

Public Document Pack

Audit Committee

Thursday, 3rd February, 2011
at 6.00 pm
Committee Room 1 - Civic Centre

This meeting is open to the public

Members

Councillor Ball (Chair)
Councillor Bogle (Vice-Chair)
Councillor Daunt
Councillor Fuller
Councillor Sollitt
Councillor Letts
Councillor Wells

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PUBLIC INFORMATION

Role of the Audit Committee

The Committee has responsibility for:-

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

Southampton City Council's Six Priorities

- Providing good value, high quality services
- Getting the City working
- Investing in education and training
- Keeping people safe
- Keeping the City clean and green
- Looking after people

Public Representations

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

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

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

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

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

Dates of Meetings: Municipal Year 2010/11

2010	2011
Wed 23 June	Thurs 17 March
Wed 22 Sept	
Thurs 3 Feb	

CONDUCT OF MEETING

Terms of Reference

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

Business to be discussed

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

Rules of Procedure

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

Quorum

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

Disclosure of Interests

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

Personal Interests

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

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

A Member must disclose a personal interest.

Continued/.....

Prejudicial Interests

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

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

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

There are some limited exceptions.

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

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

1 APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)

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

2 DECLARATIONS OF INTEREST

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

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

3 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 22nd September 2010, and to deal with any matters arising, attached.

4 STATEMENT FROM THE CHAIR

5 AUDIT COMMISSION: ANNUAL AUDIT LETTER 2009/10

Report of the Chief Internal Auditor concerning the Annual Audit Letter presenting the results of the statutory audit of the Council's 2009/10 financial statements and the assessment of arrangements to achieve value for money in the Council's use of resources, attached.

6 AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT

Report of the Chief Internal Auditor requesting that the Committee notes the Audit Commission's progress report, attached.

7 INTERNAL AUDIT: STATUS OF WORK

Report of the Chief Internal Auditor requesting that the Committee notes the Internal Audit Status of Work report for the period ending November 2010, attached.

8 INTERNAL AUDIT: REVIEW OF THE ANNUAL OPERATIONAL PLAN 2010/11

Report of the Chief Internal Auditor inviting the Committee to comment on and approve the revised Annual Operational Internal Audit Plan for 2010/11, attached.

9 RISK MANAGEMENT ACTION PLAN 2010-11: STATUS REPORT

Report of the Executive Director of Resources (Acting) requesting that the Committee note the Risk Management Action Plan 2010-11: Status Report, attached.

10 ANNUAL GOVERNANCE STATEMENT 2009-10: ACTION PLAN STATUS REPORT

Report of the Executive Director of Resources (Acting) requesting that the Committee note the content of the Annual Governance Statement 2009/10 Action Plan Status report, attached.

11 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2010/11-2013/14

Report of the Acting Executive Director of Resources on the City Council's Indicators and the Treasury Management Strategy and summarising the main activities undertaken during 2010/11 to date, attached.

Wednesday, 26 January 2011

SOLICITOR TO THE COUNCIL

AUDIT COMMITTEE
MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2010

Present:

Members of the Council

Councillors Ball (Chair), Bogle (Vice-Chair), Daunt, Fuller and Letts

Apologies

Councillors Sollitt and Wells

Also in attendance:

Councillor Holmes – Cabinet Member for Children’s Services and Learning

Councillor Moulton – Cabinet Member for Resources and Workforce Planning

14. **APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)**

Apologies were received from Councillors Sollitt and Wells.

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

RESOLVED that the minutes of the meeting held on 23rd June 2010 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

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

The Committee noted the report of the Chief Internal Auditor concerning an update on progress against the Audit and Inspection Plans, together with reports issued. (Copy of the report appended to the signed Minutes)

17. **STRATEGIC RISK REGISTER**

The Committee noted, with officer revisions, the report of the Executive Director of Resources (Acting) detailing the Strategic Risk Register and the Summary of Directorate Risk Registers. (Copy of the report appended to the signed minutes).

18. **TRIENNIAL REVIEW OF SELF INSURANCE FUND**

The Committee noted the report of the Executive Director of Resources (Acting) detailing the review of the Self Insurance Fund. (Copy of the report appended to signed Minutes).

