universally adopted, with an agreed value, say £50.
- 4.9 Exclusion from the Room where a Member has a DPI: In general, authorities require through their standing orders that a Member who holds a DPI in a matter being considered at a meeting should leave the room while the discussion and vote on that item take place.
- 4.10 The advantage of this Option 2 would be:
- All authorities would operate consistent provisions regarding all aspects of the registration and disclosure of interests, reducing risk of confusion amongst Members, and of inadvertent failure to comply with the relevant authority's code
- 4.11 The disadvantage of this option would be:
- It still does not address the issue of consistency in requirements concerning aspects of conduct other than registration and disclosure of interests

5 Option 3 – Consistent Approach to DPI's, other Pecuniary and Non-Pecuniary Interests, and other Aspects of Conduct

- 5.1 This Option involves going one step further than Option 2 by ensuring consistency in provision regarding aspects of conduct other than registration and disclosure of interests. While the precise wording may differ slightly from one authority's code to another, many currently include provision in areas such as the following:

- treating others with respect
- maintaining confidentiality
- observing requirements of equalities legislation
- upholding, and not compromising, the impartiality of officers
- not using position as a Member to secure an advantage
- using resources of the authority for authorised purposes, and not for political purposes

5.2 There are two ways in which greater consistency could be achieved.

5.3 **Option 3A** would involve agreeing the principles (such as those listed in para 5.1 above) which should be covered by each authority's Code, yet leave it at each authority's discretion to settle upon its own precise wording. **Option 3B** would involve agreeing the actual wording for all authorities to adopt.

5.4 The advantage of Option 3A would be that:

- There is consistency in the principles of proper conduct that members are required to observe
- There is discretion for authorities as to the style in which the requirements are expressed
- It may better facilitate agreement and adoption, as it would not be necessary to resolve issues where there are different views on detailed drafting

5.5 The disadvantage of Option 3A would be that:

- There is still some minor inconsistency in the particular requirements Members are required to observe

5.6 The advantage of Option 3B would be that:

- It achieves complete consistency across all authorities on not only the principles, but the precise details, of the requirements placed upon Members

5.7 The disadvantage of Option 3B would be that:

- It may be viewed as too prescriptive and not recognising a role for local variation to meet local needs
- It may be difficult to reach agreement.

6. Comment

6.1 This part of the report sets out some considerations to be borne in mind in weighing up the above options.

6.2 The experience of Members in the period since July 2012, operating within the Localism Act requirements, is key. For example, some Members may feel that the concerns expressed prior to implementation about potential confusion for "multi-hatted" members, have not materialised, or have been largely addressed by the introduction of universal statutory requirements on the registration and disclosure of DPs. To the extent that there may be some remaining inconsistency amongst authorities on other aspects of their Codes,

it may be felt that this is not significant, a natural consequence of applying principles of localism, and insufficient to justify the investment of further time and resource in the development of an overly prescriptive, common Code. Where this is the view, Option 1 would provide a basis for the way forward, and would involve maintaining the status quo.

- 6.3 As the other options involve change, it should be recognised that legally it is for each local authority to adopt its own Code of Conduct² and, in doing so, to ensure that its Code is consistent with the Nolan principles³ and includes such provision as it considers appropriate in respect of the registration and disclosure of pecuniary and other interests⁴. Where a local authority has adopted a Code of Conduct it is able to revise it, or adopt a replacement⁵. It is also for each local authority to decide whether its Standing Orders should provide for the exclusion of a member from a meeting, while the discussion and vote takes place on a matter in which that member has a disclosable pecuniary interest⁶.
- 6.4 An authority cannot therefore be required to adopt a particular Code simply because it is being adopted by neighbouring authorities. The adoption of a pan-Hampshire Code would involve each authority voluntarily recognising the value that was added by having a Code that shared the same essential characteristics as those of neighbouring authorities.
- 6.5 It may therefore facilitate the reaching of voluntary agreement if the adopted solution comprises a core set of common principles, yet builds in some local discretion for authorities to supplement these where it considers necessary to meet local needs.
- 6.6 Where it is felt that a middle line is required, Options 2 and 3A may be attractive: Option 2 achieves consistency in the registration and disclosure of DPIs, other pecuniary and non-pecuniary interests; Option 3A extends this consistency further into the core values in other areas of conduct, yet leaves it to authorities to choose how to express these, and/or to add further values where they consider it necessary to do so.
- 6.7 Where the preferred option is Option 3B, then in theory one way in which this could be implemented is by one authority's existing Code being adopted by all the other authorities. However, it may be more conducive to securing agreement if any pan-Hampshire Code that emerges were to be seen as a "new" Code, not originating from any one authority, but an evolution building on the work and experience to date of the Members of all the HIOWLA authorities.

7. Proposal

- 7.1 Following consideration of the options, HFRA's Standards and Governance Committee expressed a preference for Option 2. This is felt to strike a

² S.27(2) Localism Act 2011

³ S.28(1) Localism Act 2011

⁴ S.28(2) Localism Act 2011

⁵ S.28(5) Localism Act 2011

⁶ S.31(10) Localism Act 2011

reasonable balance between achieving consistency in the disclosure of interests, while retaining flexibility for some local variation in the setting of standards for other aspects of conduct and behaviour. Further, this would not preclude the adoption of consistent standards for such other aspects of conduct and behaviour at some future stage, should this be desired.

- 7.2 In the event that Option 2 were to receive the support of Hiowla, a suitable draft document has been prepared for agreement (see Appendix), and recommendation to all constituent local authorities for adoption.
- 7.3 As indicated above (para 6.3) Hiowla cannot resolve to adopt a Code of Conduct on behalf of any constituent authority, or to unilaterally amend any authority's existing Code or Standing Orders. However, Hiowla can agree to ask each constituent local authority to review and, where necessary, consider revising its existing Code and Standing Orders with a view to ensuring that these include the core provision set out in the Appendix to the report. Constituent authorities would be invited to do this having regard to the value that is added by the arrangements of all Hiowla authorities, governing the disclosure of member interests, sharing the same essential characteristics.

8. Conclusion

- 8.1 This report has set out the main options for the development of a pan-Hampshire Code of Conduct for Members, together with an assessment of the advantages and disadvantages of each, and identifies one particular option for consideration as a way forward. A pan-Hampshire Code offers the opportunity for greater consistency in approach amongst the HIOWLA authorities towards their responsibilities regarding Member conduct under the Localism Act .

9. Recommendation

- 9.1 That the options for a pan-Hampshire Code of Conduct are considered, and a steer given as to the preferred way to proceed, and
- 9.2 In the event that Option 2 is preferred, that all constituent authorities are asked to review and, where necessary, consider revising their existing Code of Conduct and Standing Orders with a view to ensuring that these include the core provisions set out in the Appendix to the report.

Appendix:

Core Provision to be made in the Codes of Conduct and Standing Orders of Hampshire and Isle of Wight Local Authorities (HIOWLA) to achieve consistency of approach to Member Conduct

Summary

HIOWLA considers that it is in the interests of Members of its constituent authorities, and the public served by those authorities, to adopt a consistent approach to the registration and disclosure of Members' pecuniary and non-pecuniary interests that are relevant to the business of the authorities. It is considered such an approach will reduce confusion as to when relevant interests should be disclosed, and minimise the risk of inadvertent failure to comply with relevant requirements.

It has therefore been agreed to invite each constituent authority to review its Code of Conduct for Members and Standing Orders and, where necessary, to consider revising these to ensure that, in addition to the mandatory requirements of the Localism Act, they include the core provisions set out below.

Authorities may of course adopt such further provision in their Code of Conduct or Standing Orders as they consider appropriate, but are requested to ensure that no such provision is inconsistent with the core provisions set out below.

The term "Member" includes member and co-opted member, throughout.

Code of Conduct

1. Personal Interests

- 1.1. A Member has a "personal interest" in an item of business where it relates to or is likely to affect any of the following bodies of which they are a member: a public or charitable body, any body to which the Member has been appointed by the authority, any political party, trade union or other body one of whose principal purposes is to influence public opinion or policy.
- 1.2. A Member also has a "personal interest" in an item of business where a decision in relation to it might reasonably be regarded as affecting the well-being or financial position of the Member, a member of the Member's family or person with whom they have a close association, more than other council tax payers, ratepayers or inhabitants of the authority's area.
- 1.3. A Member shall disclose a "personal interest" at a meeting of the authority, committee or sub-committee, where the Member considers that interest to be relevant to an item of business being considered at that meeting. The disclosure shall be made at the commencement of the meeting, or when the interest becomes apparent, and shall be recorded in the minutes of the meeting.
- 1.4. Disclosure of a personal interest does not affect the ability of the Member to participate in discussion or vote on the relevant item, provided it is not also a disclosable pecuniary interest.

2. Gifts and Hospitality

- 2.1. A Member shall enter in the authority's register of interests the receipt of any gift or hospitality, where the Member estimates the value to be at least £50, within 28 days of receipt.

Standing Orders

3. Exclusion from Meeting Where Member Holds a Disclosable Pecuniary Interest

- 3.1. The authority's Standing Orders shall provide for the exclusion of a Member of the authority from a meeting while any discussion or vote takes place on a matter in which the Member has a disclosable pecuniary interest, unless a dispensation has been granted.

