

# Governance Committee

Monday, 11th November,  
2019  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

### Members of the Committee

Councillor Keogh (Chair)  
Councillor Kataria (Vice-Chair)  
Councillor G Galton  
Councillor Harwood  
Councillor Professor Margetts  
Councillor Spicer  
Councillor White

### Contacts

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## **PUBLIC INFORMATION**

### **Role of the Governance Committee**

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

#### [02 Part 2 - Articles](#)

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

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

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

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

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

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

**Use of Social Media:-** The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.

By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

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

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

### **Dates of Meetings: Municipal Year 2019/20**

<b>2019</b>	<b>2020</b>
10 June	10 February
29 July	20 April
9 September	
11 November	
9 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

### 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)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 30<sup>th</sup> September 2019 and to deal with any matters arising, attached.

### 5 **HR REPORT COUNCIL APPRAISALS** (Pages 3 - 12)

Report of the Service Director of HR & OD detailing the Council's Appraisal Process.

### 6 **ANNUAL REPORT ON INTERNAL COMPLAINTS/LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS 2018/19** (Pages 13 - 28)

Report of Director, Legal and Governance detailing the Annual Report regarding Internal Complaints/Local Government Ombudsman made to the Local Authority 2018/19.

### 7 **NO ASSURANCE AUDIT - PURCHASE PRE-PAID CARDS**

Vanessa Shahani, Service Lead Business Services to provide a verbal update on progress regarding the Purchase Pre-Paid Cards No Assurance Audit.

### 8 **NO ASSURANCE AUDIT - WATER QUALITY**

Ian Moss, Service Lead Health, Safety and Employee Wellbeing to provide a verbal update on progress regarding the Water Quality No Assurance Audit.

### 9 **RISK MANAGEMENT REPORT 2019** (Pages 29 - 36)

Report of the Service Director Finance and Commercialisation detailing the Council's Risk Management Report 2019.

**10 EXTERNAL AUDIT ANNUAL LETTER 2018/19** (Pages 37 - 62)

Report of the External Auditor detailing the Annual Letter 2018/19.

**11 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2019/20** (Pages 63 - 84)

Report of Director Finance and Commercialisation (S151) detailing a review of Prudential Limits and Treasury Management Midyear as part of the Prudential Framework reporting requirements.

**12 INTERNAL AUDIT PROGRESS REPORT 2019-20** (Pages 85 - 100)

Report of the Chief Internal Auditor detailing the Internal Audit Progress Report 2019-20.

Friday, 1 November 2019

Director of Legal and Governance

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## GOVERNANCE COMMITTEE

### MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2019

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Present: Councillors Keogh (Chair), Kataria, Harwood, White, G Galton, Professor Margetts and Spicer

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

**RESOLVED:** that the minutes for the Committee meeting on 29<sup>th</sup> July 2019 be approved and signed as a correct record.

17. **FINANCIAL STATEMENTS FOR 2018/19**

The Committee considered the report of the Section 151 Officer detailing the Financial Statements 2018/19. The Committee particularly noted that there were a number of adjustments to the Financial Statements arising from the findings of the external audit, none of which changed the overall bottom line position for the Council for 2018/19.

**RESOLVED:**

- (i) That the changes to the Financial Statements 2018/19 as a result of the annual audit as detailed in paragraphs 5-7 and appendix 1 of the report be noted: and
- (ii) That the audited Financial Statements 2018/19 be approved.

18. **EXTERNAL AUDIT 2018/19 AUDIT RESULTS**

The Committee considered the report of the External Auditor detailing the 2018/19 Audit Results which included 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.

The Committee also noted that an unqualified opinion had been received on the Statement of Accounts for 2018/19 as the External Auditors were satisfied with the progress that had been made relating to value for money and procurement processes.

The External Auditor placed on record their thanks to staff in supporting the audit which had been delayed due to resourcing issues within Ernest Young external auditors.

**RESOLVED:**

- (i) That the external auditor's Audit Results Report as detailed in the appendix of the report; and
- (ii) That the letter of representation be approved.

19. **ANNUAL REPORT ON MEMBERS CODE OF CONDUCT**

The Committee received and noted the report of the Director of Legal and Governance and Monitoring Officer detailing the Annual Report on the Members' Code of Conduct 2018/19.

20. **INTERNAL AUDIT PROGRESS REPORT 2019-20**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress Report for the period 1st April to 16<sup>th</sup> September 2019. The Committee particularly noted that on page 80 of the report the reference to the two schools being removed from the audit plan was incorrect and should have indicated they were being added to the plan.

21. **ANNUAL REVIEW OF HEALTH AND SOCIAL CARE CONTRACTS MANAGED BY THE ICU**

The Committee received and noted the report of the Director of Quality and Integration detailing the Annual Review of Health and Social Care Contracts managed by the Integrated Commissioning Unit and ensuring contracts with external agencies were properly managed and provide good quality and best value for money.

The Committee particularly noted that the Integrated Commissioning Unit had recently had an internal audit which had provided an “assurance” opinion.

22. **TRANSACTIONS AND UNIVERSAL SERVICES - SICKNESS STATISTICS**

The Committee received a presentation from the Service Director for Transactions and Universal Services detailing measures and processes that had been put in place to deal with sickness within the service area.

It was noted that the service area had approximately 540 members of staff, 340 of which were front line in areas such as waste and parks who worked in all weathers throughout the year with no flexible working options such as working from home with the highest rate of sickness being related to muscular/back pain. A restructure had taken place to provide for more supervisors to be on site and monitoring crews to ensure that health and safety requirements were met and maintained, training was delivered around manual handling and tool box talks.

Management meetings took place every two weeks with Service Leads and HR business partners to monitor rates of sickness, return to work interviews took place, HR policies were adhered too in supportive ways within reasonable timescales. Proactive health surveillance initiatives took place, non-compliance with health and safety issues were pulled up and progressed to disciplinary if necessary and long term sickness was also dealt with and progressed to dismissal if other alternative could not be reached such as redeployment.

The Committee acknowledged the improvements in statistics which was indicating a positive downward trend with particular reference to the average days lost due to sickness across the Council as 12 with Transactions and Universal Services sitting at 14 and made the following suggestions as potential ways to progress improvement further:-

- Benchmarking data was sought from comparable authorities;
- A peer review of the service area was undertaken;
- That site based comparisons were undertaken; and
- Target setting was important moving forward.

# Agenda Item 5

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		Revised HR Appraisal Process	
<b>DATE OF DECISION:</b>		11 <sup>th</sup> November 2019	
<b>REPORT OF:</b>		<b>Service Director, HR and OD</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Chris Bishop</b>	Tel: 023 8083 2087
	<b>E-mail:</b>	<a href="mailto:Christopher.bishop@southampton.gov.uk">Christopher.bishop@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	<b>Janet King</b>	Tel: 023 8083 2378
	<b>E-mail:</b>	<a href="mailto:Janet.king@southampton.gov.uk">Janet.king@southampton.gov.uk</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
None. This report contains no personal information relating to specific individuals.			
<b>BRIEF SUMMARY</b>			
The Governance Committee requested an update on the Council appraisal process in light of the introduction of Business World.			
<b>RECOMMENDATIONS:</b>			
	(i)	To note the revised Council performance review process.	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	As requested by the Governance Committee.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
2.	N/A		
<b>DETAIL (Including consultation carried out)</b>			
3.	Until the introduction of Business World in October 2019 the notification of completed Annual Performance Review forms has been via email using a link embedded in the Word document. In some areas the email link has not been used and in many cases appraisals have been completed without using the standard form and link, as the form was seen as too complex for some areas of service.		
4.	Following compliance checking an improved system is in place, the form has been reviewed and refreshed to take account of the need for clarity and simplicity, and the timeframe for end of year appraisal meetings to be held and recorded will be between April and June each year. These will be recorded in Business World with the form attached by the individual or manager. Managers will be able to see whose appraisals have been completed and HR will be in a position to more accurately monitor overall compliance and follow up areas of concern.		
5.	The revised form is in place for use now. Rather than being used only at the end of an appraisal year, it will be used during regular supervision. The emphasis will be on quality conversations across the year.		
6.	At the start of the Performance Review year, managers and individuals will agree objectives/key job requirements and personal development plans. The latter section prompts discussions about future aspirations, such as sideways		

	moves, career development and/or promotion. This should lead to identification of development activity the person can undertake to help prepare them for if and when an opportunity becomes available. This will also help inform service, Directorate and corporate learning planning.
7.	Throughout the Performance Review year managers and individuals will meet to discuss what they have achieved, how this has been done and this will be recorded on the form, including examples of how they are demonstrating the Council Values. Reflection will also occur on what has gone particularly well and what could have been done in a more effective way.
8.	All of the above will be brought together at the end of the Performance Review year, when final evidence and overall comments are added. At this point completion of all mandatory and other training will be checked and plans agreed to address any gaps or issues, and the form will be submitted via Business World.
9.	The key benefits of this new approach will be that: <ul style="list-style-type: none"> <li>• Employees are clearer on what is expected from them and how they are seen to be performing, on a more frequent basis</li> <li>• Recording of evidence occurs across the year, making it more accurate and saving time at the end of the year when all forms are being finalised</li> <li>• Regular two-way meetings are useful for getting to know employees, to provide praise, and to highlight and address any concerns on an on-going basis</li> <li>• Managers gain an understanding of an employee's aspirations and can support their appropriate development</li> <li>• Employees feel more valued through regular, quality conversations about them and their work</li> <li>• Critically HR and managers can better track compliance and identify areas for learning plans</li> </ul>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
10.	None
<b><u>Property/Other</u></b>	
11.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
12.	S111 Local Government Act 1972 and S1 Localism Act 2011
<b><u>Other Legal Implications:</u></b>	
13.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
14.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	

15.	None
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<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	none
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	New Performance Review form.

**Documents In Members' Rooms**

1.	None
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	None

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Contributing  
to the council's  
priority  
outcomes

## Southampton City Council Performance Review

This document should be used to record agreed expectations and development plans for the coming year. Examples of work done and how, should be added both during and at the end of the 12 month period.

There are six sections:

- Personal Objectives/Job Requirements
- Personal Development Plan
- Council Values
- Personal Reflections
- Mandatory Learning
- Overall Comments

**Name:** [Insert here]

**Role:** [Insert here]

**Line Manager:** [Insert here]

**Appraisal Period:** [Insert here]  
(from/to)

# Personal Objectives/Job Requirements

At the start of the Appraisal period, agree objectives or job requirements for the next 12 months and record them below. Add more rows if necessary. The 'Met (Y/N)' and 'Describe your progress' columns are to be used at regular 1 to 1 meetings throughout the year to record performance against objectives or job requirements. Ensure entries are dated.

Personal Objectives/Job Requirements	Met (Y/N)	Describe your progress

# Personal Development Plan

At the start of the appraisal period, if there are learning and development needs for the next 12 months, record what they are and how they can be met. Please consider future career aspirations where appropriate. This section should be completed jointly by the manager and member of staff and reviewed at regular 1 to 1 meetings throughout the year. Ensure entries are dated.

What additional or improved knowledge or skills are required?	What development activities will be undertaken to support this? (Consider whether there is a relevant apprenticeship available.) (add link)	When will these activities take place?	What impact has each activity had?

# Council Values

Southampton City Council employees are expected to demonstrate the five Council Values



Can-do



Collaborative



Curious and creative



Customer focused



Commercially minded

Throughout the appraisal period, use the section below to jointly record examples of how work has been undertaken and the Council Values shown.

**Describe how these have been demonstrated**

# Personal Reflections

During the year, please record what has gone well, what could have gone better and what would have helped?  
Ensure entries are dated.

Complete the following sections at the end of the appraisal period.

## Mandatory Learning

Is all mandatory learning up to date? (Y?N)

If not, please list what needs to be completed in the next few months:

# Overall Comments

<b>Overall individual's comments:</b>		<b>Date:</b>	
<b>Overall line manager comments:</b>			
<b>Name:</b>		<b>Date:</b>	
<b>Overall second line manager comments:</b>			
<b>Name:</b>		<b>Date:</b>	

## Signing off

Once all sections of this document have been completed and seen by all parties, either the individual or line manager must record completion and upload the document on Business World.

<b>Date recorded and uploaded on Business World:</b>	
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# Agenda Item 6

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>		SOUTHAMPTON CITY COUNCIL COMPLAINTS REVIEW 2018/2019		
<b>DATE OF DECISION:</b>		11 <sup>th</sup> November 2019		
<b>REPORT OF:</b>		<b>SERVICE DIRECTOR; LEGAL AND GOVERNANCE</b>		
<b><u>CONTACT DETAILS</u></b>				
<b>AUTHOR:</b>	<b>Name:</b>	<b>Mark Naylor, Complaints Resolution Manager</b>	<b>Tel:</b>	<b>023 80 833154</b>
	<b>E-mail:</b>	<b>Mark.naylor@southampton.gov.uk</b>		
<b>Director</b>	<b>Name:</b>	<b>Richard Ivory Service Director; Legal and Governance</b>	<b>Tel:</b>	<b>023 80 832794</b>
	<b>E-mail:</b>	<b>Richard.Ivory@southampton.gov.uk</b>		
<b>STATEMENT OF CONFIDENTIALITY</b>				
N/A				
<b>BRIEF SUMMARY</b>				
<p>This report summarises the type and number of complaints received from the 1 April 2018 and 31 March 2019 together with the Local Government and Social Care Ombudsman annual review for the same period. Overall complaints registered with the council have decreased by 13%.</p> <p>Corporate complaints                              22.7% decrease            Adult Services complaints                      14.7% increase            Children and Families complaints          4.3% decrease</p> <p>The Complaints Resolution Team (CRT), based in Legal and Governance, administers complaints independently from all areas within the Council (stage 2) that the service area has been unable to resolve at initial point of contact (Stage 1), alongside and responsible to the Service Lead: Legal Services Partnership who acts as the Council's single point of contact for Local Government and Social Care Ombudsman (LGSCO) and Housing Ombudsman (HO) complaints.</p>				
<b>RECOMMENDATIONS:</b>				
	<b>(i)</b>	That the report be noted and to offer any feedback on governance or performance relating to the complaints function to inform future service delivery.		
<b>REASONS FOR REPORT RECOMMENDATIONS</b>				
1.	<p>To update members of this Committee on performance trends and any learning points arising out of complaints made by the public via the Council's complaints procedures during 2018/2019. Identifying these issues assists the Council in understanding where things have "gone wrong" in the past year in order to improve service delivery.</p> <p>This report is presented to Governance Committee for information and feedback purposes.</p>			

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>						
2.	N/A. The LGSCO requires the Council to report and consider complaints trends and outcomes annually with members and senior management.					
<b>DETAIL (Including consultation carried out)</b>						
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 conclusion of a complaints investigation, the complainant is advised that if they are not satisfied with the outcome, they may pursue their complaint to the LGSCO or the HO. This provides the customer with an entirely independent source of redress if they remain aggrieved. The Council works closely with the LGSCO or HO to resolve outstanding complaints where appropriate.					
<b>Corporate Complaints (1 April 2017 and 31 March 2018)</b>						
5.	From 1 April 2018 to 31 March 2019 the council recorded 201 corporate complaints. This represents a 22% decrease on the 260 complaints recorded in 2018/19. 49 Complaints (24%) required investigation at stage two of the process, compared to 45 (17%) in 2017/18.					
6.	Continuing with an "immediate service recovery" ethos adopted three years ago, 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 is 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. By adopting this approach, members of the public are receiving an immediate resolution to the issue, which is generally what is required.					
7.	<b>TABLE 1</b>					
	<b>Rank of 5 Areas with the highest proportion of complaints</b>					
	<b>2018/2019</b>		<b>2017/2018</b>		<b>2016/2017</b>	
	Housing Services	90 (44.7%)	Housing Services	111 (42.7%)	Housing Services	35%
	Capita delivered	80 (39.8%)	Capita delivered	54 (20.8%)	Libraries	21%
	Planning (incl. enforcement)	15 (7.5%)	City Services (Parks and open Spaces)	34 (13%)	Capita delivered	18.5%
	Infrastructure (Transport)	8 (4%)	Highways	5 (2%)	City Services (waste management)	12.5%
	Legal and Governance	3 (1.5%)	Libraries	2 (0.8%)	Planning	5.9%



It is not unusual for the largest service area involved in direct delivery (usually housing) to feature high in the percentage of complaints received due to the sheer number of customers they interact with. This is broadly comparable to the picture nationally and as is noted in the LGSCO Annual Letters to all councils.