19. **AUDIT COMMISSION: ANNUAL GOVERNANCE REPORT 2009/10**

The Committee noted the report of the Chief Internal Auditor requesting that the Committee notes the Audit Commission’s draft Annual Governance report for 2009/10. (Copy of the report appended to the signed Minutes)

20. **EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM**

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the confidential appendix to the following item.

Confidential appendix 2 contains information deemed to be exempt from general publication based on Categories 2 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

21. **INTERNAL AUDIT: STATUS OF WORK AUGUST 2010**

The Committee considered the report of the Chief Internal Auditor requesting that the Committee notes the Internal Audit Status of Work report for the period ending 10th August 2010. (Copy of the report appended to signed Minutes).

RESOLVED:

- (i) to ensure a management compliance check reminder be sent across the authority;
- (ii) to ensure management undertake risk assessment of the Safeguarding Service.

Agenda Item 5

DECISION-MAKER:	STANDARDS AND GOVERNANCE COMMITTEE AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: ANNUAL AUDIT LETTER 2009/10
DATE OF DECISION:	14 DECEMBER 2010 3 FEBRUARY 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The Annual Audit Letter presents the results of the District Auditor's statutory audit of the Council's 2009/10 financial statements and the assessment of arrangements to achieve value for money in the Council's use of resources.

The District Auditor cannot complete the audit and issue her certificate until consideration of issues that local authority electors have brought to her attention. These concern how the Council calculates heating charges for tenants and leaseholders.

In accordance with Audit Commission guidelines a copy of the Annual Audit Letter was circulated to all Members by the 30 November 2010.

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

RECOMMENDATIONS:

Audit Committee

- (i) That the Annual Audit Letter 2009/10 be noted

Standards and Governance Committee

- (ii) That the Committee note the Letter, make such comments as are appropriate / necessary and identify any issues they feel are worth exploring as set out in the 2010 Annual Audit Letter

REASONS FOR REPORT RECOMMENDATIONS

Audit Committee

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

Standards and Governance Committee

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

DETAIL (Including consultation carried out)

4. Under Regulation 19 of the Accounts and Audit Regulations 2003 (as amended 2006) the Annual Audit letter must be published and copied to all Members of the Council.
5. The Annual Audit letter attached at Appendix 1 sets out the Audit Commission's conclusions and any significant issues arising from the audit of the Council's 2009/10 accounts as well as other external inspections carried out within the Council up to the end of December 2010.
6. The letter acknowledges the Council's current and future challenges. The District Auditor is satisfied that the Council is taking the necessary steps to meet the challenges of its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. Going forward, Members will want to:
 - Monitor closely the delivery of the Council's savings programme;
 - Continue to support efforts to work with other public bodies to consider alternative ways of service delivery and reduce overall costs;
 - Monitor the achievement of the expected benefits from the major street lighting, highway and leisure contracts entered into in the years; and
 - Be satisfied the capital programme is affordable
7. The Annual Audit Letter, as attached, has been discussed and agreed with the appropriate officers.

RESOURCE IMPLICATIONS

Capital/Revenue

8. None

Property/Other

9. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

11. None

POLICY FRAMEWORK IMPLICATIONS

12. None

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KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	Not applicable
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Annual Audit Letter 2009/10
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

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

Integrated Impact Assessment and Other Background documents available for inspection at

Title of Background Paper(s)

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

1.	None
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Annual Audit Letter

Southampton City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money.....	3
Current and future challenges	3
Financial statements and annual governance statement	5
Overall conclusion from the audit	5
Whole of Government Accounts	6
Heating charges.....	6
Adoption of International Financial Reporting Standards	9
Value for money	11
Risk-based performance reviews	11
2009/10 use of resources assessments	14
VFM conclusion	14
Approach to local value for money work from 2010/11.....	16
Current and future challenges	18
The economic downturn	18
Closing remarks	20
Appendix 1 Audit fees	21
Appendix 2 VFM conclusion	22
Appendix 3 Glossary	23

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two parts:

- **the audit of your financial statements (pages 5 to 10); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 11 to 17).**

I also comment on some of the future challenges for the Council (pages 18 to 19).

Audit opinion and financial statements

1 I issued my audit report on the 30 September 2010, in line with the deadline for local authority accounts. The report included an unqualified opinion on the financial statements for the year ending 31 March 2010. The arrangements to produce your financial statements were good as were the working papers that supported the statements.