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DECISION-MAKER:		GOVERNANCE COMMITTEE			
SUBJECT:		ANNUAL GOVERNANCE STATEMENT 2013-14			
DATE OF DECISION:		15 SEPTEMBER 2014			
REPORT OF:		CHIEF FINANCIAL OFFICER			
<u>CONTACT DETAILS</u>					
AUTHOR:	Name:	Peter Rogers	Tel:	023 8083 2835	
	E-mail:	Peter.rogers@southampton.gov.uk			
Director	Name:	Andy Lowe	Tel:	023 8083 2049	
	E-mail:	andrew@southampton.gov.uk			
STATEMENT OF CONFIDENTIALITY					
N/A					

BRIEF SUMMARY

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

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

RECOMMENDATIONS:

The Governance Committee is asked to:

- (i) Review the draft AGS 2013-14 (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; and
- (ii) To note the status of the 2012-13 Action Plan (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

DETAIL (Including consultation carried out)

4. Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
5. The purpose of the AGS, which is published with the statement of accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6. The AGS is produced following a review of the council's governance arrangements. The review requires the systems and processes that comprise the Council's corporate governance arrangements to be brought together and reviewed.
7. The Committee will recall that, at the meeting on 14th July, Members were invited to comment on an early draft of the AGS. This new element of the process reflects a recommendation by CIPFA that "the AGS is first reviewed by members of the audit [governance] committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit [governance] committee should review it again in September".
8. The draft AGS has been further reviewed since the July meeting primarily to reflect that both the City Strategy 2014-2025 and Council Strategy 2014-17 have now been approved and adopted.

RESOURCE IMPLICATIONS

Capital/Revenue

9. None

Property/Other

10. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

11. 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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	Not applicable
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SUPPORTING DOCUMENTATION

Appendices

1.	Draft AGS 2013-14
2.	AGS 2012-13 Action Plan - Status Report

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

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

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

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

SCOPE OF RESPONSIBILITY

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

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

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

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the council for the year ended 31st March 2014 and up to the date of approval of the statement of accounts.

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THE GOVERNANCE FRAMEWORK

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

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

Service delivery is guided by a framework of strategic plans and policies which are developed and agreed at three different levels:

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

The sub-regional level is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the region to support the sustainable economic growth of the sub region and the Solent LEP is a locally-owned partnership between businesses and local authorities and seeks to play a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

Southampton Connect is the strategic partnership in the city which seeks to promote the city and to address the key challenges facing Southampton. This collaborative arrangement brings together the private, public and community and voluntary sectors to work together to tackle the key city challenges facing Southampton and improve outcomes for all those who live, work and visit the city.

The City Strategy 2014 - 2025, developed on behalf of Southampton Connect, with key partners from across the city, was endorsed and the council's contribution was agreed by the Council in July 2014. This replaced the former 2012 - 2015 Southampton Connect plan and will be agreed by Southampton Connect at its meeting in September 2014. The new Strategy articulates Southampton Connect's vision for the city and identifies three key priorities for the city and accompanying outcomes.

- Economic growth with responsibility
- Skills and employment
- Healthier and safer communities.

The strategy also identifies the following cross-cutting themes that require the collective action of Southampton Connect partners to progress over and above the work of the strategic partnerships.

- Improving mental health
- Building community capacity
- Fostering city pride and identity
- Delivering whole place thinking
- Leading on research, development and innovation

Progress in delivering these outcomes will be led by Southampton Connect and the four key strategic partnerships in the city that have responsibility in these areas with Southampton Connect keeping an overview of progress. They are Future Southampton which is a business led partnership, Health and Wellbeing Board (statutory), Safe City Partnership (statutory) and a new partnership (Skills, Employment and Learning).

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

The Council Strategy 2014-17 was approved by Council in July. It replaces the former 2013-16 Council Plan which received positive feedback, and has been used to set the strategic direction for the council since its development. It has been refreshed in light of feedback from residents (through a pre-budget consultation survey on priorities and a City Survey conducted in March/April 2014 – the first since 2010) and the changing local and national context.

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

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

The Council Strategy is a key element in the council's policy framework, as it sets the direction of travel and priorities for the council for 2014-2017. It will influence all other strategies and policies developed during this period, as well as spending decisions. It sets out 7 key priorities:

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

Whilst it sets the overarching strategic direction for the council, ongoing review and changes will be necessary over the three year period, in response to a number of factors. The council has also approved a report detailing how it will implement the council strategy – through the next phase of its transformation programme,

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

The Council Strategy sets out "what we will do, how we will work and how we will contribute to the City Strategy 2014 – 2025". The former Council Plan also identified the 'Success Measures' in respect of the 'Key Actions'. The new strategy details the outcomes the council expects to achieve by 2017 and the key success measures to be used to monitor performance.

In 2013/14 the council undertook a comprehensive review of its performance management framework resulting in a revised set of measures and management information for the Council's Management Team to review and monitor on a quarterly basis. Performance reports were published for Quarters 2, 3 and 4 of 2013/14 and will be published on a quarterly basis on the council's website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance.

The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. The council's 'Contract Procedure

ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

The council's constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Head of Legal 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.

The Internal Audit Programme for 2013/14 included a review of partnership working and the recommendations will be implemented once they have been considered by the Council's Management Team. The final report for the internal audit of partnership arrangements will be considered by the Council's Management Team in the autumn

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

The council has in place a Risk Management Policy and Strategy which is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. The policy and strategy is presented to the Governance Committee for review and approval.

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

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

The council is committed to the highest possible standards of openness, probity and accountability. An 'Anti Fraud and Anti Corruption Policy' is signed by both the Chief Executive and Leader of the Council and is published on the internet together with an 'Anti-Fraud and Anti Corruption Strategy' and Bribery Act Policy. These documents reflect the council's approach and commitment to the prevention and detection of fraud and corruption.

j) Ensuring effective management of change and transformation

The council has in place a Change Programme which is led by the Transformation and Improvement Board, which is chaired by the Cabinet Member for Education and Change and supported by the Council's Management Team.

In 2013/14 the council prioritised transformation work within the People Directorate and the one council programme includes a number of defined 'workstreams'. The key aims of the programme are to secure 'Better outcomes for residents', 'Better quality of service' and 'Significantly reduce cost'. A co-ordinated, strategic approach has been agreed with the initial focus on 'Service Transformation', 'Working Environment Transformation' and 'Community Asset Transfer'. Progress in respect of the defined workstreams is reported to and monitored by the Transformation and Improvement Board and detailed are updated on the Change micro site on the intranet.

In addition, each service is required to update their service 'Blueprint' documents which is intended to capture key service information in a standard format which is then used to support and inform the council in terms of taking a strategic approach to organisational redesign and proposals to meet the ongoing financial challenges.

In July 2014 the council endorsed the progress on implementation of the 'One Council Transformation Programme' and approved a range of actions associated with the next phase of programme based on the agreed transformation priorities. This included new governance arrangements for transformation, as well as specific recommendations to improve experiences of the council's customers through the establishment of a single approach to our customers and putting in place a new model for business support. The financial challenges faced by the council makes it imperative for the council to adopt radical and different approaches to meeting customer needs, service delivery models and maximising the potential of our employees. In the next phase of the Transformation Programme, the council will need to seek approval to take specific actions to become sustainable through delivering the savings and becoming more customer-focused and commercially minded. The three prioritised areas are:

- Delivering better experiences for our customers
- Reducing our costs for infrastructure and
- Redesigning services with our partners so that they are more cost effective and together with our partners we can deliver better outcomes.

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

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

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The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

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

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

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

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

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

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

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

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

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance statement process.

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

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

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

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

The council has in place 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment.

There is a Corporate Complaints policy and procedure in place which is published on the council's website. An annual report is produced and published on the council's website which includes information about comments, compliments and complaints experience. There is a separate policy and procedure in place in respect of dealing with complaints made about Members.

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

A Member Development Strategy is in place which sets out how Member development will be identified, delivered and managed. The Strategy, which was reviewed, updated and approved the Governance Committee in September 2013, is based on the following criteria:

- Induction Programme
- Development needs as identified through Personal Development Planning;
- Corporate objectives and initiatives;
- External Development activities.

Senior Officer development needs form part of the annual performance appraisal process with a requirement that learning and development priorities are linked to key objectives and service plan priorities. There are five strategic priorities for employee development which are as follows:

- Meeting the compulsory demands placed on the Council;
- Developing and maintaining Corporate Standards;
- Supporting the Change Agenda and Customer Care;
- Developing Current and Future Managers (Leaders);
- Improving the level of essential skills in the workforce.

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

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought by services via questionnaires, text messaging, focus groups and community consultation events.

Information on 'Consultation' and 'Other ways to have your say' is also published on the council's website and provides an opportunity for stakeholders to voice their opinions and shape service delivery. For example, comments and suggestions from public consultation (including engagement with partners, external organisations and provider organisations) together with a pre budget priority survey were reflected in, and helped shape, the 2014-15 budget report. Following this the feedback from the budget consultation process was reported to Cabinet before they made their final recommendations to Council. Information was made available in an easy to understand format and respondents were informed on how their feedback was used.

Market research is one the tools the council uses to obtain opinions and perceptions on a variety of issues affecting life in the city. A Southampton City Residents Survey took place between 21st March and 14th April 2014 whereby a representative 1,500 adults aged 18+ were interviewed using a telephone methodology. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and

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further education bodies, is an important step in building a better understanding of our residents and will be repeated every other year for the next five years.

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

The 'Priorities', 'Key Actions' and 'Success measures' identified in the Council Plan (now the Council Strategy 2014- 2017) are monitored by the Council's Management Team and reported to Cabinet. 'Quarterly Performance Scorecards' are published on the council's website and provide management information that reflects corporate, directorate, service and partner priorities.