Waste Services, Highways Partnership, Parking Services nor certain areas of Housing recorded any stage one complaints on the Lagan system in 2018/19. Either the Service areas are resolving matters within 48 hours as business as usual requests under their service record systems or they are failing to record complaints. This is a matter for the relevant service area Director to follow up following receipt of this report in order to determine the assurance levels for these services.

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 previous two years.

**TABLE 2**

Category	2018/2019	2017/2018	2015/2016
Discrimination	0.5%	0.3%	0.5%
Misinformation	3.6%	3.5%	4.2%
Charges	5.5%	1.9%	6.2%
Speed	1.5%	4.2%	3.3%
Behaviour	11.9%	11.9%	16.3%
Performance	63.9%	56.9%	53.2%
Avoidable Contact	0	1.9%	0.2%
Disagree with Decision	11.4%	10.3%	7.6%

Complaints which cover more than one category are not included (therefore, total not 100%)

8.

Table 3 below provides a breakdown of this Council's performance in relation to complaints compared to 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. The systems and processes that individual councils have in place are based on LGSCO/HO guidance and are tailored to individual council structures. Comparison is therefore difficult.

**TABLE 3**

Authority	Corporate Complaints	Corporate Complaints	Corporate Complaints	Population
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		received 2018/2019	received 2017/2018	received 2016/2017		
	Southampton	201	260	312	249,500	
	Portsmouth	531	494	489	207,100	
	Brighton	1628	1431	1500	277,500	
	Plymouth	6869	5340	2169	258,808	
	Table 4 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. Where this situation occurs the complainant will be contacted and a revised completion date agreed.					
	<b>TABLE 4</b>					
	<b>Overall Performance Report - 1/04/2016 to 31/03/2019</b>					
	<b>Response within 20 days</b>					
		<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>		
	Stage 1	<b>50%</b>	79%	78%		
	Stage 2	<b>100%</b>	93%	98%		
	<b>Children and Families (Social Care) complaints 1 April 2018 to 31 March 2019</b>					
9.	<p>Children and Families complaints are classified according to the following definitions:</p> <ul style="list-style-type: none"> <li>▪ Social care complaints are those investigated under the Children and Families Social Care Complaints Policy (which reflects statutory regulations);</li> <li>▪ All other Children and Families complaints are investigated using the Council's Corporate Complaints Policy (mainly Education and some Early Years areas);</li> </ul>					
10.	<p>The Council recorded 66 complaints regarding Children and Families. This represents a 4.3% decrease on the 69 received in 2017/2018 and reflects a continued body of work undertaken by Children and Families working through a single point of contact (SPOC) complaints officer to improve front line and service manager's ability to resolve matters earlier, at point of initial contact.</p>					
11.	<p>The majority of those going on to be registered as complaints continue to be resolved at the first stage of the procedure through work by managers and staff in the service supported by advice and guidance from the CRT as required. Where resolution is not possible at stage 1 (statutory), the Council's Complaints Resolution Manager A) commissions an Independent Investigator (external to the Council who is responsible for investigating the complaint) or B) allocates the investigation to a member of the CRT under the guidance of the Complaints Resolution Manager and C) an Independent Person (whose role is to oversee the investigation to ensure fairness and that the children involved in the process are represented), to look into complaints at Stage 2 of the procedure.</p>					
12.	<p>20 (30%) complaints required investigation at stage two of the process, compared to 11 (16%) in 2017/2018.</p>					
13.	<b>TABLE 5</b>					
	<b>Investigation of complaints</b>					

	Year	No of Stage 1 complaints	Percentage (number progressing to Stage 2)																												
	2018/2019	66	30% (20)																												
	2017/2018	69	16% (11)																												
	2016/2017	84	9.5 % (8)																												
14.	<p>If the complainant still remains dissatisfied after Stage 2 completion they can request a Stage 3 Independent Review Panel or, if both the Local Authority and the complainant believe the dissatisfaction that remains is not resolvable at a stage three panel, the matter can be referred directly to the LGSCO.</p> <p>There have been no Stage Three panels held in the last three years.</p>																														
15.	<p>Table 6 shows a comparison in the total number of contacts (complaints, representations, comments and compliments) received over the last three years. This is unlikely to be a true reflection of the number of compliments received by staff but recording is historically an issue. All staff are encouraged to send copies of compliments they receive to the Children and Families SPOC in order that they can be recorded and reported to the Service Director so that good service can be recognised. Professional to professional compliments are not recorded, in line with professional to professional complaints non recording under the complaints policy For example where a Head Teacher complains regarding a persistent delay in providing documents for a meeting for example, the matter will be referred directly to the Service Director of the area concerned. It will not be recorded as a complaint</p> <p style="text-align: center;"><b>TABLE 6</b></p> <table border="1"> <thead> <tr> <th></th> <th>2018/2019</th> <th>2017/2018</th> <th>2016/2017</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Record Type</b></td> </tr> <tr> <td>Complaints</td> <td>66</td> <td>69</td> <td>99</td> </tr> <tr> <td>Comments</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Referrals</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Compliments</td> <td>0</td> <td>3</td> <td>3</td> </tr> <tr> <td><b>Total</b></td> <td><b>66</b></td> <td><b>72</b></td> <td><b>102</b></td> </tr> </tbody> </table>				2018/2019	2017/2018	2016/2017	<b>Record Type</b>				Complaints	66	69	99	Comments	0	0	0	Referrals	0	0	0	Compliments	0	3	3	<b>Total</b>	<b>66</b>	<b>72</b>	<b>102</b>
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16.	<p>Table 7 provides a breakdown of complaints by complaint issue and type. As most complaints relate to more than one issue, this approach to breaking them down allows us to maximise our learning from them. The majority of complaints relate to either service provision, individual staff or poor communication. The high staff turnover in this service area may be a contributing factor.</p> <p style="text-align: center;"><b>TABLE 7</b></p> <table border="1"> <thead> <tr> <th>Complaint Reason / Issue</th> <th>2018/2019</th> </tr> </thead> <tbody> <tr> <td>Discrimination</td> <td>1.5%</td> </tr> <tr> <td>Misinformation</td> <td>7.7%</td> </tr> <tr> <td>Charges</td> <td>1.5%</td> </tr> <tr> <td>Speed</td> <td>1.5%</td> </tr> <tr> <td>Behaviour</td> <td>3%</td> </tr> <tr> <td>Performance</td> <td>80%</td> </tr> <tr> <td>Avoidable contact</td> <td>0</td> </tr> </tbody> </table>			Complaint Reason / Issue	2018/2019	Discrimination	1.5%	Misinformation	7.7%	Charges	1.5%	Speed	1.5%	Behaviour	3%	Performance	80%	Avoidable contact	0												
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	Disagree with decision	4.5%
17.	Table 8 shows an overall decrease in compliant response rates (within policy timescales) to complaints in Children and Families in 2018/2019.	
	<b>TABLE 8</b>	
	<b>Overall performance report - 1/04/2016 to 31/03/2019</b> <b>Response within(&lt; 10/20 days as appropriate)</b>	
		<b>2018/19</b>
		<b>2017/18</b>
		<b>2016/17</b>
	Stage 1	56%
	Stage 2	80%
		37.5%
		76.5%
		55.2%
		86.7%
	<b>Complaint outcomes 2018/2019</b>	
		<b>Upheld</b>
		<b>Partially Upheld</b>
		<b>Not Upheld</b>
		<b>Stopped / Withdrawn</b>
	Stage 1	22 (33%)
	Stage 2	4 (20%)
		15 (23%)
		1 (5%)
		24 (36%)
		13 (65%)
		5 (8%)
		2 (10%)
18.	<b>Adults Services (Social Care) complaints 1 April 2018 to 31 March 2019</b>	
	Adult Care complaints are dealt with under the standard complaint procedure. The Council recorded 75 complaints regarding Adult Social Care. This represents a 14.7% increase on the 64 complaints received in 2017/2018. 9 complaints (14 %) required investigation at stage two of the process, compared to 9 (14%) in 2017/2018.	
	<b>TABLE 9</b>	
	<b>Investigation of complaints (Stage 2)</b>	
	<b>Year</b>	<b>No complaints</b>
		<b>No progressing to stage 2</b>
		<b>Percentage progressing to stage 2</b>
	2018/2019	75
	2017/2018	64
	2016/2017	59
		9
		9
		8
		12%
		14%
		13.5%
19.	Table 10 provides a breakdown of complaints by complaint issue and highlights some of the major themes contained with the complaints received. The issues raised can be classified in ten specific ways. NB. Some complaints cross over one or more categories which explains why the total number of complaints received differs from the total in the below table.	
	<b>TABLE 10</b>	
	<b>Reason / Issue for complaint</b>	<b>2018/2019</b>

	Discrimination	0			
	Misinformation	0			
	Charges	8.7%			
	Speed	17.4%			
	Behaviour	26%			
	Performance	26%			
	Avoidable contact	0			
	Disagree with decision	17.4%			
20.	<b>Complaint Outcomes 2018/2019</b>				
	<b>TABLE 12</b>				
	<b>Stage</b>	<b>Upheld</b>	<b>Partially Upheld</b>	<b>Not Upheld</b>	<b>Stopped / Withdrawn</b>
	Stage 1	27	7	26	15
	Stage 2	1	4	3	1
21.	Under the complaints procedure, the council aims to send complainants a full reply within 20 working days, or if the matter is more complicated, this can be extended and the complainant kept informed of the reasons for delay.				
	<b>TABLE 13</b>				
	<b>Overall performance report – 1 April 2018 to 31 March 2019</b>				
	<b>Response within 20 days</b>				
		2018/19	2017/18	2016/17	
	Stage 1	47%	65.3%	50%	
	Stage 2	100%	80%	83%	

	<p><b>CONCLUSIONS</b></p> <p>Overall the total number of complaints recorded by the council in 2018/19 decreased by 13%. It is believed that a more robust and immediate response to complaint issues by members of the public, when they first contact the council, is responsible for the overall decrease in recorded complaints.</p> <p><b>Corporate</b></p> <p>Recorded complaints decreased by 22.76 %</p> <p>Stage 1 response within target time (20 days) has increased to 56% compliance rate.</p> <p>Stage 2 response within target time (20 days) has increased to 100% compliance.</p> <p><b>Children and Families</b></p> <p>Complaints decreased by 4.3%</p> <p>Stage 1 response within target time (10/20 days) has decreased to 50% compliance.</p> <p>Stage 2 response within target time (20 days) has increased to 80% compliance.</p> <p><b>Adults</b></p> <p>Complaints increased by 14.7%</p> <p>Stage 1 response within target time (20 days) has decreased to 47% compliance.</p> <p>Stage 2 response within target time (20 days) has increased to 100% compliance.</p>
22.	<p><b>Learning from complaints</b></p> <p>Whilst many issues are unique to a particular complaint, some highlight deficiencies in policy and process. They also highlight good or poor practice within individual teams or services.</p> <p>In stage two of all complaints processes complaints recording system generates an improvement plan for the investigating officer to complete when the complaint is finalised. This improvement plan is then used to drive change. Implementation is monitored by service managers in the particular service.</p> <p>In all other areas of the Council, the complaints are recorded on the Lagan system. This does not generate an improvement plan and service areas are relied upon to follow through on investigator recommendations.</p>

During 2018/19, all Council policies in relation to complaints have been reviewed and updated where necessary as part of the annual review of the CRT service provision. The updates have attempted to reflect the change in council structure and process (as the transformation project continues) and also reflect findings by the LGSCO and HO in respect of both Southampton related complaints referred to them and also generic National learning as a result of cases from other areas of the country.

Manager / Team Leader training in complaints handling has been completed again in 2018 to update existing Manager / Team leaders and provide guidance for new staff in the area of complaints. E-learning packages are available and scenario based workshops were delivered.

### **Overall feedback and learning**

The most common issue recorded as cause for complaint continues to be communication, especially with individuals but also to a lesser extent, with individual departments. Other than communication and contact issues, there were no identified themes running through any Service within the council as a result of complaints.

### **Adult Social Care**

The majority of complaints within Adult Social Care continue to be regarding withdrawal of some services that were traditionally delivered by ASC and matters surrounding change in the Charging Policy.

### **Housing**

Despite the number of complaints recorded in the Housing area of business, the findings of complaints remain in the area of communications and interpretation of policy in a number of the public's unique complaint circumstances.

Delay and sometimes failure highlighted in a number of complaints are in the area of initial contact and then the subsequent deployment of staff for repair and annual servicing issues

A number of changes to back office process have been implemented and improvements to call handling and subsequent transfer of information and requests processes are now underway following the cessation of the Capita contract.

### **Waste Management**

Waste management continue to be proactive in response to issue raised in regards to missed bin collections and fly tipping (where this falls under their remit). Processes are in place to deal with missed bin collections and where matters are correctly notified to the Council missed bins and the like are collected within two working days. As previously advised "missed bins" are not recorded as complaints unless there is a systematic or persistent failure. There are no recorded complaints regarding missed bins.