2 The Council adjusted the notes to the accounts for the six material errors I identified before I gave my audit opinion. I did not identify any amendments that altered the Council's financial position at 31 March 2010.

3 I also reported to Members two uncorrected misstatements that were not material to my opinion. I reported that I disagreed with the Council's interpretation of accounting standard (FRS12) and its decision not to recognise the equal pay provision in the 2009/10 financial statements. I also reported an uncertainty in the figures included for heating charges. I accepted the Council's reasons for not adjusting the accounts for these items.

4 I cannot complete the audit and issue my certificate until I have completed my consideration of issues that local authority electors have brought to my attention. These concern how the Council calculates heating charges for tenants and leaseholders. I am satisfied the Council has taken appropriate action on the matters I raised in my last Annual Audit Letter. It also responded appropriately to an elector who identified a potential overcharge from the electricity supply company last year and recovered £12,000. However, I concluded that the Council:

- cannot be certain that its record of meters and what each one supplies is accurate. It cannot therefore be certain that charges to tenants are accurate; and
- has inadequate controls in place to govern the changes made to the record of electricity meters.

5 The Council is taking action in response to the recommendations that I made in these two areas. I will review its promised progress in December before I can decide whether I should take any more action and whether I can certify completion of the 2009/10 audit.

Value for money

6 The Council has had a challenging year, with increasing financial pressures and a consequent increasing need to seek savings through changes to services and structures as well as efficiencies.

7 The Council has made a number of improvements over the last year. In particular it:

- increased efficiency savings to £10.2 million compared to £7.8 million last year;
- achieved better value for money from the benefits service where the number of claimants has increased by 12 per cent yet processing times have remained constant;
- used joint business planning and performance monitoring with the Primary Care Trust to coordinate and improve the delivery to services to users;
- set up successful initiatives for jobs and training. Thirty apprenticeships are underway and a training programme has given opportunities to 118 harder to reach people, 36 of whom went into employment;
- introduced new automated, directorate scorecards to enable managers to explore key performance, financial and staff variances and to take further action where necessary. This resulted in less officer input, better management information and clearer reporting;
- improved workforce management leading to reduced sickness rates, good and improving staff satisfaction; and better management training; and
- agreed some major contracts for street lighting (£25.8 million); Highways Partnership (£100 million) and leisure (£15 million) to both improve services and reduce costs.

8 I issued an unqualified value for money conclusion stating the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2010.

Current and future challenges

9 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes, and some sources of income are reducing.

10 The recent Comprehensive Spending Review proposes an average 28 per cent reduction in central government support for local government over the next four years. This will increase the financial pressures on local government and the Council will have some difficult decisions to take in setting its 2011/12 budget.

11 Savings options are being developed based on the cumulative funding gap of £57 million over the four years to 2014/15. The Council has a good track record of managing within budgets, achieving an under spending of £5.7 million for 2009/10 and a one off saving of £2.7 million from a refund from HMRC. The Council added £4.5 million to reserves to help with the pressures to come. The loss of capital grants is putting pressure on the Council's current £171 million capital programme.

12 I am satisfied the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. Going forward, Members will want to:

- monitor closely the delivery of the Council's savings programme;
- continue to support efforts to work with other public bodies to consider alternative ways of service delivery and reduce overall cost;
- monitor the achievement of the expected benefits from the major street lighting; highways and leisure contracts entered into in the year; and
- be satisfied the capital programme is affordable.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, within the statutory target date.

Overall conclusion from the audit

13 I did not identify any significant misstatements that would impact on the Council's financial position at 31 March 2010. I did however identify a number of adjustments to the financial statements and the associated notes. Six of the adjustments to the notes to the financial statements were above the materiality level for the opinion audit of £12.7 million. Officers agreed to amend the notes:

- to clarify the level of General Fund and HRA capital spending in the explanatory forward;
- to correct the analysis of future obligations for the Schools PFI schemes;
- to add future obligations under the street lighting PFI agreement in the notes to the financial statements;
- to add a post balance sheet event to explain the change in estimation basis for future pension liabilities from 1 April 2010; and
- to add post balance sheet events explaining the award of the Highways Maintenance contract and the Leisure Services contract.