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

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

A Partnership Code, which forms part of the council's Constitution, identifies the key considerations when developing a partnership including 'is there clarity of purpose and is it compelling' and 'how will decisions be made and acted upon'. The intention is to ensure that sound governance arrangements are in place and reviewed as the partnership working arrangement develops and evolves. Recommendations from the recent Internal Audit review on partnerships arrangements will be implemented once they have been considered by the Council's Management Team.

REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Director and/or Head of Service being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;

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- The completion of an annual 'Self Assessment Statement' by Directors which covers the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and Strategy, specifically the Strategic and Directorate Risk Registers;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Governance Issue	Planned Action
1.	The Council's Anti Money Laundering Policy has not been updated since Feb 2009.	Policy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated policy.
	Responsible Officer: Director of Corporate Services COMPLETED: July 14	
2.	The Corporate Procurement Strategy refers to the period 2009-12	Contract Procedure Rules to be reviewed and updated by end of 2014 with the revised and updated Strategy by early 2015.
	Responsible Officer: Director of Corporate Services Target for completion: March 15	
3.	Transparency information published on the internet includes a Members' 'Gifts & Hospitality Register' however the last entry on the document is dated April 2012.	The requirement to make such declarations was dropped when the new code, under the Localism Act, came into being in July 2012. It is however considered appropriate, in terms of transparency, to review the current approach to the publication of Members 'Gifts and Hospitality'. A report to be taken to Governance Committee in Sept 14 with both an updated draft Code and proposed addition in relation to members gifts and hospitality with a de minimus level of £50 for registration.

ANNUAL GOVERNANCE STATEMENT

	Responsible Officer: Director of Corporate Services Target for completion: Sept 14	
4.	The 'Children's Services & Learning Complaints and Representation Procedure' published on the internet is dated September 2006.	Review and update the 'Children's Services & Learning Complaints and Representation Procedure' to ensure that it remains aligned with statutory procedures with a commitment for future periodic reviews.
	Responsible Officer: Director of Corporate Services COMPLETED: July 14	
5.	Understanding of and compliance with Information Governance policies and procedures.	Information Governance e-learning (including Data Protection, Freedom Of Information Act and Protecting Information) to be mandatory for all staff and new starters.
	Responsible Officer: Director of Corporate Services Target for completion: Implemented as of now – ongoing	
6.	Business continuity plans need to reflect the high level of organisational change that has taken place and is ongoing.	Business continuity plans to be reviewed, tested and evaluated to ensure that they reflect the new organisational structure.
	Responsible Officer: Director of Place Target for completion: May 15	
7.	Understanding of and compliance with the council's 'Corporate Standards'.	Learning and communication exercise to be rolled out to relevant officers in respect of the legal decision making process.
	Responsible Officer: Director of Corporate Services Target for completion: Commence Autumn 14	

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

Signed

.....
Dawn Baxendale
 (Chief Executive)

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

on behalf of Southampton City Council

ANNUAL GOVERNANCE STATEMENT 2012-13 : 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 2012-13:

	Governance Issue	Agreed Action	Target Date	Responsible Officer	Status	Comments
1.	The Council's Anti Fraud and Corruption Policy and Strategy has not been updated since 2008.	Anti Fraud and Corruption Policy and Strategy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated Policy and Strategy.	Oct 2013	Director of Corporate Services	COMPLETED (Dec 2013)	A revised and updated 'Anti Fraud and Anti Corruption' strategy and policy statement was approved by the Governance Committee at the 16 th December 2013 meeting.
2.	Performance management reporting arrangements need to capture and reflect the most up to date information or position and to enable improvement in outcomes.	A review of performance management arrangements has been undertaken and a new approach, in the form of a monthly 'scorecard' format, is being developed and will be in place in December.	Dec 2013	Assistant Chief Executive	COMPLETED (Dec 13)	The Council's performance management framework was reviewed resulting in a comprehensive set of measures and management information for the Council's Management Team to consider and monitor on a quarterly basis. Performance reports were published for Quarters 2, 3 and 4 of 2013/14.
3.	Reduced capacity and resilience within the senior management team.	Review of senior management structure and capacity will follow the new Chief Executive appointment in June 2013.	Dec 2013	Chief Executive	COMPLETED (Sept 2013)	The new Chief Executive was appointed in July 2013, and in September 2013, the Chief Executive formalised 2 existing roles and changed their job titles to reflect the due importance of these posts in the organisation. They are the Chief Financial Officer, and the Assistant Chief Executive.

4.	Development of a co-ordinated and consistent approach to workforce learning and development including corporate induction and succession planning.	Delivery of the workstreams as part of the overall Workforce Plan	Mar 2014	Director of Corporate Services	COMPLETED (Initial actions)	A council wide Learning and Development plan, which includes corporate induction, is now in place however further work is required in terms of prioritisation and delivery of the plan. Succession planning will form part of the developing Performance Management workstream
5.	The provision and access to internal/external training and development for members should be on a more structured basis and the scope and level of member engagement with internal learning and development opportunities needs to be reviewed.	A review of the approach and delivery of Member learning and development opportunities is being undertaken by the Governance Committee in consultation with Group Leaders and the Members User Group.	Sept 2013	Director of Corporate Services	COMPLETED (Sept 2013)	A new Member Development Strategy was endorsed by the Governance Committee at the 23 rd September 2013 meeting.
6.	Understanding of and compliance with the council's 'Corporate Standards' by relevant officers.	A review of the current provision is being undertaken with a view to introducing a revised training programme for officers.	Oct 2013	Director of Corporate Services	DEFERRED	Preparations are in hand however, due to competing priorities and staff resignations, implementation has been delayed. It is intended is to start rolling this out over the summer months of 2014.

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FINANCIAL STATEMENTS FOR 2013/14		
DATE OF DECISION:	15 SEPTEMBER 2014		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Stephen Fitzgerald	Tel: 023 8083 4897
	E-mail:	Stephen.Fitzgerald@southampton.gov.uk	
Director	Name:	Andrew Lowe	Tel: 023 8083 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2013/14 were signed by the Chief Financial Officer (CFO) on 30 June 2014, 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 subject of the Annual Audit and reflect all agreed amendments, with the External Auditors, to date apart from, the £3.9m in year adjustment to the Minimum Revenue Provision that relates prior years.

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 they may be some late changes which will be reported to the Governance Committee after the completion of the Audit on 30 September 2014.

RECOMMENDATIONS:

It is recommended that the Governance Committee:

- (i) approve the Statement of Accounts 2013/14 and that they be signed by the person presiding at the meeting subject to any changes required after completion of the Audit; and
- (ii) approve, if necessary, any changes required to the draft accounts following completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the Statement of Accounts 2013/14 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 2014.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

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

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable.

FINANCIAL STATEMENTS

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

ACCOUNTING ISSUES AND DEVELOPMENTS

5. The Main Accounting Issues and Developments are:
 - Strategic Services Partnership with Capita;
 - Minimum Revenue Provision (MRP);
 - Non-Domestic Rate Income;
 - Universal Credit.

Strategic Services Partnership with Capita

6. The ten year Strategic Services Partnership contract with Capita entered into on 1 October 2007, was subject to extensive renegotiations in 2013/14; resulting in significant savings and benefits, and an extension of the contract for an additional five years in accordance with the original agreement.

Minimum Revenue Provision

7. As set out in the Treasury Management Strategy Report 2013/14 to Council in February 2013, advice was to be sought on whether the Council's approach to accounting for MRP was in accordance with MRP guidance; primarily this was in relation to the MRP treatment of the debt transferred from Hampshire County Council when the Council became a Unitary Authority.
8. Further to this the Treasury Management Strategy Report 2014/15 to Council in February 2014 set out that discussions were ongoing with the External Auditors with respect to reducing our MRP charge in 2013/14 by approximately £4.5M (of which £3.9M relates to prior years) as we believed we had overprovided against our annual MRP policy of setting aside the MRP required by statute / DCLG guidance. This change in treatment has now been applied and further detail is set out below.
9. Each year local authorities are required to set aside some of their revenue for the provision of debt. This is known as the MRP. The provision must be prudent but the regulations governing these arrangements do not define what "prudent provision" is and, while there is guidance on MRP produced by the Government, it is made clear that it is the local authority's decision as to what a prudent level of provision is.
10. An issue for Southampton City Council has arisen as a result of MRP calculation on borrowing that is mainly associated with debt transferred from Hampshire County Council to Southampton when it became a unitary authority in 1997. With the implementation of the prudential framework in 2004, the objective was that the move from the former MRP scheme to the new arrangements should not increase a local authority's MRP liability. The

mechanism for achieving neutrality between the old and the new system is known as “Adjustment A”. Consistent with the guidance, the original adjustment in 1 April 2004 was based on the value of the debt at that time. Following that, in the interests of prudence, the adjustment was reduced each year in line with the actual debt outstanding. This had the effect of increasing the amount of minimum revenue provision for each financial year.

11. A review of the Council’s calculation of the MRP has taken place and, following consideration of the guidance, the view is that this was not the appropriate approach. This is because the guidance states that the, “Adjustment A” should not be varied from year to year. With this in mind the Council is justified in recalculating its MRP retrospectively. Additionally, the guidance states that if the calculation of the MRP results in an anomalous or disadvantageous result it may modify its approach to achieve the intended neutrality.
12. In this case, by being “overly prudent” in the past, the Council has provided for a greater charge from the general fund to MRP. With the benefit of hindsight, this was not the most appropriate course of action and it is considered that action to adjust the position is justified.
13. To resolve this, the Council has recalculated the MRP for the years 2006/07 to 2013/14, using the value attributed to “Adjustment A” in 2004/05 which gives a cumulative reduction in the Council’s MRP of £4.5m (£3.9m relates to prior years). The MRP for 2013/14 has therefore been reduced by £4.5m.