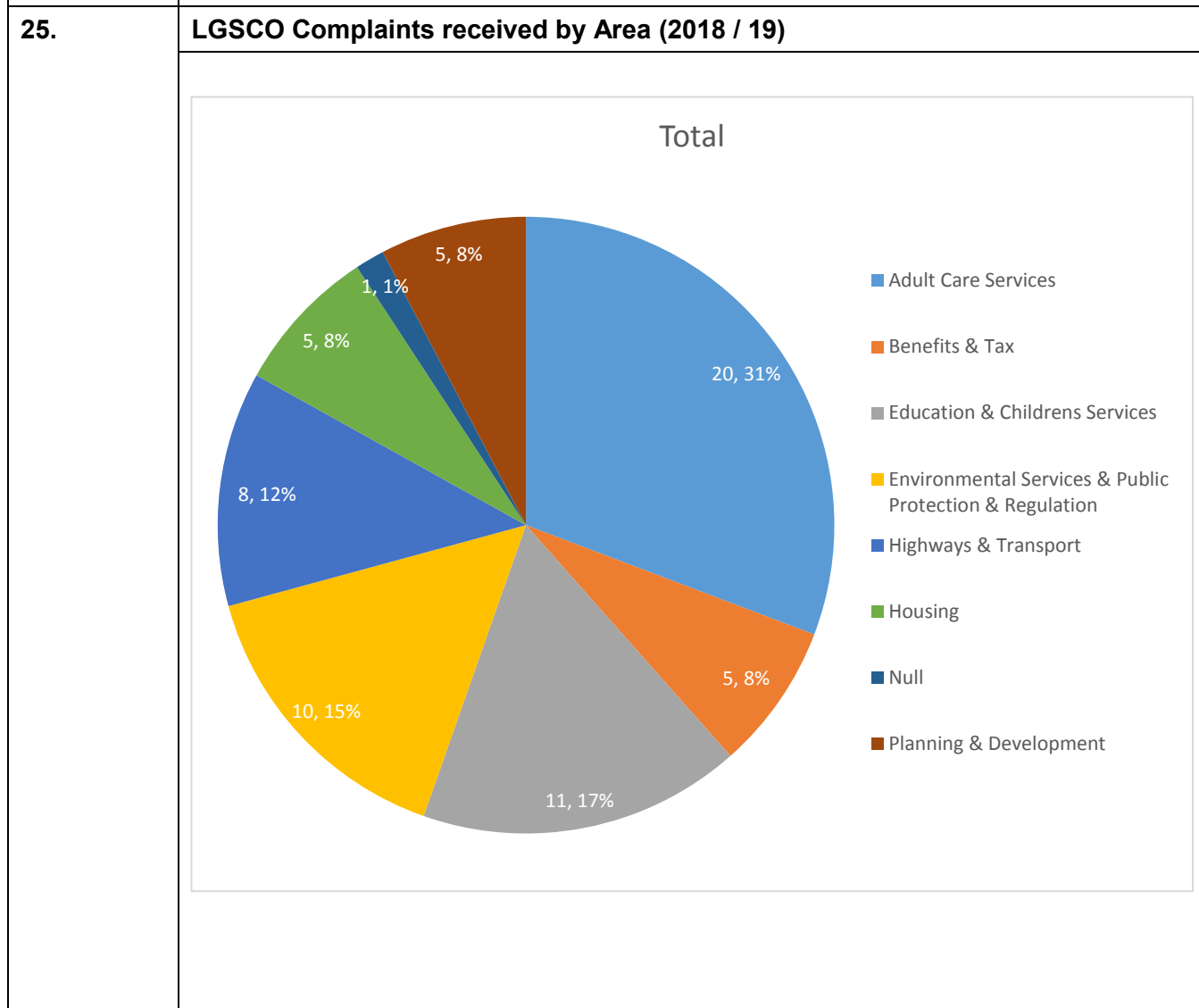
### **Children and Families**

The number and type of complaints with regard to C and F vary. The theme with complaints is very strongly associated with timeliness and communications.

	Complaint investigation outcomes continue to identify high workload, staff retention and interim agency staff as the catalyst of many C and F complaints. Themes include continuity of key workers in children's lives and issues missed in handover between cases causing delay to process.																						
23.	<p><b>Complaint process changes</b></p> <p>A CMT driven project is underway to ensure that the Lagan complaints system is used as the only complaint recording system for all services. This will address the current issue of a number of services using local or no system to record complaints.</p> <p>The project to update the existing Customer Relationship Management ( CRM ) system (extend the MySouthampton account system) continues to be implemented in stages. The segment regarding complain submission and tracking through the MySouthampton account process has commenced in October/November 2019 and although full functionality will not be achieved until all segments of the CRM project are complete, the system is designed for members of the public to raise complaints, automatically register them and be able to track progress as matters are dealt with. This will allow better understanding for the Local Authority of complaints and feedback and will also provide members of the public with information in real time regarding their complaint.</p>																						
24.	<p><b>Local Government &amp; Social Care Ombudsman (LGSCO) complaints</b></p> <p>LGSCO (formerly LGO) complaints, the final 'independent' stage for all complaints processes, are dealt with by the Service Lead: Legal Services Partnership on behalf of the Council. The LGSCO (the Commission for Local Administration in England) provides an independent review of all complaints falling within their jurisdiction. In an effort to simplify outcomes for complainants the LGSCO has in recent years moved from findings of 'Maladministration' and 'Injustice' to a more commonly understood term 'fault'. If 'Fault' is found a complaint is recorded as upheld, even if the Council has already taken steps to remedy that fault and the LGSCO is satisfied with the remedy offered by the Council. All findings are now reported on the LGSCO website within 3 months of the decision being published.</p> <p>Statutory reports still remain the highest 'fault' finding the LGSCO can make. These require the Council's Monitoring Officer to prepare a report for consideration at full Council following a period of statutory publication of the findings. None have been prepared in recent years. Council's that fail to co-operate with the LGSCO or any of their findings may be subject to Judicial Review.</p> <table border="1"> <thead> <tr> <th></th> <th>2018/19</th> <th>2017/18</th> <th>2016/17</th> </tr> </thead> <tbody> <tr> <td><b>Complaints received</b></td> <td><b>66</b></td> <td><b>74</b></td> <td><b>60</b></td> </tr> <tr> <td><b>Decisions made</b></td> <td><b>74</b></td> <td><b>68</b></td> <td><b>58</b></td> </tr> <tr> <td><b>Statutory reports</b></td> <td><b>0</b></td> <td><b>0</b></td> <td><b>0</b></td> </tr> <tr> <td><b>Upheld</b></td> <td><b>12 (70%)</b></td> <td><b>7 (50%)</b></td> <td><b>5 (50%)</b></td> </tr> </tbody> </table>				2018/19	2017/18	2016/17	<b>Complaints received</b>	<b>66</b>	<b>74</b>	<b>60</b>	<b>Decisions made</b>	<b>74</b>	<b>68</b>	<b>58</b>	<b>Statutory reports</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Upheld</b>	<b>12 (70%)</b>	<b>7 (50%)</b>	<b>5 (50%)</b>
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<b>Not upheld</b>	<b>5 (30%)</b>	<b>7(50%)</b>	<b>5 (50%)</b>
<b>Closed / invalid etc.</b>	<b>11</b>	<b>15</b>	<b>18</b>
<b>Premature referrals</b>	<b>28</b>	<b>39</b>	<b>30</b>



**26. Details of complaints upheld**

Of the 12 complaints upheld by the LGSCO last year, 9 related to Adult Social Care, 5 related to Education & Children’s, 1 related to Housing, 1 to Benefits and Taxation and 1 to Environmental Services and Public Protection.

The statistics show a demonstrable jump in both the number of complaints being received about Adult Social Care and Education & Children’s services matters and, significantly, the number not being resolved by the service area prior to referral to the LGSCO.

8 of the Adult Social Care matters specifically related to the closure of the Kentish Road respite centre and were the subject to a separate report to Governance Committee earlier this year due to the nature and significance of the findings. The detail is therefore not replicated in this report but Members may wish to review that earlier report which was presented to Governance Committee on 14<sup>th</sup> May 2019. That report can be found at:

<http://www.southampton.gov.uk/modernGov/documents/s40215/LGO%20Kentish%20Road.pdf>

The remaining Adult Social Care matter related to the processes followed in a residential care setting when making a DoLS (Deprivation of liberty & safeguarding) referral for an elderly resident lacking capacity to make their own decisions and failures in communication with the client's family through the process. As a result of the findings reminders were issued to nursing homes regarding the process for making DoLS referrals and training recommended for staff in those homes.

The Education & Children's Services matters related to:

- Reviewing procedures and staff training on the completion of annual review statements for Education & Health care plans (EHCP's).
- As above but in circumstances when a Council makes a decision outside of an Annual Review where alternative action is required urgently as a result of a child illness.
- The process for amending EHCP's to be brought in line with the 2015 edition of the Special Educational Needs & Disability Code of Practice.
- The need for Children's Services managers to properly follow internal complaints processes and, in particular, to communicate how to escalate complaints from stage 1 to stage 2 of the statutory process and to action such requests in a timely manner in accordance with the statutory requirements.

The housing matter related to an individual bidding on the Homebid system. The Council was found to have failed to provide sufficient information about an individual's ability to bid against age restricted properties and was ordered to amend its advice to clients and pay compensation of £1,000. To reflect the time the individual had been bidding on, and being rejected for, unsuitable age restricted properties.

The Environmental Protection matter related to a failure to keep a complainant informed of the actions the Council was taking to investigate an allegation of breach of planning controls at a restaurant property. The Council took appropriate enforcement action but the complainant was not advised and therefor continued to make complaints without understanding what action the Council had taken / could take in the circumstances.

Excluding the Kentish Road complaints, the total compensation paid by the Council following LGSCO enquiries was £1000. The majority of complaints were remedied by the offer of an apology and the provision of advice, guidance and training to staff or a review of Council procedure.

With the compensation paid in relation to Kentish Road matters (£40,375), the total compensation paid at LGSCO stage of the complaints process in 2018/19 was £41,375.

The Housing Ombudsman service operates separate from the LGSCO (who now only deals with limited policy matters relating to Housing) with that body dealing with 'landlord' related tenant complaints. There remains a significant backlog of complaints with that service with many months delay before complaints reach the Council for either mediation through the Ombudsman or investigation by their service. The figures in relation to Housing Ombudsman complaints and the true picture in relation to those that remain outstanding is in significant doubt as it was last year and the year before with no perceived improvement in response times or resolution outcomes.

	<p>The LGSCO nationally has raised their concern with the operation and effectiveness of the Housing Ombudsman service and remains of the view that regulatory change is required to reintegrate the services. It is not known at this time whether that is likely to be accepted by Parliament.</p>		
27.	<p><b>So how does Southampton compare?</b></p>		
	<p>The table below shows how Southampton performs against key local and unitary comparators (complaints received and overall % upheld). This is an edited snapshot of total number of complaints and is not intended to give more than a brief overview of comparative pressures / performance. More detail, and statistics for all other Councils, is included in the LGSCO Annual Report referred to above.</p>		
		<b>2018/19 (% Uphold rate)</b>	<b>2017/18</b>
	<b>Bournemouth</b>	<b>42 (55%)</b>	<b>58</b>
	<b>Bristol</b>	<b>124 (55%)</b>	<b>133</b>
	<b>Brighton &amp; Hove</b>	<b>87 (55%)</b>	<b>124</b>
	<b>Hampshire</b>	<b>111 (64%)</b>	<b>118</b>
	<b>Plymouth</b>	<b>107 (55%)</b>	<b>121</b>
	<b>Portsmouth</b>	<b>43 (55%)</b>	<b>46</b>
	<b>Southampton</b>	<b>74 (55%)</b>	<b>68</b>
	<p>Full details of both the Council's annual performance letter and the LGSCO Annual Review can be viewed on <a href="http://www.LGSCO.org.uk">www.LGSCO.org.uk</a></p>		
28.	<p><b>Learning from complaints</b></p>		
	<p>Steady and sustainable reduction in complaints for the last four years has been centred on trends within individual service areas. The Council has been able to identify common themes in respect of service area delivery. However, as numbers or recorded complaints have reduced it is much more difficult to identify any common themes due to such low numbers. However, underpinning virtually all complaints, is the missed opportunity to resolve issues at an early stage, usually initial contact. Matters appear to get to formal complaint stage where communication (or lack of it) tests the patience and adds to the frustration of members of the public wishing to deal with an issue with the Council. The adoption of the "Immediate Service Recovery" ethos saw a decrease in matters that need to go through formal complaints process. The subsequent introduction and then improvement in the web based service has contributed to another drop in recorded complaints. A more robust approach, when matters are not resolved at stage one and matters are requested to proceed to stage two of the complaints process, to return the issue to the service area through mediation are proving effective.</p> <p>The Council's vision and implementation of a Restorative Practice approach across all council services, together with partner agencies, is now being rolled out. The ethos is of early communication and intervention thus preventing issues growing into more unmanageable forms. Therefore it is envisaged that complaints recorded in the 2018/19 period will hold at present level or see another small decrease.</p>		

	It must be noted however that the percentage of complaints not responded to within the policy/legislation time frames is giving cause for further frustration to members of the public. New and updated guidance with regard to process and investigation of complaints, together with advice and guidance from the LGSCO is now published on the SCC "staff stuff" site to aid managers and others tasked with resolving complaints to do so at the earliest opportunity even when the formal complaints process has started.
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**RESOURCE IMPLICATIONS**

**Capital/Revenue**

29. None

**Property/Other**

30. None

**LEGAL IMPLICATIONS**

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

31. S.111 Local Government Act 1972 and s.1 Localism Act 2011.

**Other Legal Implications:**

32. Individual complaints touch on a wide variety of Council duties and powers which are taken into account (alongside pervasive legislation such as the Equalities Act 2010) when reviewing and responding to customer complaints and areas of service recovery or improvement.

**RISK MANAGEMENT IMPLICATIONS**

33. None in relation to this report. No major issues or areas of concern for the Council as a whole highlighted in this year's review however individual complaints are risk assessed on a case by case basis.