14 I reported two other matters to the Standards and Governance Committee which were not material to my opinion and which officers decided not to adjust. Members supported officers' decision and I accepted the explanations provided in the letter of representation.

- I disagreed with officers' interpretation of the disclosure required by Financial Reporting Standard 12 (Provisions, contingent liabilities and contingent assets) for the equal pay provision. My interpretation is the equal pay provision should have been recognised in the financial statements. While the provision was included in the Council's ledger it was not recognised in the financial statements. The Council chose not to disclose the information usually required to be shown within Statement of Accounts. The Monitoring Officer advised that to disclose

the information would seriously prejudice the Council's position in ongoing litigation. The Council included this explanation in the financial statements.

- I identified an estimated maximum uncertainty for heating charges totalling £0.76 million. This arose from the Council's incomplete record of electricity meters which is used to calculate the heating charges to tenants and leaseholders. I accepted the Council's decision not to adjust the accounts because it is not possible to make any amendments until significant further work is undertaken to verify the integrity of the data. It would also not be appropriate to amend the accounts based on extrapolating the sample results.

15 The Council's accountants had addressed all the matters I raised last year. They also dealt effectively with the new accounting requirements for contracts that involve leasing of assets to private sector providers. I identified relatively few related adjustments despite the new and technically demanding nature of the accounting entries.

Whole of Government Accounts

16 I provided a qualified assurance statement on your 'Whole of Government Accounts' (WGA) consolidation pack for 2009/10. I made the qualification because of the inconsistent treatment of the equal pay provision, which was recognised in the consolidation pack sent to the CLG but not included in the Council's financial statements for 2009/10.

Heating charges

17 Members will be aware that local government electors continue to raise queries with me over the way it operates the heating charges account. I have monitored the Council's response to the actions I suggested in my 2008/09 annual audit letter. I have also considered concerns raised with me by two electors about potential overcharging by the energy supply company and the accuracy of the Council's record of meters within its control. In carrying out this work I also identified some significant weaknesses in internal control.

Council response to my 2008/09 Annual Audit Letter

18 Following the formal objection to the Council's 2007/08 accounts I urged the Council to:

- complete the planned installation of individual electricity supply meters to the tenanted and leasehold properties, including the first 600 meters by 31 March 2010, so charges can be accurately calculated for each individual property;
- consider whether it continues to be appropriate to have different methods of apportionment of electricity charges for heating costs for tenants and leaseholders; and

- consider whether it can amend its systems to show the administration charges as a separate element of the service charge for heating in the tenant rental agreements as suggested by the Ofgem guidance on the resale of Gas and Electricity.

19 The Council has consulted 515 tenants and offered to install individual heating energy meters to their homes. 86 meters were installed by the end of March 2010. A further 16 were installed in 2010/11 and an extra 491 properties suitable for conversion have been identified. This rate of change is slower than anticipated. I recognise that progress depends on the tenants' response to the offer, the money to finance the work and confirmation that the Council's supplier can change the electricity supply.

20 I am satisfied the Council has considered moving leaseholder charges on to the same basis as for tenants and decided not to. Officers decided under delegated powers that such a change would result in additional legal and administrative costs arising from the need to alter lease agreements. Tenants were given the choice to adopt the same method of recharge used for leaseholders but they preferred to use the floor area banded approach that is currently used.

21 The Council has written to tenants in February 2010 telling them of their new rent and service charges including the administration charge relating to the heating charges account.

22 I am satisfied the Council has responded to the actions I suggested in my 2008/09 Annual Audit Letter.

Potential overcharging by the energy supply company

23 During the 2009/10 audit, I received correspondence from a leaseholder who alleged the energy supply company was overcharging the Council for communal electricity at one property. This was because the energy supply company had not read meters with the frequency required by the contract. When bills were eventually received the electricity usage was charged at the current rate which was higher than the rate applicable when electricity was used.

24 The Council looked into the allegation and concluded the elector was right. It has done its own analysis of the overpayment and negotiated a refund of £12,392 from the energy supply company which has been credited to the heating charges account. It has now introduced a monthly procedure to identify any meters that have not been read within the previous 12 months so that the contractor can be alerted. The Council has discussed whether it can install smart meters in homes with its main energy supplier. These send the meter readings through electronically and every invoice should therefore be an actual reading, and there will be no more estimated bills. The Council's main energy supplier has confirmed that it plans to begin to introduce smart meters in the next 18 months.