Non-Domestic Rate Income (NNDR)

14. From 1 April 2013, the arrangements in respect of NNDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, local authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton’s case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined “Start-Up” funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years and appeals that were not resolved before that date.
15. The Council, in preparing the 2013/14 NNDR 1 return to Government of the estimate of the projected income for the year, significantly underestimated the impact of potential losses for prior years’ appeals as at 31 March 2013 at £5.8M.
16. A detailed analysis of refunds made over a number of years, and appeals yet to be settled, indicated that the starting appeals provision for 2013/14 should have been approximately £21.4M, of which £14.1M related to prior years’ appeals.

Universal Credit

17. Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. 2016 will now see the phased introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue and Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities.

18. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2013/14 amounted to approximately £40M.

Public Health Transfer

19. The Health and Social Care Act 2012 has provoked the most radical restructure of the National Health Service (NHS) since its inception. As part of its implementation, Primary Care Trusts (PCTs) have been abolished and replaced with Clinical Commissioning Groups (CCGs). One of the key outcomes of this move has been to transfer Public Health responsibilities to local authorities from 1 April 2013. This placed a responsibility on the Council to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health the Council received £14.3M as ring fenced grant in 2013/14. This figure will increase to £15.1M in 2014/15.

Public Health Southampton aims to:

- Maximise opportunities across the Council and Southampton City Clinical Commissioning Group and with Public Health England to prevent poor health and to reduce health inequalities.
- Look to work with the services which impact on the wider determinants of health that the Council has responsibility for, including housing, environmental health, planning, and transport to deliver health improvements.
- Use the public health outcomes framework as a tool to track progress and improvements in the health of people living in the city.

Public health also produces the Joint Strategic Needs Assessment for Southampton, which contains the data sets and other information that are used to inform commissioning decisions and which have been key to producing the new joint health and wellbeing strategy.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

20. The Financial Statements present the Income and Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 4 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total addition to reserves of £4.1M.
21. However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2014. Compared to this working budget the Council's actual expenditure for the year is £11.8M under budget and this is made up as follows:

	(Under) / Over Spend £000's
Portfolio Total	(6,207)
Levies & Contributions	(2)
Capital Asset Management	(127)
Other Expenditure & Income	(984)
NET GF SPENDING BEFORE MRP ADJUSTMENT	(7,320)
MRP adjustment	(4,527)
NET GF SPENDING	(11,847)

22. Against this are requests to carry forward budget of £2,067,100 (of which £528,100 relates to central repairs and maintenance) which will be subject to approval by Council.

GENERAL FUND BALANCES

23. The General Fund balance stands at £53.4M and is used as a working balance and to support future spending plans. This compares to a balance of £29.9M at the end of 2012/13.
24. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £9M in the medium term which is £3.5M above the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

25. The Table on page 6 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows that the budget assumed a deficit of £962,000. Actual net expenditure for the year is a deficit of £1,011,000 which compared to the budgeted deficit results in an over spend of £49,000. This is made up as follows:

	£000's
Increase in Repairs	617
Savings on Supervision & Management	(882)
Reduction in Capital Financing Charges	(828)
Other Variances	145
Variation on day to day services	(948)
Increase in Capital Funding from Direct Revenue Financing and Depreciation	997
Total Variation	49

CAPITAL EXPENDITURE

26. In 2013/14 the Council spent £84.8M on capital projects (including Street Lighting PFI spend of £7.4M). This was £12.7M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2014/15. Of this expenditure £46.8M related to the General Fund and £30.6M to the HRA.
27. The General Fund Capital Outturn 2013/14 and the Housing Revenue Account Revenue and Capital Outturn 2013/14 reports elsewhere on the Council Agenda contain further details, including setting out how it is proposed that this expenditure is financed.

THE COLLECTION FUND

28. The Total Collection Fund deficit for the year is £16.7m. A year end surplus on Council Tax of £1.1M and a year-end deficit of £17.8M on NNDR. There was a Council Tax surplus brought forward from 2012/13 of just over £1.5M, to give a Collection Fund deficit to be carried forward of just under £15.2M.

Council Tax

29. The Council Tax element of the Collection Fund had a surplus for the year of £1.1M. There was a surplus brought forward from 2012/13 of just over £1.5M, to give a surplus to be carried forward of just over £2.6M.
30. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be a surplus of £2.1M to be carried forward. This estimated surplus was taken into account in setting the 2014/15 Council Tax and was shared by the City Council, the Police and Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2013/14. This leaves a surplus of £530,400 that will be carried forward to 2014/15 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 2015/16 is set.

NNDR

31. The NNDR element of the Collection Fund had a deficit for the year of £17.8M. As 2013/14 is the first year of Business Rate Retention there were no brought forward balances giving a deficit to be carried forward of just over £17.8M.
32. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be an NNDR deficit of £17.6M to be carried forward. The Council's share of the deficit (£8.6M) was taken into account in setting the 2014/15 Council. This leaves a deficit of £154,300 that will be carried forward to 2015/16 to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)

PENSIONS

33. In 2013/14 the Council paid an employer's contribution of £20.4M into Hampshire County Council's Pension Fund. The employer's rate set for 2011/12 to 2013/14 was 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council

pension fund and was equivalent to 6.0% of the value of the payroll as at 31 March 2010.

34. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2014 was £558.4M, compared to its estimated liabilities of £889.8M, giving an estimated deficit on the Fund of £331.4M (£418.2M in 2012/13).
35. 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

36. 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.
37. The Accounting Policies are described in detail on pages 16 to 30 of the Financial Statements and cover such items as:
 - Property, Plant and Equipment
 - Depreciation
 - Heritage Assets
 - Pensions
 - Accruals
 - PFI contracts
 - VAT

The main changes to the Accounting Policies in 2013/14 were the removal of non-material accounting policies and amendment to the Pensions Policy to incorporate the IAS19 changes. The Governance Committee will be asked to review the policies adopted.

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

FINANCIAL STATEMENTS AMENDMENTS

39. There were a number of minor numerical and typographical errors some presentational and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 30 June 2014
40. 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:
41. • **Financial Foreword – Capital (2) & (4)** – Amended comparing Actual Spending Capital totals, and Where the Money Came From, tables to incorporate the Street Lighting PFI Capital expenditure and Unsupported Borrowing of £7.4M previously omitted.

- **Adjustments between Accounting and Funding Basis Under Regulations Note 10 (7)** – Statutory Provision for the Financing of Capital Investment split between Statutory and Voluntary:

	General Fund	HRA
Statutory	£6,089,000	-
Voluntary	£1,662,000	£5,551,000

No Net Impact (See also 8 below)

- **Comprehensive Income and Expenditure Statement (CIES) and related notes (8)** – Interest and Investment income included internal recharges for unsupported borrowing costs of £2,995,000. A review of this charge indicated that £1,500,000 was a use of contributions to repay unsupported borrowing costs.

CIES:

Environment and Regulatory Services expenditure reduced by (£1,495,000) to £33,062,000

Interest and Investment Income reduced by £2,995,000 to (£630,000)

Grants and Contributions income increased by (£1,500,000) to (£21,481,000)

Adjustments between Accounting and Funding Basis Under Regulations Note 10:

Capital Grants and Contributions Applied (GF) increased by £1,500,000 to (£400,000)

Capital Grants and Contributions Applied (Capital Grants & Cont's Unapplied Reserve CGCUR) reduced by £1,500,000 to £418,000

Voluntary Provision for Financing of Capital Investment (GF) reduced by (£1,500,000) to £162,000

Voluntary Provision for Financing of Capital Investment (CGCUR) increased by £1,500,000 to £1,500,000

In addition, adjustments made to Note 11 Other investment income reduced by £2,995,000 and Cash Flow Statement Adjustments **No net impact**

- **Comprehensive Income and Expenditure Statement – Other Comprehensive Income and Expenditure (9)** – Split surplus or deficit on revaluation of non-current assets (£7,539,000) between:

Surplus or deficit on revaluation of non-current assets (£9,059,000);

Impairment losses on non-current assets charged to the revaluation reserve £1,520,000

As required by International Accounting Standard (IAS) 1- No Net Impact

- **Prior Period Adjustment Note 5 (10)** – Additional table required with regard to impact on the Cash Flow Statement of IAS19 adjustments
- **Property Plant and Equipment Note 12 (11)** - Amended to Council Dwellings b/f figures from NBV £469,975,000 (£478,570,000) on Cost line to Gross Cost £486,168,000 (£491,666,000) and Depreciation £16,128,000 (£13,096,000) with compensating adjustments on the revaluation lines within Cost and Depreciation sections, for both years

No Net Impact on the Balance Sheet

- **Movement in Reserves Statement (MIRS) and Note 10 (13)** – IAS19 Prior Year Adjustments to MIRS and Note 10 previously omitted
- **Capital and Revenue Grants, and Contributions Receipts in Advance Note 40 (14)** – Amended note to include Revenue Grants and inserted additional disclosure note with regard to Revenue Grants credited to Cost of Services
- **Non – Domestic Rates Redistribution Note 41 (15)** – Inserted additional disclosure note 41 for Non – Domestic Rates to show the composition of the £43,954,000 credited in the CIES
- **Balance Sheet and Note 20 (16)** – Spilt provisions between due to be utilised within 1 year and those greater than 1 year and inserted additional table within note 20
- **Acquired and Discontinued Operations Note 23 (17)** – Inserted paragraphs with respect to acquisition of Public Health