**POLICY FRAMEWORK IMPLICATIONS**

34. The complaints function is exercised wholly in accordance with the Council's Policy Framework.

<b>KEY DECISION?</b>	No
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<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
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**SUPPORTING DOCUMENTATION**

**Appendices**

	None
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**Documents In Members' Rooms**

	None
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**Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and</b>	No
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<b>Safety Impact Assessment (ESIA) to be carried out.</b>		
<b>Privacy Impact Assessment</b>		
<b>Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</b>		No
<b>Other Background Documents</b> Other Background documents available for inspection at:		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
	None	

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<b>DECISION-MAKER:</b>		Governance Committee	
<b>SUBJECT:</b>		Risk Management Report 2019	
<b>DATE OF DECISION:</b>		11 <sup>th</sup> November 2019	
<b>REPORT OF:</b>		Service Director Finance & Commercialisation	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Peter Rogers	Tel: 023 8083 2835
	<b>E-mail:</b>	peter.rogers@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	John Harrison	Tel: 023 8083 4897
	<b>E-mail:</b>	john.harrison@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
Not applicable			
<b>BRIEF SUMMARY</b>			
The Governance Committee is responsible for ensuring that an adequate and effective framework for the identification and management of key risks is in place and that appropriate action is being taken to manage risk. The Risk Management Report provides a summary of the council's risk management framework together with information on the arrangements and initiatives in place to manage risk.			
<b>RECOMMENDATIONS:</b>			
	(i)	To consider and review the content of the Risk Management Report 2019 (Appendix 1).	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	This report is presented to the Governance Committee as the member body responsible for providing independent assurance on the adequacy of the risk management framework and the internal control and reporting environment.		
2.	In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
3.	No alternative options have been considered		
<b>DETAIL (Including consultation carried out)</b>			
4.	The information provided in the Risk Management Report 2019 reflects the current framework and arrangements in place to manage risk and is intended to provide the Governance Committee with both information and assurance regarding how risk is managed.		
<b>RESOURCE IMPLICATIONS</b>			
<b><u>Capital/Revenue</u></b>			
5.	Any resource implications as a result of actions required to mitigate the risks need to be taken into account when setting the budget each financial year. The Medium Term Financial Strategy includes a section which sets out the sums allocated within reserves and balances to mitigate these risks where required.		

<b><u>Property/Other</u></b>	
6.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
7.	The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) require the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'.
<b><u>Other Legal Implications:</u></b>	
8.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
9.	The report is intended to provide the Governance Committee with assurance regarding risk management.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
10.	None
<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Risk Management Report 2019
<b>Documents In Members' Rooms</b>	
1.	None
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	None



### **Risk Management**

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The following provides a summary of the council's risk management framework and provides information on the key arrangements in place together with initiatives to manage or further develop the council's approach to managing risk.

#### **ROLES AND RESPONSIBILITIES**

The council's risk management function forms part of Risk and Insurance Services which is part of the Finance and Commercialisation Directorate, noting that the Cabinet Member for Resources is responsible for, and leads on, Risk Management.

The Risk & Insurance Manager is responsible for:

- Facilitating the continuing development of the Council's risk management arrangements including developing appropriate guidance and information;
- Supporting services in the management of operational and strategic risk;
- Facilitating and supporting the Council's Executive Management Board ('EMB') in respect of the periodic review of the Council's key risks;
- Arranging appropriate risk financing measures and providing advice and guidance on the extent of insurance or self-insurance arrangements;
- Where appropriate, arranging the placement of cover with insurers including the negotiation of premium rates and policy terms.

#### **RISK MANAGEMENT FRAMEWORK**

The risk management framework comprises the arrangements in place within key business processes that are intended to ensure that proper consideration is taken of risk. The key elements of this framework are as follows:

- **Strategic Risk Register**

The council's Strategic Risk Register (See Appendix 1) is a key document in terms of understanding and assessing the most significant risks that the council needs to manage in order to support the delivery of its key priorities and objectives as well as being able to exploit potential opportunities.

The Strategic Risk Register is developed in consultation with Service Directors who are also provided with information on 'Core Cities' strategic risks in order to sense check against the council's strategic risks. There is a robust process in place in respect of the review and update of the strategic risks which is undertaken quarterly. The end of quarter position is then reported to and reviewed by the Executive Management Board (Chief Executive and Service Directors).

There are currently 13 Strategic Risks noting that, at the End Q2 review, it was considered that the risk in respect of *"Failure to respond appropriately or sufficient quickly to significant changes in service demand arising from changes in the welfare system"* no longer needed to feature on the Strategic Risk

Register. This was on the basis that most of the changes have now come in, with the impacts managed as 'business as usual'. It should also be noted that Risk No 13 was originally added at the End Q1 however it was agreed that the risk description needed to be reworded. The amended version was approved at the End Q2 review.

- **Risk Management Policy**

The council has in place a 'Risk Management Policy' which provides an overview of the framework, arrangements and responsibilities for managing risk and is intended to assist officers in applying sound risk management principles and practices across their areas of responsibility.

In early 2019, our insurers and brokers were invited to review and comment on this document with the intention of ensuring that it remained aligned with good practice. There were no significant comments however some minor changes were incorporated into the updated document.

- **Decision Taking – Corporate Report Template**

The council's standard corporate report template includes a 'risk management implications' section that requires the report author to consider and provide the decision taker with relevant and proportionate information regarding the risks associated with the project or initiative that is the subject of the report. The inclusion of the 'risk management implications' paragraph is intended to support informed decision taking.

- **Project and Programme Management**

The need to identify and manage risk runs throughout the project and programme management process from initiation to implementation. Guidance is available to assist both project managers and project sponsors/boards in understanding the importance of managing risk.

- **Partnerships**

All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty) and major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'.

- **Medium Term Financial Plan**

The Council's Medium Term Financial Strategy includes a financial risk register, which is reviewed on a quarterly basis, and identifies the key risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned.

- **Outcome Based Planning and Budgeting / Performance Management**

As part of the business planning process Service Directors and their management teams are required to consider the risks that may impact on delivery of their key priorities and outcomes and the necessary mitigations.

- **Fraud Risk Management**

An Anti-Fraud, Bribery and Corruption Policy is published on the intranet and applies to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets.

## **RISK MANAGEMENT ACTIONS AND INITIATIVES**

- **Operational Risk Management**

- The management of 'day to day' or 'operational risk' is the responsibility of individual service areas with support and guidance being provided by Risk and Insurance Services as required including, where necessary, access to specialist advice.

### **Housing – Fire Safety**

- The single most significant operational risk management initiative undertaken in recent years by the council is the investment in improving fire safety within the housing stock. This has seen sprinklers installed into approximately 2,000 flats together with other fire safety improvements including fitting around 500 new fire doors and a programme to review, and where necessary take action, to ensure effective 'fire stopping' between flats and corridors.
- Although the main focus has been on the high rise blocks there has also been an ongoing programme to replace fire doors, replace door closers (circa 1000 completed) and improve fire stopping in lower rise blocks. This is being progressed by the council's Capital Assets Team using a risk based approach.
- A 'Housing Risk Management Bulletin – *Risky Business*' has been issued on a quarterly basis since 2017. This bulletin is well received by both Housing and Capital Assets and is intended as useful and informative update in respect of insurance claims and related matters specifically relevant to Housing as well as reflecting on learning points or points to consider.

- **Insurable risk**

- The council's corporate insurance programme is out to tender for 1<sup>st</sup> April 2020. A range of pre tender actions were undertaken in conjunction with the council's insurance broker and included an actuarial review of the council's self-insurance fund, an exercise to review all outstanding claims and claim reserve figures and a detailed critical review of the current insurance programme.
- In early 2019 insurers were commissioned (at no cost to the council) to undertake a desktop valuation of the Council's housing stock. This exercise, which looked at circa 16,000 individual dwellings, was a repeat of an exercise originally carried out in 2016. The intention was to ensure that the sums insured remained adequate particularly those in respect of the high risk tower blocks.

- **Risk Management Training**

- A 'Risk Management Essentials' guidance, together with an associated 'e-learning' module, is in place and available to all staff. This covers the key principles of risk management and provides foundation learning resource.
- In July 2019 a session on risk management was provided to new members as part of their induction training with training for new Members of the council's Governance Committee having taken place in July 2018.
- A 'Risk in Decision Taking' session was presented to the council's Leadership Team (all Service Directors and Heads of Service) in October 2019. The session was a reminder in terms of how

report authors should look to populate the 'risk management implications' section that forms part of the standard corporate report template.

- **Property Fire and Security surveys**

- An annual programme of fire and security surveys has been undertaken by the property insurers and involves site visits to 6-8 properties across the portfolio. All actions arising from these surveys have been actioned. Insurers have slightly delayed the proposed property survey programme for 2019-20

- **Motor Risk Management**

- There is a continued programme of either retrofitting where possible, or ensuring that new Refuse Collection Vehicles have the benefit of 360° cameras. The cameras, together with the 'bartec' tracker system have proved to be beneficial in terms of being able to quickly and easily investigate and refute spurious allegations

**Proposed new risk management activities being considered:**

- Joint training session with the Supplier Management Team and Legal (Contracts and Procurement Team) around developing a better understanding of 'insurance and indemnity clauses in contracts'
- Desktop review of motor claims to be undertaken by insurers (at no cost to SCC) and to include a review of SCC loss experience against peer authorities.
- Information Governance Health check – insurers are able to offer a 'health check' type exercise. This is being explored in terms of the scope and potential benefit.

# Strategic Risk Assurance Report 2019-20

## Appendix 1

Period	Report Date	Report Version
End Q2: 19-20	Oct-19	15

Risk No	Risk Description	Target Risk Score		Current Risk Score - End Q2		Quarterly movement			
		Likelihood	Impact	Likelihood	Impact	2018-19		2019-20	
						Q3	Q4	Q1	Q2
01	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.	Unlikely	Major	Possible	Major	↔	↔	↔	↔
02	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Unlikely	Major	Unlikely	Major	↔	↔	↔	↔
03	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.	Unlikely	Major	Possible	Major	↔	↔	↔	↔
04	Failure to safeguard vulnerable adults resulting in a preventable incident	Possible	Extreme	Possible	Extreme	↔	↔	↔	↔
05	Failure to ensure an effective and sustainable adult social care system	Unlikely	Major	Likely	Major	↔	↔	↔	↔
06	Failure to safeguard children resulting in a preventable incident	Possible	Extreme	Possible	Extreme	↔	↔	↔	↔
07	Failure to ensure an effective and sustainable children's social care system	Unlikely	Major	Possible	Major	↔	↔	↔	↔
08	Failure to meet our health and safety responsibilities	Unlikely	Major	Possible	Major	↔	↔	↔	↔
09	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures	Very Unlikely	Significant	Possible	Significant	↔	↔	↔	↔
10	Failure to maintain good governance whilst delivering organisational change and service redesign solutions	Unlikely	Significant	Possible	Significant	↔	↔	↔	↔
11	Failure to improve air quality to legal levels by 2020	Unlikely	Significant	Unlikely	Significant	↔	↓	↔	↔
12	Failure by service areas to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules'	Unlikely	Significant	Possible	Significant	↔	↔	↔	↔
13	Failure to have in place up to date skills audits across all service areas to identify the range of skills and technical / professional expertise required to deliver services	Unlikely	Significant	Likely	Significant	-	-	-	NEW

<b>LIKELIHOOD</b>	<b>5</b> Almost Certain	11	16	20	23	25		
	<b>4</b> Likely	7	12	13. Workforce skills audit	17	21	24	
	<b>3</b> Possible	4	8	9. Info Governance 10. Change Mgmt 12. Procurement Compliance	13	1. Sustainable Budget delivery 2. Major Incident 8. Health & Safety 7. Sustainable Childrens social care	18	22
	<b>2</b> Unlikely	2	5	11. Air Quality	9	14	19	
	<b>1</b> Very Unlikely	1	3	6	10	15		
		<b>1 - Minor</b>	<b>2- Moderate</b>	<b>3 - Significant</b>	<b>4 - Major</b>	<b>5 - Extreme</b>		
<b>IMPACT</b>								

LIKELIHOOD	
5 - Almost certain > 95%	Is expected to occur in most circumstances
4 - Likely ↑	Will probably occur in most circumstances
3 - Possible 50%	Might occur at some time
2 - Unlikely ↓	Could occur at some time
1 - Very Unlikely < 5%	May only occur in exceptional circumstance

IMPACT	1 - Minor	2 - Moderate	3 - Significant	4 - Major	5 - Extreme
<b>Service delivery / key priorities</b>	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
<b>Financial Impact</b>	Loss or loss of income < £10k	Loss or loss of income £10k - £499k	Loss or loss of income £500k - £4.99m	Loss or loss of income £5m < £9.99m	Loss or loss of income >£10m
<b>Reputation</b>	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2018-19</b>	
<b>DATE OF DECISION:</b>		<b>11 NOVEMBER 2019</b>	
<b>REPORT OF:</b>		<b>EY LLP (EXTERNAL AUDIT)</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>David White</b>	<b>Tel:</b> 02380 382042
	<b>E-mail:</b>	<a href="mailto:dwhite@uk.ey.com">dwhite@uk.ey.com</a>	
<b>Director</b>	<b>Name:</b>	<b>Helen Thompson</b>	<b>Tel:</b> 02380 382009
	<b>E-mail:</b>	<a href="mailto:hthompson2@uk.ey.com">hthompson2@uk.ey.com</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
N/A			
<b>BRIEF SUMMARY</b>			
<p>The National Audit Office’s Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body. The annual audit letter summarises key findings from across the range of the auditor’s work and responsibilities under statute and the Code, in relation to the 2018/19 audit. It provides a clear, readily understandable commentary on the results of the auditor’s work and highlights any issues that the auditor wishes to draw to the attention of the public. The annual audit letter is a public facing document and is written for a wider audience because it must be published by the audited body.</p>			
<b>RECOMMENDATIONS:</b>			
	<b>(i)</b>	To note the Annual Audit Letter 2018/19 as attached	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	Please see summary above, with regard to the requirement to issue an Annual Audit Letter. The Accounts and Audit Regulations require the Annual Audit Letter to be considered by a Committee of the Authority, and then published on the Authority’s website.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
2.	None		
<b>DETAIL (Including consultation carried out)</b>			
3.	<p>See summary above, and attached Annual Audit Letter.</p> <p>The Annual Audit Letter has been shared with officers (the Service Director: Finance and Commercialisation, the Interim Service Lead – Corporate Planning &amp; Commercialisation, and the MTFs &amp; Revenue Manager) for comment prior to submission into papers, and the comments received have been reflected in the report.</p>		
<b>RESOURCE IMPLICATIONS</b>			
<b><u>Capital/Revenue</u></b>			
4.	None		

<b><u>Property/Other</u></b>	
5.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
6.	<ul style="list-style-type: none"> <li>Local Audit and Accountability Act 2014</li> <li>Accounts and Audit Regulations 2015</li> </ul>
<b><u>Other Legal Implications:</u></b>	
7.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
8.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
9.	None

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Annual Audit Letter 2018/19

**Documents In Members' Rooms**

1.	N/A
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	None



# Southampton City Council

Annual Audit Letter for the year ended 31 March 2019

October 2019

Page 39

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

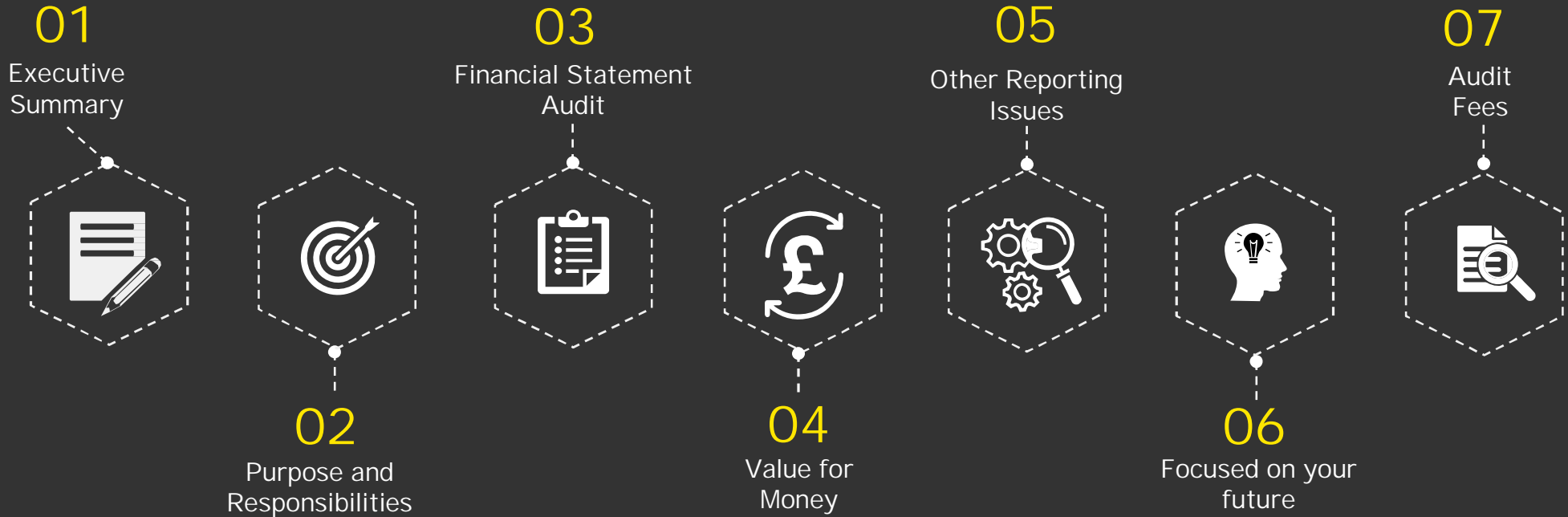
Building a better working world

Appendix 1

Agenda Item 10

# Contents

Page 40



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. 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.