25 I am satisfied the Council has taken action to recover the identified overpayment of energy costs. Officers have confirmed to me that improved procedures have been implemented to ensure that all electricity meters are read on at least an annual basis. I will continue to check the Council's progress in installing smart meters.

Accuracy of the Council's record of electricity meters

26 In previous correspondence with me and with the Local Government Ombudsman the Council has stated that there was a City-wide meter review in 2007 and that an accurate record is now kept of all meters within the Council's control. Correspondence I received from an elector during my 2009/10 audit questioned whether this statement was correct. The accuracy of the record is important. It is used to make sure the Council only pays for electricity on recognised meters. It is then also used to divide legitimate charges between accounts which are recovered in different ways from tenants and leaseholders. If a meter records heating energy, charges are allocated as tenants' heating charges and are recovered through heating charges that are levied by the Council on tenants and leaseholders. If a meter records lighting energy, charges go to the Housing Revenue Account and are recovered through tenants' rent and leaseholder service charges. Over 40 per cent of the Council's tenants and leaseholders are affected by this arrangement. The Council's record of electricity meters is therefore crucial for ensuring charges to individual tenants and leaseholders are correct.

27 Internal Audit undertook some sample testing on my behalf to look into the elector's concerns. They identified one error in processing the 2007 survey and a number of uncertainties where the meter or its designation between heating and lighting was not confirmed by the 2007 survey. I concluded the Council cannot be certain that its record of meters and what each one supplies is accurate. It cannot therefore be certain that charges to tenants are accurate. I reported this to both the Council's Audit and its Standards and Governance Committees in September 2010.

28 The Council has agreed to complete the work necessary to check the data on these remaining meters. Most were surveyed by 1 November but there were a number of properties where the Council was unable to gain access. It intends to complete the full survey of the remaining meters before Christmas. The survey has identified 39 more errors, but the Council is querying some of these. Once the full extent of the actual errors in meter designations are known, the Council has agreed to find out what financial impact these would have had on charges to tenants. It has agreed to do this by December. It can then decide what action it can take to correct any errors identified. I will be closely monitoring the outcome of this work.

Significant weaknesses in internal control

29 In responding to the issues raised with me by local electors I identified some significant weakness in internal control. Testing carried out on my behalf by Internal Audit has identified there are inadequate controls in place to govern the changes that are made to the record of electricity meters. This testing has also confirmed that the Council has poorly managed the surveys of the electricity meters and that it has failed to set up an accurate meter record.

30 The current record of electricity meters has been kept on an excel spreadsheet. This has not proved to be a robust medium. I have agreed an action plan with your officers which they are implementing. I recommended the Council:

- set up a more effective database and system of controls; and
- review the record of gas meters to discover if there are similar weaknesses in these records.

31 The Council is trying a new database that is designed for the utilities market and that will hold all site information and enable estimates to be made more easily in the future. For gas meters, the Council has told its engineers to complete a serial number and meter read as they carry out a gas safety check on all properties annually. This information will then be passed to the gas supplier for invoicing purposes.

32 I will revisit the Council's progress with these recommendations during my 2010/11 audit.

Adoption of International Financial Reporting Standards

33 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This will change the calculation of some figures in the accounts and the format of some of the core statements.

34 The Audit Commission is undertaking a national study on the transition to IFRS in local government. This study aims to assess councils' progress towards preparing IFRS-based accounts and has two phases. In October 2009 I completed the phase-one survey at the Council, and assessed the Council as a 'green' risk. This reflected my judgement that it:

- had a robust project plan in place;
- was making good progress in addressing the key areas;
- had continued to be on track with its project plan; and
- was focused on the remaining significant area of work on the waste management contract.

35 In July this year I carried out the phase-two survey to assess the Council's progress, and I decided the Council remained a 'green' risk. The Council continued to make good progress on the most challenging issues, and it remains on track with its project plan. It has engaged members in the project and has taken a rigorous approach to identifying contracts with embedded leases. Progress has been made on the accounting treatment of the tripartite waste management contract through the 2009/10 financial statement closure process.