RESOURCE IMPLICATIONS

Capital/Revenue

42. The capital implications were considered as part of the Capital Outturn report that was presented to Council on 16 July 2014. The revenue implications were considered as part of the Revenue Outturn report that is presented to Council on 16 July 2014.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

44. Accounts and Audit Regulations 2011.

Other Legal Implications:

45. None.

POLICY FRAMEWORK IMPLICATIONS

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Appendices

1.	Revisions made to Statement of Accounts
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Documents In Members' Rooms

1.	Latest Draft Financial Statements 2013/14
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO 30 June 2014

Equality Impact Assessment

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

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

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

	Page	Note /Paragraph	Detail		
1	Numerous	Numerous	Changed reference to National Non-Domestic Rates to Non-Domestic Rates		
2	7	Financial Forward	Capital - Comparing Actual Spend to Budget £63.6M (£56.2M) £54.2M (46.8M)		
			Table		
			Environment & Transport	£29,586k (£22,177k)	£27,068k (£19,659k)
			Totals	£63,601k (£56,192k)	£54,253k (£46,844k)
			Amended totals to include Street Lighting PFI Spend of £7,409k		
3	7	Financial Forward	Explaining the big differences Amended "The final spend for the year was £9.3M" (from £9.4M)		
4	7	Financial Forward	Where the Money Came From		
			Table		
			Unsupported Borrowing	£10,785 (£3,376k)	
			Tota£	54,233k (£46,844k)	
			Amended totals to include Street Lighting PFI Spend of £7,409k		
5	12	Comprehensive Income and Expenditure	Prior Year Column " restated " added		
6	12	Comprehensive Income and Expenditure	Non Distributable Cost (Exp)	+£373k	£6,195k £5,822k
			Local Authority Housing (Exp)	-£373k	£57,625k £57,998k
			HRA Non - distributable £373k costs not split out in CIES as per HRA CIES		
7	41	Note 10	Adjustments between Accounting and Funding Basis Under Regulations		
			Statutory Provision for the Financing of Capital Investment (GF)	-£1,622k	£6,089k
			Statutory Provision for the Financing of Capital Investment (HRA)	-£5,551k	
			Voluntary Provision for the Financing of Capital Investment (GF)	+£1,662k	£1,662k
			Voluntary Provision for the Financing of Capital Investment (HRA)	+£5,551k	£5,551k
			Splitting the MRP between Statutory and Voluntary - See 8 below		
	12	Comprehensive Income and Expenditure	Environment and Regulatory Services (Exp)	-£1,495k	£33,082k £34,577k
			Interest and Investment Income	+£2,995k	(£689k) (£3,684k)

	Page	Note /Paragraph	Detail			
8	15	Cash Flow Statement	Capital Grants and Contributions	-£1,500k	(£21,481k)	(£19,981k)
			Adjs. for items included in the net surplus or deficit on the provision services that are investing & financing activities	-£1,500k	(£50,086k)	
			Net Cash flows from Investing Activities	+£1,500k	(£23,012k)	
	41	Note 10	Adjustments between Accounting and Funding Basis Under Regulations			
			Capital Grants and Contributions Unapplied	+£1,500k	(£400k)	
	43	Note 11	Voluntary Provision for the Financing of Capital Investment	-£1,500k	£122k	
			Financing and Investment Income and Expenditure			
			Other	-£2,995k	£10k	
			Total	-£2,995k	£689k	
	62	Note 23 a)	Notes to Cash Flow Statement			
			Capital Grants & Contributions credited to surplus or deficit on the provision of services	-£1,500k	(£32,441k)	
Notes to Cash Flow Statement						
62	Note 23 c)	Other receipts from Investing Activities	+£1,500k	£29,939k		
		Capital Grants & Contributions Received				
		Interest included internal recharges of £2,995k in cost of service for unsupported borrowing of which £1.5m relates to use of Contributions				
9	12	Comprehensive Income and Expenditure	Other Comprehensive Income and Expenditure			
			Inserted Row: Impairment losses on non-current assets charged to the revaluation reserve £1,520k			
			Amended: Surplus or deficit on revaluation of non current assets by minus £1,520k to (£9,059k)			
			Split Net Revaluation between amounts that could go direct to CIES as required by IAS1			

	Page	Note /Paragraph	Detail																												
10	36	Note 5	<p>Prior Period Adjustment - IAS19 Employee Benefits</p> <p>Added Table that shows Cash Flow Amendments</p> <table border="1"> <thead> <tr> <th><u>Cash Flow Statement 2012/13 Extract</u></th> <th>Accounts £000's</th> <th>Adjustments £000's</th> <th>Restated £000's</th> </tr> </thead> <tbody> <tr> <td>Net surplus or (deficit) on the provision of services</td> <td>(64,468)</td> <td>(7,710)</td> <td>(72,188)</td> </tr> <tr> <td>Adjustments to surplus or deficit on the provision of services for non-cash movements</td> <td>23 (a) 131,885</td> <td>7,710</td> <td>139,695</td> </tr> <tr> <td>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</td> <td>(49,418)</td> <td></td> <td>(49,418)</td> </tr> <tr> <td>Net Cash flows from operating activities</td> <td>18,108</td> <td>0</td> <td>18,108</td> </tr> <tr> <td>Note 23 (a)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Pension Liability</td> <td>7,780</td> <td>7,710</td> <td>15,490</td> </tr> </tbody> </table>	<u>Cash Flow Statement 2012/13 Extract</u>	Accounts £000's	Adjustments £000's	Restated £000's	Net surplus or (deficit) on the provision of services	(64,468)	(7,710)	(72,188)	Adjustments to surplus or deficit on the provision of services for non-cash movements	23 (a) 131,885	7,710	139,695	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(49,418)		(49,418)	Net Cash flows from operating activities	18,108	0	18,108	Note 23 (a)				Pension Liability	7,780	7,710	15,490
<u>Cash Flow Statement 2012/13 Extract</u>	Accounts £000's	Adjustments £000's	Restated £000's																												
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Note 23 (a)																															
Pension Liability	7,780	7,710	15,490																												
11	44 & 45	Note 12	<p>Property Plant and Equipment</p> <p>Amended to Council Dwellings b/f figures from NBV £469,975k (£478,570k) on Cost line to Gross Cost £486,168k (£491,666k) and Depreciation £16,128k (£13,096k) with compensating adjustments on the revaluation lines within Cost and Depreciation sections, for both years.</p> <p>No net impact on the Balance Sheet</p>																												
12	52	16 f)	<p>Financial Instruments - Credit Risk</p> <p>Change in the analysis between Banks deposits and Building Societies as Nationwide loans wrongly classified: bank deposits 3-6 months reduced to £2M BS increased from £2M to £4M, £3M bank deposit for 3-6 months moved to BS.</p>																												
	13	MIRS	Movement in Reserves - Prior Year Table																												

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Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT – AUGUST 2014		
DATE OF DECISION:	15 SEPTEMBER 2014		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			

BRIEF SUMMARY

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

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

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

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

Appendix 1 summarises the activities of internal audit for the period to August 2014.

RECOMMENDATIONS:

- (i) That the Governance Committee notes the Internal Audit Progress report to the period August 2014 as attached

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The progress report to the period August 2014 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 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
-----------------------------	--

SUPPORTING DOCUMENTATION

Appendices

- | | |
|----|--|
| 1. | Internal Audit Progress Report – August 2014 |
|----|--|

Documents In Members' Rooms

- | | |
|----|------|
| 1. | None |
|----|------|

Equality Impact Assessment

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

Other Background Documents

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

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

1.	None	
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Internal Audit Progress Report

August 2014

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

1.	Role of Internal Audit	3
2.	Purpose of report	4
3.	Performance dashboard	5
4.	Status of 'live' reports	6 – 7
5.	Executive summaries 'Limited' and 'No' assurance opinions	8 – 10
6.	Fraud and Irregularities	11
7.	Planning and resourcing	11
8.	Rolling work programme	12 - 18

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within 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 Public Sector Internal Audit Standards 2013 [the Standards].

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

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

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

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

2. Purpose of report

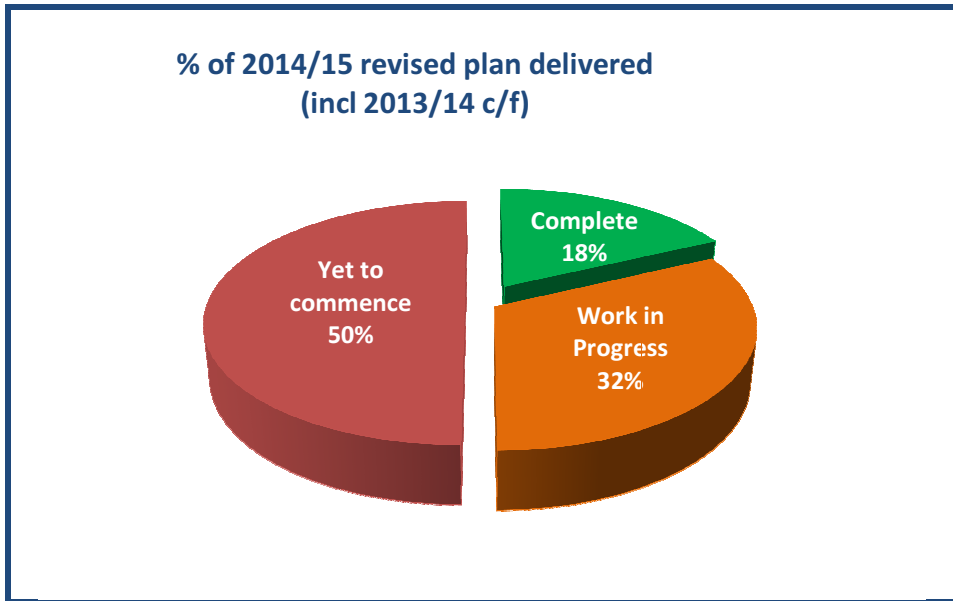
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:


- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary a significant issues that impact on the Chief Internal Auditor’s annual opinion

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

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

3. Performance dashboard




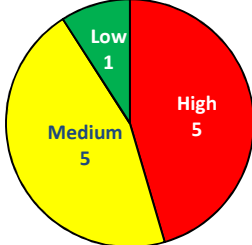
Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment concluding overall compliance against the Standards and the LGAN. To provide independence to the process the self –assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.</p> <p>Independent analysis confirmed that the self-assessment provided <i>‘a fair assessment of the internal audit activity’</i></p>


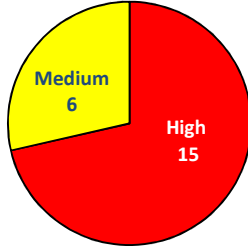
4. Status of 'Live' Reports


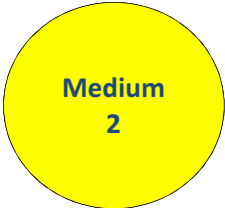
Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Heating Charges	17/12/12	Place	Adequate	Adequate	6 (1)	0 (0)	5 (1)	1 (0)
Cash Collection & Banking	21/01/13	Corporate Services	Limited	Adequate	12 (5)	0 (0)	9 (5)	3 (0)
Development Management	26/04/13	Place	Limited	Adequate	7 (4)	0 (0)	5 (4)	2 (0)
Payroll	22/05/13	Corporate Services	Adequate	Adequate	7 (2)	0 (0)	6 (1)	1 (1)
Quality Assurance	18/07/13	People	Adequate	Adequate	15 (9)	0 (0)	12 (6)	3 (3)
Neighbourhood wardens	22/10/13	People	Adequate	Adequate	7 (2)	0 (0)	6 (2)	1 (0)
School standards	25/10/13	People	Adequate	Adequate	5 (0)	0 (0)	0 (0)	5 (0)
Accounts Payable	30/01/14	Corporate Services	Substantial	Substantial	1 (0)	0 (0)	0 (0)	1 (0)
Inventory Management	06/02/14	Corporate Services	Adequate	Adequate	1 (0)	1 (0)	0 (0)	0 (0)
Application Support	06/03/14	Corporate Services	Adequate	Adequate	5 (0)	1 (0)	0 (0)	4 (0)
Sholing Technology College	13/03/14	People	Adequate	Adequate	17 (4)	1 (0)	3 (1)	13 (3)
Highways	04/03/14	Place	Adequate	Adequate	4 (0)	1 (0)	1 (0)	2 (0)
Payroll	04/04/14	Corporate Services	Adequate	Adequate	11 (4)	6 (1)	3 (2)	2 (1)
Transformation of City Services	24/04/14	Place	Adequate	Adequate	4 (1)	0 (0)	1 (1)	3 (0)
Bevois Town Primary School	02/05/14	People	Limited	Limited	20 (17)	2 (0)	10 (10)	8 (7)

Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
St Monica Junior School	08/05/14	People	Limited	Adequate	28 (23)	3 (3)	21 (16)	4 (4)
Income Collection and Transactions	09/05/14	Corporate Services	Adequate	Adequate	6 (0)	0 (0)	4 (0)	2 (0)
Change control (IT)	27/05/14	Corporate Services	Adequate	Adequate	5 (0)	1 (0)	0 (0)	4 (0)
Family & children centres	27/06/14	People	Adequate	Adequate	2 (0)	2 (0)	0 (0)	0 (0)
Business Continuity & Emergency Planning	09/07/14	Place	Limited	Limited	11 (5)	8 (2)	3 (3)	0 (0)
Data Centre Security	16/07/14	Corporate Services	Limited	Limited	2 (0)	2 (0)	0 (0)	0 (0)
Information Governance	17/07/14	Corporate Services	Limited	Limited	21 (15)	7 (5)	9 (7)	5 (3)
Integrated Assessment–Data Performance	30/07/14	People	Adequate	Adequate	3 (3)	1 (1)	2 (2)	0 (0)
Reablement	30/07/14	People	Adequate	Adequate	13 (8)	10 (6)	2 (2)	1 (0)
Itchen Bridge	31/07/14	Place	Adequate	Adequate	10 (5)	4 (0)	4 (3)	2 (2)
Partnership arrangements	01/08/14	Corporate Services	Adequate	Adequate	6 (0)	6 (0)	0 (0)	0 (0)

5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

Business Continuity & Emergency Planning										
<p>Directorate Sponsor: Place</p> <p>Key Contacts: Mitch Sanders, Head of Regulatory Services; Ian Collins, Emergency Planning & Business Continuity Manager</p> <p>Final Report Issued: 09 July 2014</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  <table border="1"> <caption>Management Actions Risk Distribution</caption> <thead> <tr> <th>Risk Level</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Low</td> <td>1</td> </tr> <tr> <td>Medium</td> <td>5</td> </tr> <tr> <td>High</td> <td>5</td> </tr> </tbody> </table> </div>	Risk Level	Count	Low	1	Medium	5	High	5
Risk Level	Count									
Low	1									
Medium	5									
High	5									
<p>Summary of key observations:</p> <p>Responsibilities for business continuity are appropriately assigned and understood at both a corporate and directorate level. A management board, with representatives from all directorates has recently been set up to enhance governance arrangements.</p> <p>We confirmed that corporate requirements for business continuity plans are included in the Corporate Business Continuity Plan (CBCP). However, this plan is not available to all staff due to the confidential nature of some of its content. It was agreed with the Business Continuity Manager that guidance information would be more appropriate in a separate Business Continuity Policy which would be available to all staff.</p> <p>Currently, Divisional/Service BCP’s are held locally. There is no mechanism to enable the Business Continuity Manager to satisfy himself that such plans are in place, up to date, approved, tested and contain the appropriate information.</p> <p>Review of the three Directorate BCPs and a sample of Divisional/Service BCPs from across all three Directorates found that many were out of date. In addition, key information had been omitted from many of the plans. Audit review of the same sample of plans found limited evidence of testing as required by the Corporate Business Continuity Plan.</p>										

Information Governance								
<p>Directorate Sponsor: Corporate Services</p> <p>Key Contacts: Mark Heath, Director of Corporate Services</p> <p>Final Report Issued: 17 July 2014</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  <table border="1"> <caption>Management Actions Data</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>15</td> </tr> <tr> <td>Medium</td> <td>6</td> </tr> </tbody> </table> </div>	Category	Count	High	15	Medium	6
Category	Count							
High	15							
Medium	6							
<p>Summary of key observations:</p> <p>The physical security of buildings was found to be good. Council offices are divided into those areas accessible to the public, and those for staff only. The staff only areas are protected by means of a Reception, id card accesses and keypad accesses. Access to information through IT systems is controlled through the use of user ids and passwords. Staff are prevented from downloading data onto insecure media through port control, and laptops used by staff for mobile working are encrypted. Staff requiring remote access to the City Council’s data are given a secure RSA token</p> <p>However, audit observations against three of the four key objectives reviewed demonstrated that the Council did not have embedded and functioning arrangements in place to support compliance with the legal and regulatory framework.</p> <p>Two significant data breaches have been reported to the Information Commissioner’s Office (ICO) in the recent past placing the Council at risk of a full compliance audit by the ICO. Additionally, despite clear policies and procedures, it was evident that not all breaches are reported internally, demonstrating a lack of training / awareness across the Council.</p> <p>It was further evident that there was a lack of clarity in respect of roles and responsibilities for ‘information’ related activities within the Council. This was borne out through uncertainties following interviews with a sample of Information Asset Owners and Information Asset Administrators and the absence of up to date guidance or enforced training.</p> <p>An e-learning package on Data Protection and Freedom of Information was launched in February 2013. However, our testing confirmed that less than 1.5% of staff have completed this. Consequently staff may not be aware of Data Protection principles, or what to do when incidents occur.</p>								

Data Centre Security		
<p>Directorate Sponsor: Corporate Services</p> <p>Key Contacts: Kevin Foley, Head of IT; Sean Dawtry, IT Strategy Manager</p> <p>Final Report Issued: 16 July 2014</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>A prior review of the data centre (April 2012) highlighted over 300 people had access via their security cards to the data centre facility. This was promptly reduced to 47 once highlighted to management.</p> <p>Testing as part of this review once again identified over 300 cards enabled access to the data centre. It was explained that a contributory cause was the buildings works which had been on-going since 2012. A cleansing exercise has now been undertaken reducing access to key personnel only (40 cards).</p> <p>It was evident that there remains a lack of regular review of card access to the data centre</p>		

6. Fraud and Irregularities

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

- 1 did not result in any further action; and
- 2 remain on-going.