01

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Southampton City Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the annual accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you had put in place proper arrangements to secure value for money in your use of resources.

Page 4

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	Our work on the Council's Whole of Government Accounts return is scheduled to be completed by 31 October 2019. There are no matters to report at the time of writing this annual audit letter.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 19 September 2019; and we updated our findings at the meeting of the Governance Committee on 30 September 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We have not yet issued our audit completion certificate. We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We were satisfied that this work did not have a material effect on the financial statements or on our value for money conclusion. We anticipate issuing the certificate on or before 31 October 2019, following the completion of our work on the Whole of Government Accounts.

Page 43

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP





## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Governance Committee, representing those charged with governance, on 30 September 2019. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 31 January 2019 and was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2018/19 financial statements; and
- ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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



03

# Financial Statement Audit



## Key Findings

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 01 October 2019.

Our detailed findings were reported to the Governance Committee on 30 September 2019.

The key findings identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Page 17</p> <p>misstatements due to fraud or error</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach was as follows:</p> <ul style="list-style-type: none"> <li>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.</li> <li>• We reviewed accounting estimates for evidence of management bias.</li> <li>• We evaluated the business rationale for any significant unusual transactions.</li> </ul> <p>From the work completed, we did not identify:</p> <ul style="list-style-type: none"> <li>• Any material weaknesses in controls or evidence of material management override.</li> <li>• Any instances of inappropriate judgements being applied.</li> <li>• Any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</li> </ul>

## Financial Statement Audit (cont'd)

The key findings identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure</p> <p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, leading to overstatement of Property, Plant and Equipment (PPE) and/or Investment Property (IP) in the Balance Sheet, and understatement of expenditure in the Comprehensive Income and Expenditure Statement.</p> <p>The value of PPE additions in 2018/19 was £77m and the value of IP additions was £7.1m.</p>	<p>Our approach was as follows:</p> <ul style="list-style-type: none"> <li>• We tested PPE/IP additions, using lowered testing thresholds, to ensure they were appropriately supported by documentary evidence, and that the expenditure incurred and capitalised was clearly capital in nature.</li> <li>• When performing journals testing, we challenged the basis for any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.</li> </ul> <p>We did not identify any instances of inappropriate capitalisation of revenue expenditure.</p>
Other areas of audit focus	Conclusion
<p>Valuation of Land and Buildings, and Investment Property</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The net book value of PPE in the draft accounts at 31/03/2019 was £1.37bn, and the value of IP was £135m.</p>	<p>Our work focussed on:</p> <ul style="list-style-type: none"> <li>• The adequacy of the scope of the work performed by the Council's expert valuers including their professional capabilities.</li> <li>• The reasonableness of the underlying assumptions used by the valuers.</li> <li>• The material correctness of the carrying value of assets not revalued in 2018/19.</li> </ul> <p>Our work to review assets not revalued in 2018/19 identified a £53.1m understatement of the value of PPE. The main categories of assets impacted were schools and car parks, which were understated by £46.4m. These were adjusted in the final version of the financial statements. We were satisfied that the PPE balance was materially correct following this adjustment.</p> <p>We used internal specialists to assist with our work on the valuation of one investment property and one group of PFI assets. No issues arose from this work.</p> <p>No other issues were identified.</p>

# Financial Statement Audit (cont'd)

The key findings identified as part of our audit were as follows: (cont'd)

Other areas of audit focus	Conclusion
<p><b>Private Finance Initiative (PFI) Accounting</b></p> <p>The Council has two PFI arrangements for which the finance lease liabilities are material to our audit – Schools and Street Lighting. PFI accounting is a complex area, and a detailed review of the Schools and Street Lighting PFIs was undertaken by our internal specialist in 2017/18. The remaining on-balance sheet PFI (Waste) was reviewed by our internal specialist in 2016/17. We reviewed the accounting entries and disclosures in relation to PFI in detail in 2018/19, with a focus on correction of non-material differences identified in 2017/18, and any significant changes since the specialists' reviews. The total finance lease liability for PFIs was £54m at 31/03/2019, and the value of PFI assets was £66m.</p>	<p>Our work focussed on:</p> <ul style="list-style-type: none"> <li>• Reviewing assurances brought forward from prior years regarding the appropriateness of the PFI financial models.</li> <li>• Reviewing the PFI financial models for any significant changes.</li> <li>• Ensuring the PFI accounting models had been updated for any service or other agreed variations and confirming consistency of current year models with prior year brought forward assurances.</li> <li>• Agreeing outputs of the models to the accounts, and reviewing the completeness and accuracy of disclosures; and</li> <li>• Reviewing the correction of non-material audit differences identified in 2017/18 which were expected to be corrected this year.</li> </ul> <p>We did not identify any issues with regard to PFI accounting through performance of the above programme of work, and the non-material differences from 2017/18 had been amended as expected.</p>
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The net pension liability in the draft accounts at 31/03/2019 was £445m.</p>	<p>Our work focussed on:</p> <ul style="list-style-type: none"> <li>• The reasonableness of the underlying assumptions used by the Council's expert – Aon Hewitt.</li> <li>• Ensuring the information supplied to the actuary in relation to Southampton City Council was complete and accurate.</li> <li>• Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Aon Hewitt.</li> </ul> <p>We did not identify any material issues with regard to the valuation of the pension liability. We identified one immaterial audit difference, which management chose not to adjust, as a result of reviewing the assumptions made by the actuary, specifically with regard to Guaranteed Minimum Pension (GMP). In addition, the final accounts were amended to reflect an adjusting post balance sheet event arising from developments in the McCloud case which took place after 31 March 2019.</p>

## Financial Statement Audit (cont'd)

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The key findings identified as part of our audit were as follows: (cont'd)

Other areas of audit focus	Conclusion
<p>New Accounting Standards</p> <p>IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) applied from 1 April 2018.</p> <p>IFRS 9 changed:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets are calculated; and</li> <li>• The disclosure requirements for financial instruments.</li> </ul> <p>The key requirements of IFRS 15 cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The impact on local authority accounting is generally limited as large revenue streams like council tax, non domestic rates and government grants are outside the scope of IFRS 15.</p>	<p>Our work focussed on:</p> <ul style="list-style-type: none"> <li>• Assessing the Council's implementation arrangements and accounting for the new standards in 2018/19.</li> </ul> <p>The Council was able to demonstrate that implementation of IFRS 15 had no material impact on its financial reporting arrangements.</p> <p>For IFRS 9 we concluded that:</p> <ul style="list-style-type: none"> <li>• Required changes to the classification and accounting for financial instruments were made correctly.</li> <li>• An ECL model had been used to determine potential impairments or provisions necessary for financial assets.</li> <li>• CIPFA Code disclosure requirements were met.</li> </ul>

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £11.78m (2017/18: £12.82m), which is 1.8% (2017/18 2%) of gross revenue expenditure reported in the accounts of £654.4 million (excluding some accounting entries relating to PPE, which had no impact on the General Fund or Council taxpayer).  We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £0.589m (2017/18: £0.641m).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied included:

- ▶ Remuneration disclosures including any severance payments, exit packages, termination benefits and members allowances: these areas were tested in detail as part of our audit.
- ▶ Related party transactions: these were tested in detail as part of our audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. No issues which were considered to warrant reporting to those charged with governance were identified in the above areas.



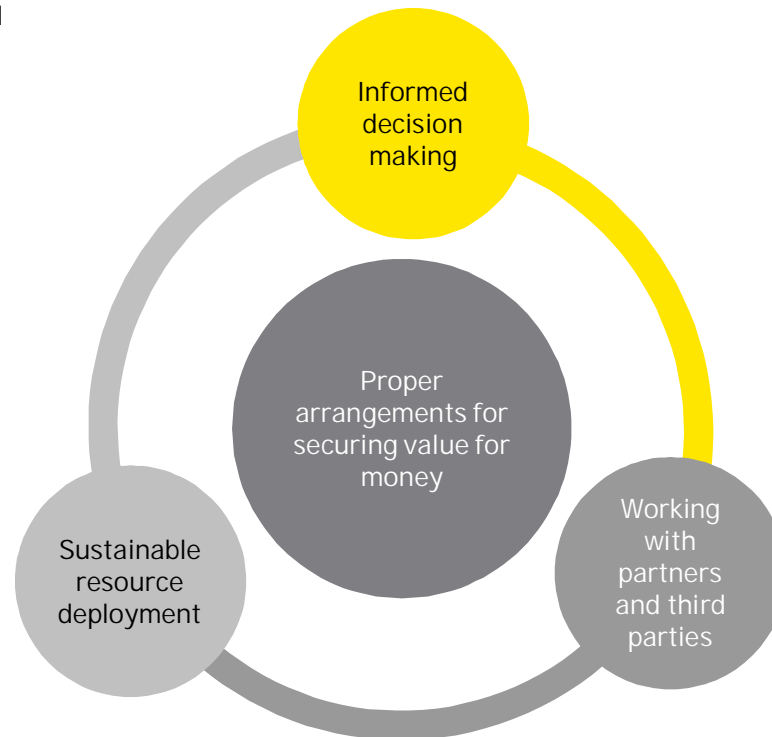
# 04 Value for Money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified one significant risk in relation to these arrangements for the Council. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 1 October 2019.

# Value for Money (cont'd)

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## Significant Risk

Compliance with both procurement and contracting policies as part of a sound system of internal control.

Our value for money conclusion in 2017/18 was qualified “except for” as a result of the identification of significant levels of non-compliance with the Authority’s procurement rules. As the process of addressing the underlying issues was ongoing through 2018/19, we considered that this remained an area of risk for our value for money conclusion this year. We therefore sought to evaluate the strength and effectiveness of the measures the Authority has put in place through our value for money work in 2018/19.

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## What did we do?

Our work focussed on seeking assurance that the measures which have been introduced and reinforced in response to the adverse findings reported in 2017/18 are robust, and that effective controls are now in place to prevent, detect and correct non compliance. We liaised with Internal Audit to ensure we have taken into account the findings of their follow up work in this area.

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## Conclusion

Progress has been made in strengthening the Authority’s arrangements with regard to procurement and contracting in 2018/19.

New controls have been created within the Authority’s Agresso financial system to help ensure that all spend under £100k is notified to the sub-£100k procurement team, is linked to an approved contract where relevant, and that all related contracts are included within the Authority’s contracts register.

A number of key forms and templates required for the procurement process have been significantly simplified, to help ensure timely completion of procurement processes.

The issues with regard to three specific contracts identified through the work of Internal Audit in 2017/18 have been addressed and the related spend is now compliant with the Authority’s procurement rules. There has been a further general improvement in compliance levels as reported to the Governance Committee during 2018/19.

We acknowledge that there is further work to be done to improve compliance levels further, and processes are yet to be designed and implemented to ensure compliance for spend which comes through the Authority’s feeder systems rather than directly through Agresso. However, this spend comprises a relatively small percentage of the Authority’s overall expenditure.

We will continue to review reporting to the Governance Committee on this issue in future, and the findings of a further follow-up review by Internal Audit planned for 2019/20. However, we were satisfied that sufficient improvements to arrangements had been made in 2018/19 for our value for money conclusion to be unmodified.

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05

## Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

Our work on the Council's Whole of Government Accounts return is scheduled to be completed by 31 October 2019. There are no matters to report at the time of writing this annual audit letter.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

## Other Reporting Issues (cont'd)

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### Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Governance Committee on 30 September 2019. 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.

### 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Governance Committee.



## 06 Focused on your future





# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, it is clear that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> <li>- new definitions of assets, liabilities, income and expenses</li> <li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li> <li>- enhanced guidance on accounting measurement bases</li> <li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li> </ul> <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

Page 59



Page 60

## 07 Audit Fees

## Audit Fees

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Our planned fee for 2018/19 is in line with the scale fee set by the PSAA and reported in our 19 September 2019 Audit Results Report. Our final fee remains subject to agreement with PSAA.

Description	Proposed Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee - Code work	110,271*	109,891	109,891	154,362

Page 61  
See below for explanation:

As we are no longer the reporting accountant for the Council's housing benefit subsidy claim, we needed to undertake work as part of the financial statements audit which we would previously have performed as part of certifying the housing benefit claim and used for both engagements. This work would previously have been covered by the fee for the housing benefit certification. As such, we are proposing an additional fee of £380 for this work.

The proposed additional fee has been agreed with management but remains subject to agreement with PSAA.