36 Although there remains much work still to do, I am confident the Council will do all it can to complete the project in good time.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion. I gave an unqualified conclusion on 30 September 2010.

Risk-based performance reviews

37 I undertake local risk based projects to inform my value for money conclusion. In 2009/10 I completed a review of the progress with the 'Highways Partnership Project' (August 2009). I also considered the management arrangements that have been set up for the street lighting PFI contract (September 2010).

Progress with the Highways Partnership Project

38 The Council has entered into highways maintenance partnership with Balfour Beatty to deliver highways maintenance services for ten years from 1 October 2010 with an estimated total cost of £100 million. The procurement process for this significant contract posed a risk for my value for money conclusion during 2009/10. This included the risk of non-compliance with government and EU guidance during the tendering phase and the selection process. We challenged the Council with four questions to ensure that it is managing the key risks. These and the Council's responses are set out in the following table.

Table 1: Risks in the tendering process

There are a number of key risks that the Council needed to address in the tendering process.

Risk	Response
Does the Council consider that the strategic approach in respect of highways provision now being placed before them is in the best interest of the Council and its citizens and is affordable over the course of the contract?	There is no other alternative for delivering increased service improvement over the same condensed time-frame for the same up-front cost. The affordability of the Partnership will be demonstrated, or not, through the submission of detailed solution bids (ISDS). At this point a decision will be required on whether the Council should proceed to Final Tender stage. The Council is confident that the information provided at ISDS will be sufficient to make a judgement on the benefits of the Partnership.
If the Council proceeds to the ISDS stage what measures and ongoing monitoring arrangements will it put in place to make sure that value for money is assured?	Detailed solution submissions (ISDS) will assist the Council in assessing VFM in a number of ways: bidders must deliver a level of service much greater than the Council currently delivers for the same (or less) cost and bidders must price for delivering sample schemes. These prices will be compared against how much it would currently cost the Council to deliver these schemes. After the submission of ISDS bids the Council will determine whether to continue to Final Tender stage. Final Tender stage will require the resubmission of information at ISDS plus additional information which will further support VFM and the demonstration of benefits.
What steps is the Council taking to ensure continuity of service provision should the highways partnership not come to fruition for whatever reason?	If the Partnership does not come to fruition then service continuity will be maintained through the existing in-house resource and the existing contracts which can be extended until September 2012. If the project were to cease the Council would be required to consider the future direction of the service.
What steps is the Council taking to ensure that its financial scenario planning is kept up to date to ensure that it understands the financial ramifications of any decisions which it takes?	This issue has been raised at Project Board level and within the Service budget setting process. The Council recognises the need to consider how the implications of the Partnership project on the Council's wider financial planning process are taken into account.

Source: Progress report to the Audit Committee in January 2010

39 The Council reported that in its view there was no further action necessary on the first three risks that were highlighted. The fourth risk was considered by the Project board.

40 I am satisfied the Council has considered the key risks in the initial pretender process. The Council has now awarded the contract. We will work with officers to review their responses to the key risks with this contract. These risks are likely to include affordability, deliverability and value for money. The large nature of the project and the current state of public sector finances means the project poses a significant risk for the Council.

Street lighting PFI contract management

41 In December 2009, the Council signed a Private Finance Initiative (PFI) contract with a private sector partner, Tay Valley Lighting (TVL), to replace, upgrade and maintain the Council's street lights. Illuminated signs and bollards. Joint working arrangements have been established with TVL and these have proved valuable when resolving issues relating to maintenance and replacement backlogs.

42 The Council negotiated the procurement of the PFI jointly with Hampshire County Council and West Sussex County Council. Although each council signed its own contract, there is joint working to ensure consistency and improve processes.

43 As this scheme represents a large financial commitment (£25.8 million capital expenditure over 25 years), I reviewed the arrangements for managing the contract. In particular, I looked at the team and procedures in place for:

- checking the contractor has delivered the required outputs and achieved the performance claimed;
- identifying, monitoring and reporting potential risks; and
- considering and approving changes to contracts.

44 The Council currently has satisfactory arrangements to oversee the PFI contract. However, the scheme has only been operational since 1 April 2010 and will last for 25 years. In common with many other authorities, arrangements are reliant on a few key staff and few written procedures. It is important the Council has the right resources to check the contractor's claimed performance, particularly in the first five years of the contract when most of the replacement work is planned.