We have also continued to provide advice on other cases where required

7. Planning & Resourcing

The internal audit plan for 2014/15 was approved by the Council's Management Team and the Governance Committee in April 2014.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8

8. Rolling Work Programme

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
2013-14 Carry Forward Reviews						
Partnership arrangements	✓	✓	✓	✓		01/08/14
Information Governance	✓	✓	✓	✓		17/07/14
Business Continuity & Emergency Planning	✓	✓	✓	✓		09/07/14
Change control	✓	✓	✓	✓		27/05/14
Across Schools Thematic Review 1 (payroll)	✓	✓	✓	✓		
Data and performance management – Support Services	✓	✓	✓	✓		30/07/14
Itchen Bridge	✓	✓	✓	✓		31/07/14
Delivery of statutory functions - Family Centres and children centres	✓	✓	✓	✓		27/06/14
Client Monies Services	✓	✓	✓	✓		
Reablement	✓	✓	✓	✓		30/07/14
Learning and Development	✓	✓	✓	✓		

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Fostering	✓	✓	✓	✓		
Public Health Contracts	✓	✓	✓	✓		
Public Health	✓	✓	✓	✓		06/06/14
2014-15 Reviews						
Corporate Cross Cutting						
Transformation						
Workforce Management						
Health and Safety	✓	✓	✓	✓		
Human Resources						
Procurement						
Corporate Governance						
Annual Governance Statement	✓	✓	✓	✓		N/A
Fraud Thematic Review – Housing Office Security	✓	✓	✓	✓		
Precautions against fraud	N/A	✓				

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Reactive Fraud	N/A	✓				
National Fraud Initiative	N/A	✓				
Effectiveness of the Role of Internal Audit	✓	✓	✓	✓		14/07/14
Financial Management						
Teachers Pensions - annual claim (TR17)	✓	✓				
Council Tax (including council tax support)						
Income Collection and Transactions						
Accounts Payable						
Financial Management (budget monitoring)						
Treasury Management						
Value Added Tax						
Bank account change/control						
ICT						
Network Management and Security						

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Capacity Planning and Management	✓	✓				
Capita development days / Capita Contract Management						
Data Centre Security	✓	✓	✓	✓		16/07/14
Corporate Priorities						
Building control	✓	✓	✓	✓		
General school reviews - TBC						
General school reviews – Maytree Infant and Nursery School	✓	✓	✓	✓		
Across Schools Thematic Review - Procurement Cards 14/15	✓	✓	✓	✓		
Across Schools Thematic Review – Governance 14/15						
Safeguarding - Protection and Court Teams (PACT)						
Respite schemes - children and adults						
Transport	✓	✓				
Integrated Commissioning Unit						
Contact scheme						

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
MASH - Multi Agency Safeguarding Hub						
MARP - Multi Agency Resource Panel	✓	✓				
SFVS - School Financial Value Standards	✓	✓	✓	N/A	N/A	
School Capital programme	✓	✓				
Street Lighting PFI	✓					
Housing Operation Transformation						
Housing Capital Programme						
Housing stock control						
Housing allocation policy						
People Directorate Transformation Programme						
City Deal						
Safeguarding (Adults)						
Adoption						
Better Care Fund						

Audit title	Audit Progress					
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Delivery of statutory functions - LADO - Local Authority Duty Officer						
Families Matters Governance	✓	✓				
Families Matters grant claims						
Financial Assessment Process	✓					
Contribution and charging policies						
Direct payments	✓	✓	✓			
PARIS (Advice role)	✓	✓				
Reablement						
Local Safeguarding Children's Board	✓	✓	✓			
Delivery of statutory functions - EDT - Emergency Duty team						
Public Health Contracts						
Public Health						
Extra Care Housing						
Public Health Grant						

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Miscellaneous Reviews						
BEEMS	✓	✓				
PUSH	✓	✓	✓	✓		11/07/14

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – AUDIT RESULTS REPORT		
DATE OF DECISION:	15 SEPTEMBER 2014		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Stephen Fitzgerald	Tel: 023 8083 4897
	E-mail:	Stephen.Fitzgerald@southampton.gov.uk	
Director	Name:	Andrew Lowe	Tel: 023 8083 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			

BRIEF SUMMARY

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

The ‘Audit Results Report’ summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from the audit of the Council’s financial statements and the results of the work undertaken to assess the Council’s arrangements to secure value for money in its use of resources.

RECOMMENDATIONS:

It is recommended that the Governance Committee:

- (i) note the ‘Audit Results Report’ as attached Appendix 1.

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee’s terms of reference require it to be satisfied that appropriate action is 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 the Chief Financial Officer.
The following external audit report is attached for consideration in Appendix 1:
 - Audit results report 2013-14
4. The external auditor will be in attendance at the Governance Committee meeting to answer questions.

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. Local Government Act 1999

Other Legal Implications:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Appendices

1.	Annual results report 2013-14
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Documents in Members' Rooms

1.	None
----	------

Equality Impact Assessment

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

Other Background Documents

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

Title of Background Paper(s)

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

1.	None	
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Southampton City Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



Building a better
working world

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Governance Committee
Southampton City Council
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04 September 2014

Dear Members

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Governance Committee. This report summarises our preliminary audit conclusion in relation to Southampton City Council's (the Authority's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Governance Committee scheduled for 15 September 2014

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Governance Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting scheduled on 15 September 2014.

Yours faithfully
For and on behalf of Ernst & Young LLP

Kate Handy
Audit Director
Ernst & Young LLP
United Kingdom
Enc.

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

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

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

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

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

1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

We also report to the National Audit Office (NAO) under its group instructions.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Significant risks

Localisation of Business Rates: Audit findings and conclusions

- ▶ The Council's accounting for the new business rate framework, and its disclosures, are in accordance with the CIPFA Code of Accounting Practice.
- ▶ The Council's provision benchmarks on the high side within its comparator groups. We have assessed the reasonableness of its methodology, and have not judged it to be an unreasonable estimation method.

Minimum Revenue Provision: Audit findings and conclusions

- ▶ The Council has made an adjustment of £3.9m, amending the amount charged and audited in prior years.
- ▶ Having reviewed the Council's previous accounting policies and MRP statements since 2007/08, we do not agree that it has previously made an error which supports this adjustment.
- ▶ Neither has the Council correctly accounted for such an adjustment under the accounting standard IAS8, failing to justify its materiality and make a full retrospective restatement as is required.
- ▶ We bring this to your attention as an uncorrected error.

Risk of Management Override: Audit findings and conclusions

- ▶ Our work has not identified indications of management override.
-

Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

Future challenges:

- ▶ There are changes in the finance team that could impact on the preparation of the financial statements. This may present a risk, but an opportunity for a fresh perspective to the preparation of the statements.
-

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

-
- ▶ Uncorrected misstatements decrease useable reserves by £3.9m.
 - ▶ Management have corrected other misstatements. The most significant were two separate adjustments amounting to a gross value of £4.5m; one to correct the non-removal of internal recharges within the Comprehensive income and expenditure statement, and the other a reclassification between reserves. These adjustments have not impacted on useable reserves.
-

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

Whole of Government accounts

We have yet to complete the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. At this stage we have no issues to report.

Audit certificate

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion, and by 30 September 2014.

2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 April 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Areas of audit risk

Localisation of Business Rates

Description	Findings & Conclusion
<p>There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting arrangements are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and ▶ review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<ul style="list-style-type: none"> ▶ The Council's accounting for the new business rates conforms to the guidance set out in CIPFA's Code of Practice. The level of estimation uncertainty is adequately disclosed in the required disclosures to the financial statements. ▶ The Council has undertaken a method to calculate the provision that takes account of both appeals raised to date and the potential for appeals not yet lodged, as appropriate to the relevant accounting standard. ▶ In benchmarking the value of the appeal provision, the Council does compare on the higher side in our comparator groups. We have assessed whether there is a clear indication of management bias from this comparative exercise, for example, acknowledging the potential incentive to increase the provision to achieve a safety net payment in 2014/15. Specifically, we have discussed with management why they have used an assumption of 7.3% of the total rateable value in their calculation, when their underlying calculations of historic trends show 6.99%. In our judgement management have not clearly explained a rationale for this element other than a general inclination towards prudence which is not a specifically recognised accounting concept. However, they can point towards some appeal settlements made after the balance sheet date that have been higher than estimated, illustrating the inherent uncertainty of this calculation. The impact of using 6.99% as opposed to 7.3% would not be material, and therefore, we accept the calculation as materially reasonable. ▶ Our overall judgement is that although benchmarking shows the Council's provision to be on the high side, based on the information provided, the Council has not taken an unreasonable approach to this estimate.

Minimum Revenue Provision

Description	Findings & Conclusion
<p>The Council has reviewed the calculation of its Minimum Revenue Provision (MRP) in previous years. Whilst this review is not complete the Council may be looking to make an adjustment to the MRP that has been made previously.</p> <p>If the Council made the adjustment, we planned to:</p> <ul style="list-style-type: none"> ▶ Assess the Council's previous practice against its stated accounting policies, the relevant regulations and DCLG guidance; and ▶ review whether there is an error that meets the requirements of IAS8, in order to support a prior year adjustment. 	<p>Assessment of the adjustment</p> <ul style="list-style-type: none"> ▶ The Council has made an adjustment to the calculated amounts of its MRP for previous years. The amount is £3.9m, relating back to 2007/08. ▶ We reviewed the Council's accounting policies in its previous statements of account, and also MRP statements made in its annual treasury management policies. ▶ In our judgement the action the Council had taken in prior years was consistent with both, and also in compliance with the relevant regulations and guidance from the DCLG. ▶ Therefore, we do not agree with the Council's view that an adjustment is appropriate. ▶ As such, we view the £3.9m adjustment relating to prior years to be a misstatement in 2013/14. ▶ We have discussed this issue during the audit, and have provided our views to the Council on two occasions during the year, before our final conclusion

was made having received the draft financial statements. Having sought our input, we are disappointed the Council has continued to implement the adjustment.