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<b>DECISION-MAKER:</b>		GOVERNANCE COMMITTEE	
<b>SUBJECT:</b>		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2019/20	
<b>DATE OF DECISION:</b>		11 NOVEMBER 2019	
<b>REPORT OF:</b>		Director Finance and Commercialisation (S151)	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Steve Harrison	<b>Tel:</b> 023 8083 4153
	<b>E-mail:</b>	<a href="mailto:steve.harrison@southampton.gov.uk">steve.harrison@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	John Harrison	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	<a href="mailto:john.harrison@southampton.gov.uk">john.harrison@southampton.gov.uk</a>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2019/20 to date against the approved Prudential Indicators for External Debt and Treasury Management.			
<b>This report specifically highlights that:</b>			
	(i)	Borrowing activities have been undertaken within the borrowing limits approved by Council on 20 February 2019.	
	(ii)	Current Investment strategy is to continue to diversify Strategic funds into more secure and/or higher yielding asset classes and to use short term investments for cash flow purposes. Forecast returns for the year are £1.44M with a current weighted average rate of 1.58%.	
	(iii)	The Council's strategy is to minimise borrowing to below its Capital Financing Requirement (CFR), the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability.	
	(iv)	The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of external borrowing often being the most cost effective means of financing capital expenditure. The forecast is for internal borrowing to be at £152M by 31 March 2020.	
	(v)	In achieving interest rate savings the Council is exposed to interest rate risk, this was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change, such as the drop in gilt rates which lead to the decision to borrow from PWLB in September.	
	(vi)	Net loan debt has decreased slightly since the 31 March from £248M to £244M (£4M) as detailed in table 3, appendix 3.	

	(vii)	There has been full compliance with the Prudential Indicators approved by Full Council on 20 February 2019.
	(viii)	Security of investment continues to be the highest priority, and credit scores are one way this risk is managed. The average credit rating for the institutions the council has invested in (at AA-) is above our target level (A) set in the strategy.
<b>RECOMMENDATIONS:</b>		
<b>It is recommended that Governance committee:</b>		
	(i)	Notes the Treasury Management (TM) activities for 2019/20 and performance against the Prudential Indicators.
	(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	(iii)	Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>		
1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.	
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>		
2.	No alternative options are relevant to this report.	
<b>DETAIL (Including consultation carried out)</b>		
<b>CONSULTATION</b>		
3.	Not applicable.	
<b>BACKGROUND</b>		
4.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.	
5.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).	
6.	The Authority's TM Strategy for 2019/20 was approved by full Council on 20 February 2019 as part of the Council's Treasury Management Strategy Statement for 2019/20.	
7.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority	

	has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
8.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2019/20 and forecast movement in interest rates.
<b>BORROWING REQUIREMENT AND DEBT MANAGEMENT</b>	
9.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1, appendix 2. This highlights that the authority has an increasing CFR over the medium term, due to its ongoing capital programme and will need to externalise this debt due to forecast reduced reserves. Movement in the forecast CFR, based on the approved capital programme at the end of September, is shown in table 2, appendix 2.
10.	Due to the current low interest rate environment for short term borrowing it was envisage that the authority would continue to use short term borrowing during 2019/20, however as a result of the current economic uncertainty the benchmark gilt rates for PWLB loans fell to historic lows, so a decision was made to take a £90M 15 year EIP (Equal Instalment Payment) loan at 1.12% in early September in order to secure this advantageous rate, in line with our identified borrowing need.  Rates have since risen following the government's announcement on 9th October that the margin on loans has increased from 0.8% to 1.8% an increase of 100 base points or £10k for each £1M borrowed.
11.	Despite taking this loan, the Authority's continues its strategy to maintain borrowing and investments below their underlying levels in order to reduce risk and keep interest costs low and expects to have internal borrowing of £152M by the end of the year (i.e. the authority is applying its overall cash resources in lieu of external borrowing).If we were to borrow the £152M, based on the current rates for a 15 year PWLB maturity loan (2.82%), this would add £4.29M to the cost of borrowing and as this money would not be needed due to excess working balances it would need to be invested at rates that are likely to be below the cost of borrowing.
12.	The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
<b>MONITORING AND BENCHMARKING</b>	
13.	The treasury management position at 30 September 2019 and the change during the year is shown in appendix 3. As a result of taking the PWLB loan, investment balances are higher than usual at £131.5M (per table 3, total investments at 30 Sept 2019) but are expected to fall throughout the year to an estimated £42M by the end of the year (table 3, 31 March 2020 forecast) as we have a number of debt maturities in the second half of the year and spending via the ongoing capital programme. If we had not taken the £90M in September our forecast borrowing position would have shown a forecast

	borrowing need of £48.1M as opposed to having an expected surplus cash balance of £41.9M, (see appendix 2, table 1).
14.	Our advisors produce quarterly benchmarking which shows the breakdown of our current investments and how we compare with their other clients and other English Unitary Authority's, details can be seen in Appendix 3. It shows that on average the return on our current internal investments at 1.58% is higher than the average of 1.22% and our overall return including the LAPF fund is 1.56% as opposed to the average of 1.34%. This has been achieved without adversely impacting on our average credit rating which at AA- is in line with both other Local Authorities and Unitary Authorities. Due to the timing of taking the £90M PWLB loan our balances are higher than normal and a higher proportion are being held in instant access accounts which is depressing the figures which are normally higher due to our strategic approach to investments and borrowing, our weighted average return for the year is expected to be near to 3%.
15.	The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.
<b><u>Public Works Loan Board (PWLB) Update</u></b>	
16.	The PWLB has historically been the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However following the increase in its margin over the prevailing gilt rate from 0.8% to 1.8%, this will be kept under review and alternative sources of borrowing will be assessed to ensure that the most suitable form of borrowing is taken to resource the authority's ongoing capital programme.
17.	The increase in PWLB rates can be accommodated within the existing budget up to 2022/23 (based on the approved capital programme at the end of September) as increased interest rates were inbuilt within future years.
<b><u>Internal Borrowing</u></b>	
18.	Given the pressures on the revenue budget and significant reduction in revenue support grant, the strategy followed was to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
19.	As at the 31 March 2019 the Council used £179M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position is not sustainable over the medium term and available balances are expected to fall to £152M by the end of the financial year, see table 1, appendix 3. The Council will need to borrow externally to cover this amount as balances fall. Additional borrowing will also be required in future years to cover the refinancing of existing maturing debt, the externalising of internal debt to cover the expected fall in balances and to support the capital programme. This is likely to be a mixture of short and long term borrowing and our requirements will be determined in conjunction with our financial advisors.
<b><u>Lender's Option Borrower's Option Loans (LOBOs)</u></b>	
20.	The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at

	no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced by alternative borrowing.
<b>Other Debt Activity</b>	
21.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The forecast balance for 2019/20, after allowing for repayment in year of £2.88M is £54M.
22.	In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority which is being repaid over 50 years at £0.36M per annum, the 2019/20 forecast balance is £13.8M.
<b>TREASURY INVESTMENT ACTIVITY</b>	
23.	Both the CIPFA and DCLG's Investment Guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income returns.
24.	The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 the council's investment balances have ranged between £45.3M and £152.8M. As detailed in paragraph 13, balances are higher than usual as a result of taking a £90M PWLB loan. Work will be undertaken during October to move some of the cash in instant access to the medium term. Movement in year is summarised in appendix 3, table 6.
25.	Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2019/20. The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. At AA-our score is over and above the target level A for the average rating.
<b>Liquidity Management</b>	
26.	In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
<b>Readiness for Brexit</b>	
27.	The scheduled date for the UK to leave the EU has been extended from 31st October 2019 to 31st January with the option to leave earlier if an agreement can be made. The Authority will monitor the situation so action can be taken to ensure there are sufficient funds in UK-domiciled banks and Money Market Funds to hold sufficient liquidity required, including its account with the Debt Management Account Deposit Facility (DMADF).

28.	Following the agreement with the EU for an extension, the Prime Minister has called for an early general election which has been scheduled for 12 December. We will continue to monitor the market and take appropriate action if there is a significant movement as a result.
<b>Externally Managed Funds</b>	
29.	The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term, but will be more volatile in the shorter term. These funds are managed by professional fund managers.
30.	During 2019/20 this investment has returned an average yield of 4.3% against the initial investment and made a notional “gain” of £0.19M being valued at £27.19M, which compares with the end of March value of £27.45M. Any gain would only be realised at the point of sale.
31.	The funds have no defined maturity date, and are available for withdrawal after a notice period. Hence, their performance and suitability is regularly reviewed. In light of their strong performance, extra investment in these funds is a possibility.
<b>NON-TREASURY INVESTMENTS</b>	
32.	The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
33.	As detailed in the outturn report, between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties. The rate of return on these investment in 2018/19 was 5.95% gross and 2.05% net (after borrowing costs of £1.16M were incurred), which therefore represents a contribution to the revenue account of around £0.61M. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases.
34.	We are currently exploring options on whether to resume the PIF investments strategy. A report was submitted to Cabinet on the 15 <sup>th</sup> October which set out the proposals to renew the previously agreed policy for investment in commercial property and it is proposed that an allocation of up to £200m is included in the capital programme. Allocations will be made provided investment and other criteria are met and in accordance with the governance processes outlined in the report and as previously adopted by the authority when a property investment fund was agreed in 2016. Further details will be reported as part of the Strategy report for 2020/21 in February.
<b>COMPLIANCE WITH PRUDENTIAL INDICATORS</b>	
35.	It can be confirmed that the Council has complied with its Prudential Indicators for 2019/20, approved by Full Council on 20 February 2019.
36.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2019/20. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to

	security and liquidity over yield. Table 7, appendix 3 summarises the Key Indicators, External debt is forecast to be £365M at year end so there would be sufficient headroom within the authorised limit for future spending plans.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
37.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt is forecast to be £14.6M in 2019/20 of which £5.5M relates to the HRA. However this will be subject to movement as the need for further borrowing during the year becomes more certain.
38.	As a result of taking the PWLB loan at favourable rates, £120k has been released from the capital asset management (CAM) budget for the current year and £940k for 2020/21 and 2021/22, as detailed in the medium term financial strategy report submitted to Cabinet on 15 October.
39.	In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account, this is forecast to be £1.44M in 2019/20.
40.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses are forecast to be £0.31M in 2019/20.
<b><u>Property/Other</u></b>	
41.	None.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
42.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<b><u>Other Legal Implications:</u></b>	
43.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
44.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	

45.	This report has been prepared in accordance with the CIPFA Code of Practice on TM and is a requirement of the TM Strategy, which was approved at Council on 20 February 2019.	
<b>KEY DECISION?</b>	Yes/No	
<b>WARDS/COMMUNITIES AFFECTED:</b>	NONE	
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	2019/20 Economic Background	
2.	Capital Financing Requirement	
3.	Monitoring and Benchmarking 30 September 2019	
4.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None.	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	



### Treasury Management Economic Background

#### Financial Review and Outlook for 2019/20

A summary of the external factors, which sets the background for Treasury, as provided by the council's treasury advisors, Arlingclose Ltd, is provided below. The low for longer interest rate outlook theme that has been at the core of the recommended strategic advice for over a decade remains.

The UK economy still faces a challenging outlook as the government continues to negotiate the country's exit from the European Union.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April. Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels

for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities, however this may now be impacted by the PWLB increasing the margin for borrowing.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

## **Credit background**

Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period

There were a few credit rating changes during the quarter, none of which have impacted on our investment strategy.

### GLOSSARY OF TREASURY TERMS

<p><b>Authorised Limit (Also known as the Affordable Limit):</b></p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p><b>Balances and Reserves:</b></p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p><b>Bail - in (Risk):</b></p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p><b>Bank Rate:</b></p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p><b>Bond:</b></p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p><b>Capital Expenditure:</b></p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p><b>Capital Financing Requirement (CFR):</b></p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p><b>CD's:</b></p> <p>Certificates of Deposits with banks and building societies</p>
<p><b>Capital Receipts:</b></p> <p>Money obtained on the sale of a capital asset.</p>

**Corporate Bonds:**

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

**Cost of Carry:**

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

**Counterparty List:**

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

**Covered Bond:**

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

**CPI :**

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

**Credit Rating:**

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

**General Fund:**

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

**Gilts:**

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

**LOBO:**

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

**Long Term Borrowing:**

Amount owed for a period exceeding 12 months from the date of the balance sheet. Could be in the form of a loan, Public Finance Initiative or other obligations not due for one year.

Details are disclosed the balance sheet together with the interest rate and date of maturity. Majority of long-term borrowing held by the council is with the Public Works Loan Board.

**Maturity:**

The date when an investment or borrowing is repaid.

**Maturity Structure / Profile:**

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

**Minimum Revenue Provision (MRP):**

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

**Ministry of Housing, Communities and Local Government's (MHCLG)**

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

**Money Market Funds (MMF):**

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

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

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

**Monetary Policy Committee (MPC):**

In 1997, the UK Treasury granted the Bank of England operational independence over the conduct of monetary policy

The monetary policy committee (MPC) is chaired by the Governor of the Bank of England and is comprised of four other members of the Bank, and four external members. Their main objective is to ensure low and stable inflation (consistent with a target rate set by the Treasury) and to maintain confidence in pound sterling.

The traditional tool to do this is the Bank rate of interest – the rate that they charge commercial banks to borrow money. When this is at its lower bound there are a number of other tools that the MPC can use, for example, quantitative easing.

**Operational Boundary:**

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

**Premiums and Discounts:**

In the context of local authority borrowing,

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

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

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

**Property:**

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

**Prudential Code:**

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

**Prudential Indicators:**

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

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

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

**Revenue Expenditure:**

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

**(Short) Term Deposits:**

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

**Short Term / Temporary Borrowing:**

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

**Treasury Management Code:**

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009, 2011 and 2018.

**Yield:**

The measure of the return on an investment instrument.

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## CAPITAL FINANCING REQUIREMENT 2019/20 Appendix 3

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in tables below:

**Table 1 - Balance Sheet Summary**

	<b>31-Mar-19 Actual</b>	<b>31-Mar-20 Strategy</b>	<b>31-Mar-20 Forecast</b>	<b>31-Mar-20 Forecast Movement in year</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
General Fund CFR	334.02	345.79	341.22	7.20
Housing CFR	162.73	182.00	175.74	13.01
<b>Total CFR</b>	<b>496.75</b>	<b>527.79</b>	<b>516.96</b>	<b>20.21</b>
Less Other Debt Liabilities*	(71.07)	(67.55)	(67.83)	3.24
<b>Loans CFR</b>	<b>425.68</b>	<b>460.24</b>	<b>449.13</b>	<b>23.45</b>
Less External Borrowing	(246.34)	(169.87)	(297.46)	(51.12)
Internal (over) Borrowing	<b>179.34</b>	<b>290.37</b>	<b>151.67</b>	<b>(27.67)</b>
Less Usable Reserves	(154.28)	(136.00)	(108.74)	45.54
Less Working Capital Surplus	(92.94)	(84.82)	(84.82)	8.12
<b>New Borrowing or (Investments)</b>	<b>(67.88)</b>	<b>69.55</b>	<b>(41.90)</b>	<b>25.98</b>

**Table 2 – Forecast Movement in Capital Financing Requirement**

Capital Financing Requirement	General Fund	HRA	Total
	£M	£M	£M
Balance Brought forward	334.02	162.73	496.75
New Borrowing	18.91	10.61	29.52
MRP	(6.07)		(6.07)
Appropriations	(2.40)	2.40	0.00
Movement in Other Liabilities	(3.24)		(3.24)
<b>Estimated CFR 31 March 2020</b>	<b>341.22</b>	<b>175.74</b>	<b>516.96</b>

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## Monitoring and Benchmarking Scores at 30 September 2019

Appendix 4

### Treasury Monitoring

Tables below show Treasury Management activities and performance for 2019/20 to date against the approved Prudential Indicators for External Debt and Treasury Management.