45 The risk management arrangements that are in place cover the risks incurred during the procurement and mobilisation phases of the contract. Officers will need to consider the risk management arrangements necessary to address the risks that are likely to arise during the life of the contract. The Council should make sure:

- risks are properly mitigated and regularly reviewed; and
- the risk of losing skills and expertise are reduced by establishing well documented procedures.

2009/10 use of resources assessments

46 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would stop with immediate effect. The Commission would no longer issue scores for its use of resources assessments.

47 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of my risk-based performance reviews, and the work completed on the use of resources assessment up to the end of May, to inform my 2009/10 conclusion.

VFM conclusion

48 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people, against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each category of audited body.

49 I issued an unqualified conclusion stating the Council had proper arrangements in place. I have set out my conclusion on each criterion in Appendix 2 and have summarised my findings in the three themes in the following paragraphs.

50 The Council has made a number of improvements over the last year. In particular it:

- increased efficiency savings to £10.2 million compared to £7.8 million last year;
- achieved better value for money from the benefits service where the number of claimants has increased by 12 per cent yet processing times have remained constant;
- used joint business planning and performance monitoring with the Primary Care Trust to coordinate and improve the delivery to services to users;
- set up successful initiatives for jobs and training. Thirty apprenticeships are underway and a training programme has given opportunities to 118 harder to reach people, 36 of whom went into employment;
- introduced new automated, directorate scorecards to enable managers to explore key performance, financial and staff variances and to take action where necessary. This resulted in less officer input, better management information and clearer reporting;
- improved workforce management leading to reduced sick rates, good and improving staff satisfaction; and better management training; and
- agreed some major contracts for street lighting (£25.8 million); Highways Partnership (£100 million) and 15-year leisure (£15 million) to both improve services and reduce costs.

Managing finances

51 The Council manages its finances well. Improvements in financial planning include the use of joint business planning and performance monitoring with Southampton City PCT to ensure services are coordinated, jointly delivered to users and effectively managed. A partnership toolkit was issued to staff. This has been used by officers to identify, document and codify 248 partnerships and identify the level of operational risk for each one. The creation of a risk register has identified some areas where partnerships could be streamlined to avoid potential duplication and to make best use of members' and officers' contributions. Improved automated reporting led to managers receiving real-time data from partners on eg invoice payments. The Council continues with timely and reliable financial reporting. Risk based budget monitoring has been introduced and this has led to efficiencies allowing a finance department restructure which has reduced the headcount. The Council has been proactive in addressing changes to statutory accounting requirements by IFRS for example by suggesting, and now chairing, a Hampshire wide IFRS group which led to collaborative working and common approaches being adopted.

Governing the business

52 The Council governs its business well. It has improved the commissioning and procurement of quality services. It has provided easier access to procurement information - all corporate tenders now take place via e-tendering, and the percentage spend covered by contract has increased. Progress on a Customer Insight programme with the PCT has led to the identification of harder to reach groups.

53 The Council continues to demonstrate the principles of good governance. Roles are clear, kept under review and senior management reviews of directorate structures and service areas are undertaken to ensure they continue to focus on the delivery of the purpose and priorities of the Council. It continues to raise standards of ethical conduct, with a high priority given to councillor training. The Council actively monitors compliance with codes of conduct. It ensures each significant partnership arrangement that it is involved in has an appropriate form of governance. It has signed a locality-wide agreement governing its relations with voluntary organisations.

54 The Council manages its risks and maintains a sound system of internal control. It has effectively managed risk and its reputation through for example publicising its successful prosecution of significant cases of housing benefit fraud. It has a strong counter fraud culture formed through fraud awareness training. Internal Audit has achieved value for money through economies of scale, shared procurement and timely access to experts.

Managing resources

55 The Council manages its assets effectively. It has carried out a service property review, and implemented the Southampton PFI Street Lighting partnership, the Academies scheme programme and bought the new Regional Business Centre (One Guildhall Square). Thirty projects have been developed where buildings can be rationalised to generate capital receipts and/or revenue savings and reduce the maintenance backlog. The Council has used the asset base to help deliver economic outcomes by stimulating economic development and new business start ups in response to the recession. For example by making vacant shop fronts available for educational advertising at 'nil' cost, making land available for social housing and supporting businesses to remain in Southampton by providing extra car parking. It has actively worked to develop a long-term strategic approach for all assets used by public bodies across its area, including exploring alternative models of sharing, ownership and management of public sector assets with its key partners.