Accounting for the adjustment

- ▶ On a further matter of principle, neither has the Council properly made a consistent case with the requirements of IAS8 in accounting for the adjustment.
- ▶ In order to make a prior year adjustment there needs to be an error that is material. The Council has not made a case that it is material, in fact only stating that according to our planning materiality communicated to you in our Audit Plan, that the item is not material.
- ▶ Furthermore, in applying IAS8 for an error, the Council should retrospectively restate its financial statements. It has not done this, but solely netted off the £3.9m from its 2013/14 MRP calculation.

Audit Conclusion

- ▶ As we do not agree the Council has a prior period error to retrospectively adjust its financial statements, we have considered whether we judge this to be material to our opinion on your financial statements.
- ▶ Quantitatively, the £3.9m retrospective element is below our planning materiality level.
- ▶ We do not judge the item to be indicative of fraud, for example a deliberate intent to conceal a transaction, because the Council has clearly made reference to this in its narrative disclosures to the financial statements.
- ▶ We have reviewed the Council's arrangements to consider its ongoing compliance with relevant regulations, and judge that this has been appropriately considered by the Monitoring Officer and s151 officer.
- ▶ Therefore, we consider this individually to be a non-material uncorrected misstatement, which we highlight for the committee's consideration in its role in approving the financial statements.

Risk of Management Override

Description	Findings & Conclusion
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ review accounting estimates for evidence of management bias; and ▶ evaluate the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> ▶ Some of this work is outstanding at the time of completing this report. ▶ Based on the work undertaken to date there are no indications of management override.

Other required issues to communicate.

ISA (UK&I) 260 and other ISAs specify certain other communication requirements in addition to the conclusions made on the areas of identified audit risk. We set out the relevant issues below.

Policy/practice/finding	EY comments
Provision of information to support the financial statements.	As part of our audit approach we use analytics tools to gain assurance on the total population of entries. We requested the provision of payroll information, which has not been provided. This has detrimentally impacted our audit approach. In future years, the Council needs to liaise with the payroll provider to ensure the provision of requested information is appropriately managed.
Qualitative aspects of financial reporting.	Local Government accounts are long and complex. The Council has made an attempt to 'cut the clutter' by reducing some non-statutory and non-material disclosures. There is scope for further reduction. Early in the preparation process the Council should establish its view of preparer materiality, and use this consistently across the statements to reduce any unnecessary content.

4. Economy, efficiency and effectiveness

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

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus presented to you in our Audit Plan.

Risk	Impacts arrangements for securing:	Key findings:
Financial Pressures		
<p>The Council is facing financial pressures estimated at approximately £55m over the period 2014/15 to 2016/17. It reports it needs to fill this gap, through a combination of efficiency savings, income generation activities, and potentially service changes or reductions.</p> <p>The one-council transformation programme started in September 2013, to deliver and coordinate a change programme across the Council. This is one response from the LGA peer review in July 2013 for a need to take a coordinated approach across the Council to transformation, and to develop clear links to the financial planning process. We planned to focus our work on:</p> <ul style="list-style-type: none"> ▶ reviewing your 2014/15 annual budget, and medium term forecast assumptions; and ▶ understanding the new transformation programme, and assessing the extent to which it contributes to addressing the financial pressures. 	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<ul style="list-style-type: none"> ▶ The Council has put in place arrangements to achieve financial resilience. ▶ It has put in place a balanced 14/15 budget based on reasonable assumptions, and has a track record of delivering its budget and achieving identified service based savings. 2013/14 was achieved with a total reported £11.5m underspend, of which £6.2m was achieved within the portfolio services. ▶ Looking forward, the forecast underlying base challenge for the Council is a cumulative £75m budget gap up to 2017/18. This is a significant pressure and challenge for the Council. ▶ Processes are in place to address this gap, with budget amendments being brought through as identified during the 2014/15 year, with a focus on implementing those as soon as possible to maximise their effect on future periods. For example in July, savings are proposed with an annual effect of c.£8m savings for 15/16. ▶ Significantly the Council has put in place arrangements so that the savings are more clearly linked to the overall medium term aims and objectives of the Council that have been formally agreed as of July 2014. This includes the strategy to transform the delivery of the Council services. This provides the focus for the significant balance of savings to come from larger scale corporate projects that cut across how the Council undertakes its business, rather than smaller incremental reductions in the portfolio services. ▶ Although the Council has historically achieved its service-based savings, it does not yet have a track record of achieving this type of change programme. The programme is also an ongoing process, with elements continuing to be developed and delivered to an outline delivery timetable for the first tranches. As such, the scale of the savings achievable by the transformation programme are yet to be fully quantified and compared to the current overall forecast need. However, the programme has been specifically resourced, including being led by an officer

experienced in implementing change management programmes. There is provision in the financial plans to re-invest the 2013/14 savings and other funds into the programme and other infrastructural changes where these are required, for example in changing IT infrastructure, to enable differing ways of working and engagement with the public. There is a commitment to ongoing communication and progress updates with members.

- ▶ Officers are of the view that the transformation change is unlikely to achieve the full requirement, and challenges to the type and extent of current service spend will still be required to bridge the gap. These are ongoing processes that the Council is continuing with.
 - ▶ The development of the transformation programme will require the continuing commitment of both officers and members. The transformation programme and its resultant savings is likely to remain a focus of our work in future years.
-

5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

We have no issues to report.

5.2 Status of previous year's recommendations

There were no significant items in either our Annual Reports Report for 2012/13, or in our communications to management.

5.3 Challenges for the coming year

Description	Impact
The Council is experiencing significant changes in senior positions within the Finance team.	The changes impact on the management team involved in the financial reporting processes. This may present a risk, but it also brings opportunities for a fresh perspective and ideas to the preparation process which may benefit the Council. For example, the Council takes a complex and time consuming approach to producing its financial statements, with multiple iterations using excel spreadsheets to provide the trail from the financial ledger to the draft statements. DCLG are currently consulting on the intent to bring forward the deadlines to produce the financial statements. This could be a significant challenge to the Council using its current methodology, but new perspectives may assist the efficiency of this process.

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Substantive transaction testing for: <ul style="list-style-type: none"> ▶ Accuracy of recorded income and expenditure payments ▶ Year-end adjustment journals 	▶ Completion of audit testing	EY
Consistency review of unusable reserves	▶ Completion of audit testing	EY
Payroll analytical review procedures	▶ Completion of audit testing	EY
Letter of representation	▶ To be discussed at Governance Committee on 15 September 2014.	Management and Governance Committee
Final financial statements	<ul style="list-style-type: none"> ▶ Incorporation of EY review comments on disclosure notes ▶ Finalisation by management of disclosures ▶ Approval by the Governance Committee ▶ Accounts re-certified by CFO 	Management, Governance Committee and EY
Whole of Government Accounts	<ul style="list-style-type: none"> ▶ Review of consistency to the final audited financial statements ▶ Processing of any adjustments 	<ul style="list-style-type: none"> ▶ EY ▶ Management

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections

As at the date of this report we have received no objections to the 2013/14 accounts from members of the public.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	tbc	189,216	189,261
Certification of claims and returns	*	29,036	29,036
Non-audit work (provide details)	0	0	0

We are unable to confirm the audit fee at the time of drafting this report. Our work has been impacted by the non-delivery of the payroll information, and we have undertaken more work than expected on the significant risk for the minimum revenue provision. However, some of this may be offset by other efficiencies on the audit. We are unable to quantify the impact at this time, but will provide an update at the committee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

**Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance within the Annual Certification Report for 2013/14. The Audit Commission have adjusted the scale fee for 2013/14, previously reported in our audit plan at £35,800*

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

There were some misstatements identified in the course of our audit that have been corrected by management. At the time of writing this report the most significant were two separate errors with a gross value of £4.5m; one impacting the Comprehensive income & expenditure statement where internal charging had not been removed, and the other a reclassification between reserves. Neither impact the usable reserves available to the Council.

A number of amendments to the various disclosure notes to the statements have also been made.

In addition we highlight the following misstatements which were not corrected by management:

Balance Sheet and Comprehensive Income and Expenditure Statement

	General Fund	Capital Adjustment Account (unusable reserves)	Income	Expenses
Uncorrected misstatements	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
Judgemental misstatements:				
▶ Minimum Revenue Provision	3,900,000	(3,900,000)	0	0
Balance sheet totals	3,900,000	(3,900,000)		
Income effect of uncorrected misstatements	0	0	0	0

There are no amounts that we identified that are individually, or in aggregate, material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 14 April 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 15 September.

Appendix A Required communications with the Governance Committee

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Enquiry made of the Committee chair in March 2014. Response received 02/09/2014
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	No issues arising to report.
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	No issues arising to report.

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance committee may be aware of 	<ul style="list-style-type: none"> ▶ No issues arising to report. ▶ Enquiry made of the Committee chair in March 2014. Response received 02/09/2014
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and update in section 9 of this report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>No issues arising to report.</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>No issues arising to report.</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	<p>Audit Plan and Audit results report</p>

Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton SO14 3QB

This representation letter is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2014. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Southampton City Council as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences

identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatement, including if relevant "We do not agree that items [specify items in question] constitute differences because [specify reasons for disagreement."*]

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [*list date*].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Comparative information – corresponding financial information

1. prior year adjustments have been included in the financial statements to implement the revised IAS19 in accordance with the CIPFA/LASAAC Code of Practice on Local

Authority Accounting in the United Kingdom 2013/14.

The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Governance Committee on 15 September 2014

Chairman of Governance Committee

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