**Table 3: Treasury Management Summary**

	31-Mar-19 Actual £M	31-Mar-19 Average Rate %	30-Sep-19 Actual £M	30-Sep-19 Average Rate %	31-Mar-20 Forecast £M	31-Mar-20 Forecast Average %
<b>Long Term Borrowing</b>						
Public Works Loan	197.34	3.30	281.61	2.62	247.87	2.89
LOBO Loans from Banks	9.00	4.86	9.00	4.86	9.00	4.88
	<b>206.34</b>	<b>3.36</b>	<b>290.61</b>	<b>2.72</b>	<b>256.87</b>	<b>2.96</b>
<b>Short Term Borrowing</b>						
Other Local Authorities	40.00	0.75	15.00	0.91	40.22	0.86
Other			0.36	0.91	0.36	0.86
<b>Total External Borrowing</b>	<b>246.34</b>	<b>3.03</b>	<b>305.97</b>	<b>2.66</b>	<b>297.46</b>	<b>2.78</b>
<b>Other Long Term Liabilities</b>						
PFI Schemes	56.88	8.82	55.44	8.82	54.00	9.01
Deferred Debt Charges (HCC)	14.55	2.61	14.19	2.61	13.83	2.66
<b>Total Gross External Debt</b>	<b>317.77</b>	<b>4.08</b>	<b>375.60</b>	<b>4.08</b>	<b>365.29</b>	<b>3.78</b>
<b>Investments:</b>						
<b>Managed In-House</b>						
Government & Local Authority	(9.00)	0.79	(20.00)	0.74		
Cash (Instant access)	(26.06)	0.77	(73.44)	0.65	(11.89)	0.65
Cash (Notice Account)			(5.00)	0.95		
Short Term Bonds	(1.60)	1.21	(3.02)	1.09		
Long Term Bonds	(6.03)	3.15	(3.01)	5.30	(3.01)	5.30
<b>Managed Externally</b>						
Pooled Funds (CCLA)	(27.00)	4.40	(27.00)	4.24	(27.00)	4.24
<b>Total Investments</b>	<b>(69.69)</b>	<b>4.03</b>	<b>(131.47)</b>	<b>1.58</b>	<b>(41.90)</b>	<b>3.29</b>
<b>Net Debt</b>	<b>248.08</b>		<b>244.13</b>		<b>323.39</b>	

**Table 4: Movement in Borrowing during the year to date**

	Balance on 01/04/2019 £M	Net Movement £M	Balance on 30/09/2019 £M	Weighted Average Rate %	Weighted Average Maturity
Public Works Loan Board	197.34	84.27	281.61	2.62	see below
Banks (LOBO)*	9.00	0.00	9.00	4.86	133 days
Local Authorities (short-term)	40.00	(25.00)	15.00	0.91	46 days
Other (short-term)	0.00	0.36	0.36	0.91	182 days
<b>Total Borrowing</b>	<b>246.34</b>	<b>59.63</b>	<b>305.97</b>	<b>2.66</b>	

\* next call date

## Monitoring and Benchmarking Scores at 30 September 2019

**Table 5: Maturity Structure of PWLB Borrowing**

Debt	Lower Limit	Upper Limit	Actual Debt as at 30/09/2019	Average Rate as at 30/09/2019	% of Debt	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	39.07	2.00	14	Yes
12 months and within 24 months	0	45	22.69	2.70	8	Yes
24 months and within 5 years	0	50	18.00	1.12	6	Yes
5 years and within 10 years	0	55	30.00	1.12	11	Yes
10 years and within 20 years	0	55	43.00	1.61	15	Yes
20 years and within 30years	0	65	5.00	4.60	2	Yes
30 years and within 40 years	0	75	101.10	3.74	36	Yes
40 years and within 45 years	0	75	22.75	3.60	8	Yes
			281.61	2.62	100	

**Table 6: Investment activity during the year**

	Balance on 01/04/2019 £M	Net Movement £M	Balance on 30/09/2019 £M	Weighted Average Rate %	Weighted Average Maturity
Government & Local Authority	(9.00)	(11.00)	(20.00)	0.74	19 days
Cash (Instant access)	(26.06)	(47.38)	(73.44)	0.65	1 day
Cash (Notice Account)	0.00	(5.00)	(5.00)	0.95	90 days
Short Term Bonds	(1.60)	(1.42)	(3.02)	1.09	1 day
Long Term Bonds	(6.03)	3.02	(3.01)	5.30	3 Years
Pooled Funds (CCLA)	(27.00)	0.00	(27.00)	4.24	Unspecified
<b>Total Investments</b>	<b>(69.69)</b>	<b>(61.78)</b>	<b>(131.47)</b>	<b>1.58</b>	

**Table 7: Key Prudential Indicators**

Indicator	Limit	Actual at 30 September 2019
Authorised Limit for external debt £M	£925M	£377M
Operational Limit for external debt £M	£875M	£377M
Maximum external borrowing in year	£875M	£311M
Limit of fixed interest debt %	100%	86%
Limit of variable interest debt %	50%	14%
Limit for Investments greater than a year £M	£55M	£30M
GF Ratio of Financing costs to Net Revenue Stream	10%	6.23%

# Monitoring and Benchmarking Scores at 30 September 2019

## Southampton Benchmarking Scores

Our advisors produce quarterly benchmarking which shows the breakdown of our current investments and how we compare to their other clients and other English Unitary Authority's, which is shown below. It shows that on average the return on our current internal investments at 1.58% is higher than the average of 1.22% and our overall return including the LAPF fund is 1.56% as opposed to the average of 1.34%. This has been achieved without impacting on our average credit rating which at AA- is in line with both other Local Authorities and Unitary Authorities. Due to the timing of taking the £90M PWLB loan our balances are higher than normal and a higher proportion are being held in instant access accounts which is depressing the figures which are normally higher due to our strategic approach to investments and borrowing, our weighted average return for the year is expected to be around 3%.



### Investment Benchmarking 30 September 2019

Southampton  
20 English Unitaries Average  
139 LAs Average

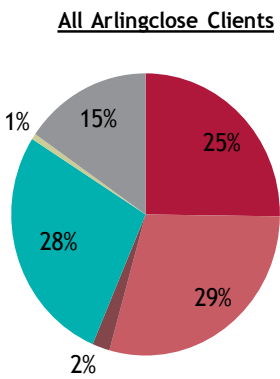
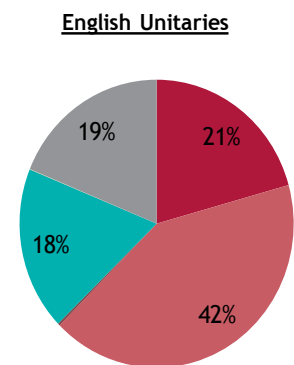
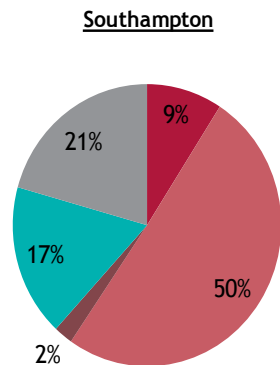
Internal Investments	£104.4m	£61.2m	£65.2m
Cash Plus & Short Bond Funds	£0.0m	£1.4m	£1.8m
Strategic Pooled Funds	£27.2m	£11.8m	£11.0m
<b>TOTAL INVESTMENTS</b>	<b>£131.6m</b>	<b>£74.4m</b>	<b>£78.1m</b>

Security			
Average Credit Score	3.83	4.32	4.28
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	2.10	4.29	4.19
Average Credit Rating (time-weighted)	AA+	AA-	AA-
Number of Counterparties / Funds	8	13	14
Proportion Exposed to Bail-in	66%	74%	62%

Liquidity			
Proportion Available within 7 days	58%	52%	42%
Proportion Available within 100 days	69%	71%	68%
Average Days to Maturity	48	41	28

Market Risks			
Average Days to Next Rate Reset	81	65	64
Strategic Fund Volatility	1.8%	1.8%	2.8%

Yield			
Internal Investment Return	0.85%	0.80%	0.83%
Cash Plus & Short Bond Fund - Total Ret	-	1.00%	1.26%
Strategic Funds - Total Return	4.36%	3.00%	3.32%
<b>Total Investments - Total Return</b>	<b>1.58%</b>	<b>1.19%</b>	<b>1.22%</b>
All External Funds - Income Only Return	4.30%	3.70%	3.68%
All External Funds - Capital Gains/Loss	0.05%	-0.99%	-0.79%
<b>Total Investments - Income Only Retu</b>	<b>1.56%</b>	<b>1.48%</b>	<b>1.34%</b>



- Bank Unsecured
- Fund Unsecured
- Bank Secured
- Government
- Corporate/RP
- Strategic Funds

**Notes**

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

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<b>DECISION-MAKER:</b>		<b>GOVERNANCE COMMITTEE</b>	
<b>SUBJECT:</b>		<b>INTERNAL AUDIT PROGRESS REPORT 2019-20</b>	
<b>DATE OF DECISION:</b>		<b>11<sup>th</sup> NOVEMBER 2019</b>	
<b>REPORT OF:</b>		<b>CHIEF INTERNAL AUDITOR</b>	
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Elizabeth Goodwin</b>	<b>Tel: 023 8083 4616</b>
	<b>E-mail:</b>	<b>Elizabeth.Goodwin@southampton.gov.uk</b>	
<b>Director</b>	<b>Name:</b>	<b>John Harrison</b>	<b>Tel: 023 8083 4897</b>
	<b>E-mail:</b>	<b>John.Harrison@southampton.gov.uk</b>	
<b>STATEMENT OF CONFIDENTIALITY</b>			
N/A			
<b>BRIEF SUMMARY</b>			
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"> <li>• Progress made against the agreed annual audit plan.</li> <li>• Results of audit activities and</li> <li>• Management’s response to risk that in the CIA’s judgement maybe unacceptable to the Authority</li> </ul> <p>All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>Internal Audit Progress for the period 17<sup>th</sup> September 2019 to 30<sup>th</sup> October 2019 is covered in the attached Appendix 1.</p>			
<b>RECOMMENDATIONS:</b>			
	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 17 <sup>th</sup> September 2019 to 30 <sup>th</sup> October 2019.	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.		
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>			
2.	None		
<b>DETAIL (Including consultation carried out)</b>			
3.	None		
<b>RESOURCE IMPLICATIONS</b>			
<b><u>Capital/Revenue</u></b>			
4.	None		

<b><u>Property/Other</u></b>	
5.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<b><u>Other Legal Implications:</u></b>	
7.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
8.	The report is for note only, there is no decision to be made.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
9.	None
<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	None
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Internal Audit Progress Report for the period 17 <sup>th</sup> September 2019 to 30 <sup>th</sup> October 2019.
<b>Documents In Members' Rooms</b>	
1.	None
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at: Internal Audit Office, Civic Centre, Municipal, 1<sup>st</sup> floor, Rm 219.</b>	
<b>Title of Background Paper(s):</b> None	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>





**SOUTHAMPTON**  
CITY COUNCIL

## Internal Audit Progress Report 11<sup>th</sup> November 2019

Elizabeth Goodwin, Chief Internal Auditor

## 1. Introduction

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

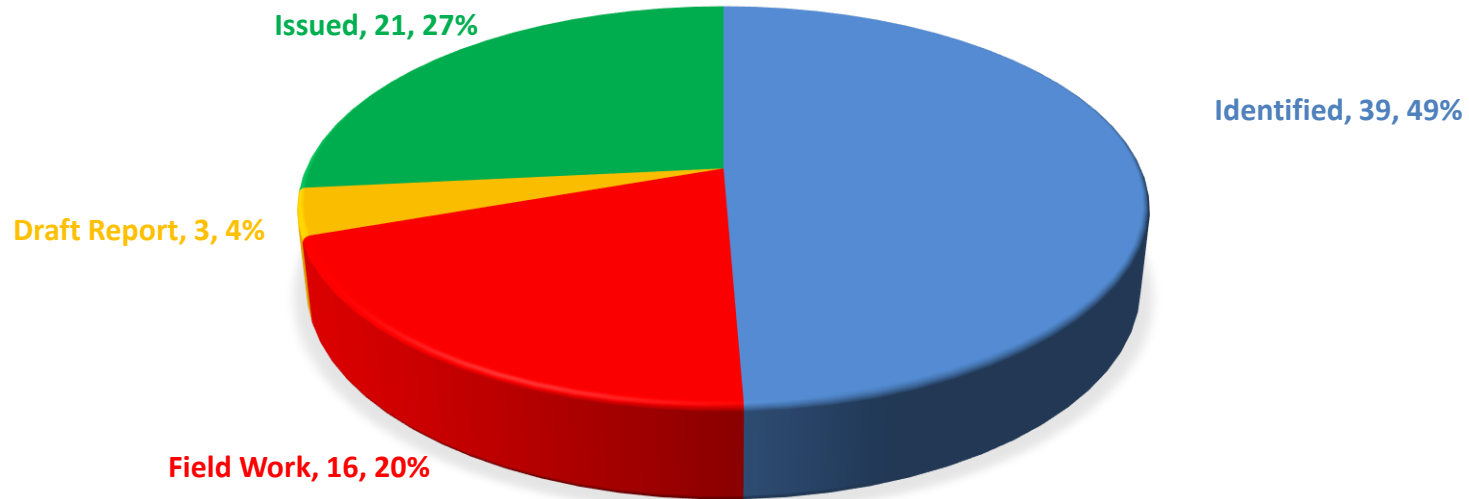
*Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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

This report includes the status against the 2019/20 internal audit plan.

## 2. Audit Plan Progress as of 30th October 2019



Page 89

There are a total of 80 reviews in the revised plan 2019/20.

To date, 40 (51%) have been completed or are in progress as at 30<sup>th</sup> October 2019. This represents 21 (27%) audits where the report has been finalised, 3 (4%) where the report is in draft and 16 (20%) audits currently in progress.

Status	Audits
Identified	39
Fieldwork	16
Draft Report	3
Final Report	21
<b>Total</b>	<b>79</b>

### 3. Ongoing Internal Audit Involvement

Internal Audit has undertaken work or provided advice in the following areas. (For reference, advice is only recorded when the time taken to provide the advice exceeds one hour):

- Anti-Money Laundering - This includes receipt of instances of large cash payments received and onward reporting if deemed appropriate.
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- Audit Planning and Consultation - This includes regular consultation with Directors and revision of the plan following subsequent research into individual assignments.
- Routine advice on controls and risk management.

### 4. Audit Plan Status/Changes

The following changes have been made to the plan since the September Governance Committee.

#### **Audits removed from the Audit Plan:**

- Cloud Storage – This audit has been deferred as there is currently a five year implementation plan for cloud storage which is currently in its first year.
- Substance Misuse Contract – This audit has been deferred to the 2020/21 Audit Plan as it is currently in its full first quarter and therefore it would be more beneficial to undertake the review next year.
- Elections – Due to the prospect of a General Election before the end of the financial year this audit has been deferred until the 2020/21 Audit Plan.
- Partnerships – Strategic Partnership arrangements within the council have reduced, consideration will be given to audit this area as part of the 2020/21 audit plan.

#### **Audits added into the Audit Plan:**

- School – Bassett Green School
- School – St Monica School
- Disabled Facilities Grant Additional Funding – Due to additional funding being provided a further grant review is required.
- Asbestos (Construction Design & Management regulations) - Added to the plan at the request of the CEO.
- Local Transport Capital Block Funding – This audit has been added to ensure the grant conditions are being complied with. This grant had not been identified prior to the submission of the 2019/20 plan.

## 5. Areas of Concern

There are no new areas of concerns for this reporting period.

## 6. Assurance Levels

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 for the area under review.

Assurance Level	Description / Examples
<b>Assurance</b>	<i>No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority</i>
<b>Reasonable Assurance</b>	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
<b>Limited Assurance</b>	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
<b>No Assurance</b>	<i>Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit</i>
<b>NAT</b>	<i>No areas tested</i>

*Audits rated No Assurance are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.*

## 7. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
<b>Low Risk (Improvement)</b>	<i>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</i>
<b>Medium Risk</b>	<i>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</i>
<b>High Risk</b>	<i>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</i>
<b>Critical Risk</b>	<i>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.</i>

*Any critical exceptions found the will be reported in their entirety to the Governance Committee along with Director's comments*

## 8. 2019/20 Audits completed to date (30<sup>th</sup> October 2019)

### NHS Digital Submission

#### Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

#### Overall Assurance Level

<b>Assurance</b>
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#### Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Grant Verification – Based on testing completed there is sufficient evidence to support that the authority is adhering to the Data Protection guidance required to maintain the Data Sharing Agreements.

### Disabled Facilities Grant

#### Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

#### Overall Assurance Level

<b>Reasonable</b>
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#### Assurance Level by Scope Area

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Reasonable</b>
Safeguarding of Assets	<b>Reasonable</b>
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

The first medium risk relates to a grant verification not having been signed off or entered onto Uniform and only 2 out of 4 statements of works had been signed by the applicant. The second medium risk relates to 2 properties not having a land charge applied which could result in financial loss. These errors pertain to the authority's own internal processes, testing did find that the authority is complying with the conditions of the grant.

**Woolston Infant School**
**Exceptions Raised**

Critical	High	Medium	Low
0	2	2	0

**Overall Assurance Level**

<b>Reasonable Assurance</b>
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Agreed actions are scheduled to be implemented by October 2019.

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Limited</b>
Safeguarding of Assets	<b>Limited</b>
Effectiveness and Efficiency of Operations	<b>Assurance</b>
Reliability and Integrity of Data	<b>Assurance</b>

The first high risk exception relates to the rental agreement document it has with the Pre-school not being signed by the Pre-school manager and there was no evidence provided that the Pre-school had its own Public Liability Insurance cover. The second high risk relates to ICT hardware inventory not including an adequate description of the assets, no evidence of equipment loaned to staff or authority to 'write off' obsolete or damaged items. The first medium risk relates to there being no stock control system for school uniforms. The final medium risk relates to the petty cash account as having been overdrawn on 12 occasions, a gift (£8 flowers) has been paid for through the account and a £7.32 hand dryer did not have a valid VAT receipt. Although 2 high risk exceptions have been raised a reasonable assurance opinion was given due to the internal control framework working effectively.

**Care Leavers**
**Exceptions Raised**

Critical	High	Medium	Low
0	1	3	1

**Overall Assurance Level**

<b>Limited Assurance</b>
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Agreed actions are scheduled to be implemented by October 2019

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>NAT</b>
Compliance with Policies, Laws & Regulations	<b>Reasonable</b>
Safeguarding of Assets	<b>Assurance</b>
Effectiveness and Efficiency of Operations	<b>Limited</b>
Reliability and Integrity of Data	<b>NAT</b>

The high risk exception was raised in relation to a lack of evidence of supervision reviews from senior management within the last 8 weeks for 4 out of 10 care leavers' supervision case notes. The first medium risk relates to a lack of evidence for 1 out of 10 behaviour risk assessments and 1 out of 6 risk management plans. The second medium risk relates to 2 out of 10 cases not having a current and up-to-date Pathway Plan available for each care leaver. The third medium risk relates to 7 out of 10 cases not having health passports and the other 3 out of 10 cases did not have a list of immunisations attached as per policy requirements. The low risk improvement relates to the Leaving Care Policy requiring a review.



**Parking (Income Collection)**
**Exceptions Raised**

Critical	High	Medium	Low
0	3	4	0

**Overall Assurance Level**

**Limited Assurance**

Agreed actions are scheduled to be implemented by June 2020.

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	Limited
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	NAT

The first high risk exception relates to there being no formal contract or terms and conditions with the company used for replacement ticket machine parts, online banking and card machines, £4.45 million has been spent with the supplier dating back to 2006. The second high risk relates to there being an inadequate separation of duties regarding the collection of cash and note boxes from ticket machines. The final high risk relates to a lack of monitoring of outstanding permit payments. The medium risks raised cover missing documentation for permit applications, insufficient routine maintenance; annual parking reports not being made publically available and service level agreements with external organisations requiring a review.

**Perinatal Mental Health Grant (Path 2)**

Grant Verification – Verification of the financial claim, total eligible expenditure and compliance with the conditions of the grant. Further reviews performed throughout the year.

**Local Transport Capital Funding 2018/19**

Grant Verification – To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Local Transport Capital Block Funding have been complied with.

## 9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: <i>Verified</i>	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: <i>Not Verified</i>	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: <i>Management Accepts Risk</i>	<i>Management has accepted the risk highlighted from the exception.</i>
Closed: <i>No Longer Applicable</i>	<i>Risk exposure no longer applicable.</i>

## 10. 2019/20 Follow-up Audits completed to 30<sup>th</sup> October 2019

### Children in Need – Service Director, Children and Families

#### Original Exceptions Raised

Critical	High	Medium	Low
0	2	2	0

Latest implementation date scheduled during the original audit was in October 2018

#### Original Assurance Level

Limited Assurance	➔	Limited Assurance
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#### Follow-up Assurance Level

#### Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
2 (High) 1 (Medium)	0	0	0	1 (Medium)	0	0	0

Follow up testing has confirmed that the high risk exception remains open, although some actions have been implemented, the Recruitment and Retention Plan for Social Workers was still in development. The second high risk relates to 3/10 cases still not having a level of supervision that was compliant with the supervision policy manual. The open medium risk relates to 3/5 cases that had exceeded the statutory timescales did not have the reason for the delay recorded.

Page 97

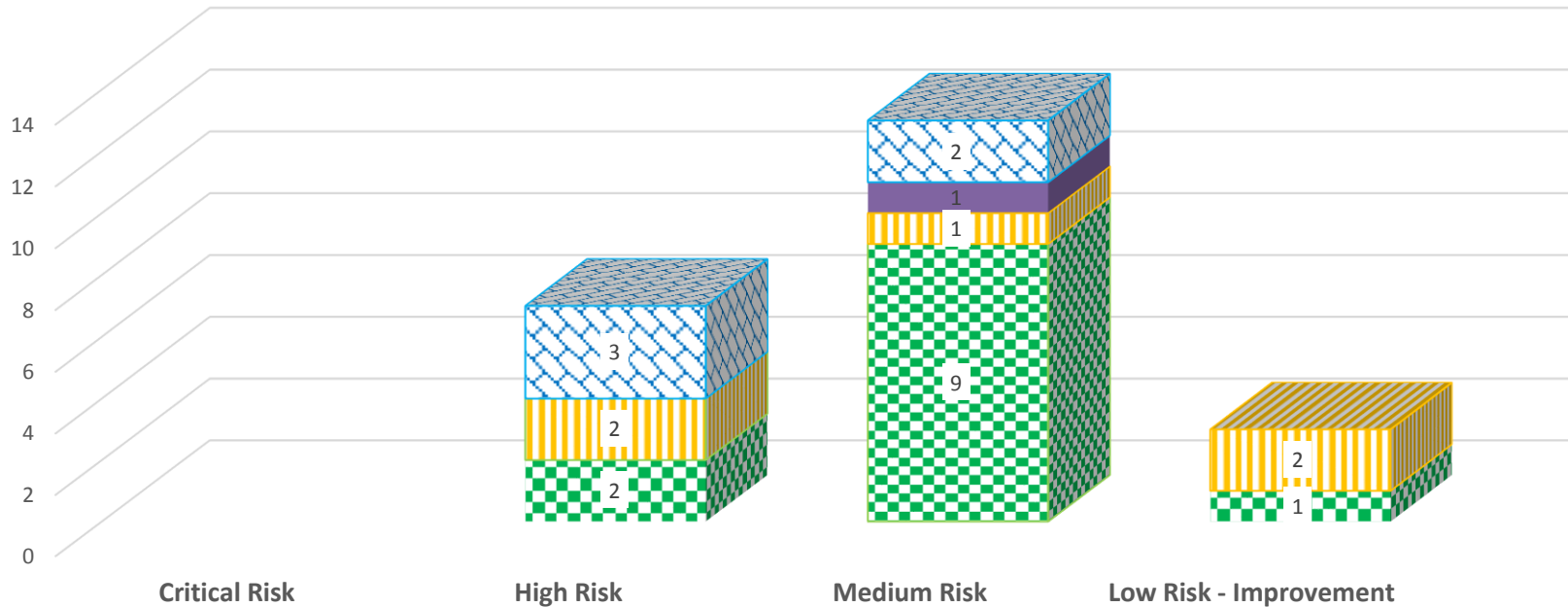
## 11. Audits in Draft

Audit	Directorate	Draft Since	Projected Issue Date	Revised	Comments
Short Breaks	Children & Families	18/10/2019	November	December	
HMO Licensing	Transactions & US	25/10/2019	November	December	
Petty Cash	Finance & Commercialisation	25/10/2019	n/a	December	

## 12. Audits in Progress

Audit	Directorate	Delayed	Projected Issued Date	Revised Issued Date	Comments
Direct Payments	Finance & Commercialisation	Yes	November	February	Delayed due to additional testing on Family Matters at short notice and sickness absence
Health and Safety	Human Resources & OD	Yes	November	February	Transferred resource to undertake Asbestos CDM review.
Asbestos CDM	Corporate	n/a	February		
Bassett Green School	Children & Families	n/a	February		
Better Care Fund	Quality & Integration	n/a	February		
Blue Badge	Adults, Housing & Communities	n/a	February		
Council Tax	Finance & Commercialisation	n/a	February		
Disabled Facilities Grant – Additional Funding	Finance & Commercialisation	n/a	February		
Edge of Care	Children & Families	n/a	February		
Insurance	Finance & Commercialisation	n/a	February		
Museums	Growth	n/a	February		
NNDR	Finance & Commercialisation	n/a	February		
Voids	Adults, Housing & Communities	n/a	February		
Business World	Finance & Commercialisation	n/a	March		Work will be ongoing throughout the year.
Family Matters Grant	Children & Families	n/a	March		Grant is verified on a quarterly basis.
Perinatal Mental Health	Growth	n/a	March		Grant is verified throughout the year.

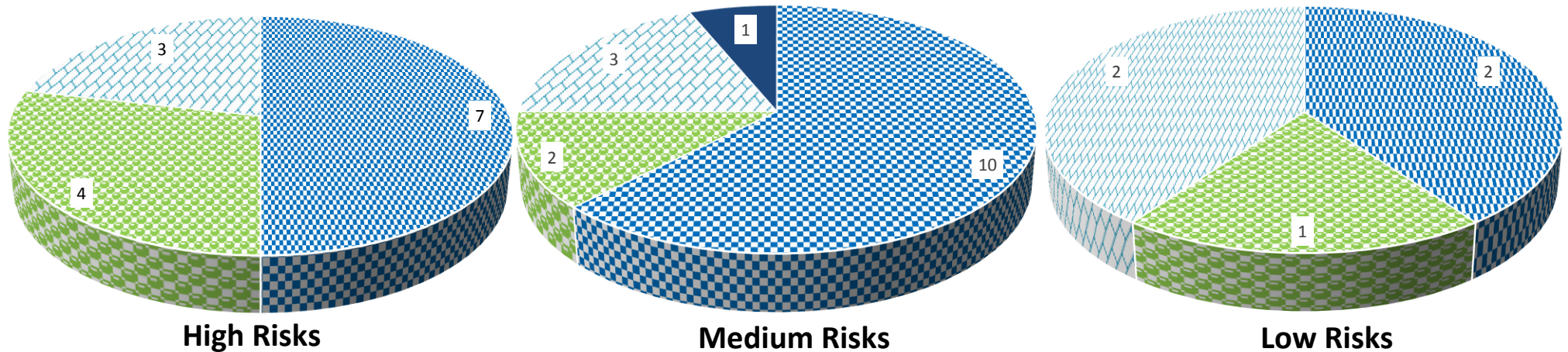
### 13. Exception Analysis to Date



■ Achievement of Strategic Objectives  
 ■ Compliance  
 ■ Effectiveness of Operations  
■ Reliability & Integrity of Data  
 ■ Safeguarding of Assets

	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						0
High Risk		2	2		3	7
Medium Risk		9	1	1	2	13
Low Risk - Improvement		1	2			3
<b>Grand Total</b>	<b>0</b>	<b>12</b>	<b>5</b>	<b>1</b>	<b>5</b>	<b>23</b>

## 14. Follow Up Analysis



Open

In Progress

Closed – Verified

Pending

Implemented but not effective

Closed – Not Verified/Accepts Risk

	Open	Pending	In Progress	Implemented but not effective	Closed – Verified	Closed – Not Verified	Closed – Management Accepts Risk	Closed – No Longer Applicable
High Risk	7		4		3			
Medium Risk	10		2		3	1		
Low Risk	2		1		2			
<b>Grand Total</b>	<b>19</b>		<b>7</b>		<b>8</b>	<b>1</b>		

The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. These audits are followed up in the next financial year to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within 3 months due to the potential severity of the risks identified. The overall position of the exceptions followed up currently through 2019/20 shows that **23%** have been closed by audit, however **77%** remain open and or are in progress.