56 The Council plans and develops its workforce effectively. It has recruited to fill 48 posts; received £1.76 million funding for 'Future Jobs' and has 30 apprenticeships underway; carried out successful initiatives for jobs and training in deprived areas; and reduced sick rates. It has good and improving staff satisfaction; a good health and safety record; level 4 of the equality standard has been reached; and it is on-target to reach its preferred mix of staff. Management training has been given to 300 staff. It has restructured its organisation around partnership priorities including, for example, a new Executive Director Economic Development and Corporate Policy. Adult Services integration with the PCT has led to a jointly appointed Associate Director of Commissioning. A workforce planning strategy is in place to 2012. Eighty three per cent of staff feel well-involved in organisational change, which includes effective training, political support and the use of a redeployment policy to reduce redundancies.

Approach to local value for money work from 2010/11

57 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible choices for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

58 I will base my work on a reduced number reporting criteria, specified by the Commission, concentrating on how the Council:

- secures financial resilience; and
- sets priorities for resources within tighter budgets.

59 I will decide a local programme of VFM audit work based on my audit risk assessment, to cover these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement based on my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The economic downturn

60 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes and some sources of income are reducing. The recent Comprehensive Spending Review proposes an average 28 per cent reduction in central government support for local government over the next four years. This will increase the financial pressures on local government and the Council will have some difficult decisions to take in setting its 2011/12 budget.

61 Already in the current year the Council has had to find extra savings in response to the government's cuts in funding amounting to more than £4.6 million of reduced revenue grants. This is in addition to local pressures on finance where income from car parking charges has reduced and the demand for adult disability care services; adult learning and foster and residential care has increased costs beyond budget.

62 The position over the next three years will not be clear until the government announces its spending review results and publishes the grant determination in December. The Council's medium-term strategy recognises a funding gap of £16 million in 2011/12 that rises to a cumulative total of £57 million by 2014/15, this takes into account the £4.6million of reduced revenue grants that were already announced by the government. These plans are to be revisited when the local government settlement is announced in December 2010, in advance of the approval of the 2011/12 budget in February 2011.

63 The Council has a good track record of managing within budgets, achieving an underspending of £5.7 million for 2009/10 and a one off saving from a refund of £2.7 million from HMRC. The Council was able to add £4.5 million to reserves to help with the pressures to come, rather than drawing on balances by £3.9 million as planned in the budget. Given the forecasts for future years the Cabinet has already asked Chief Officers Management Team to fundamentally review all service areas and to consider options that can be used to deliver £50 million savings over the next three years. A consultation programme is being put in place so that individuals and organisations affected by the proposals can be consulted.

64 The Council has also experienced the loss of capital grants and the government's removal of funding for the Building Schools for the Future project to refurbish and rebuild schools. This means there is pressure on the Council's existing capital programme which currently amounts to £171 million in the period from 2010/11 to 2012/13. The Council has however secured the funding for its Academies programme.

65 I am satisfied the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. It is vital that Members oversee the delivery of the savings programme and are satisfied that the capital programme, which is planned to be funded mainly from external borrowing (£49 million) and capital grants (£54 million), is affordable.

Closing remarks

66 I have discussed and agreed this letter with the Chief Executive and the Interim Executive Director of Resources. The letter will be sent to all members by the 30 November 2010. I will then present it to the Audit Committee and the Standards and Governance Committees at their respective meetings in December 2010.

67 I included detailed findings, conclusions and recommendations for the areas covered by my audit in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Plan	June 2009
Highways Maintenance	January 2010
Opinion audit plan	June 2010
Annual Governance Report	September 2010

68 The Council has taken a positive and helpful approach to our audit. I wish to thank Councillors and staff for their support and cooperation during the audit.

K L Handy
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£239,060	£239,060	£0
Value for money	£84,640	£84,640	£0
Whole of Government accounts	£ 1,800	£ 1,800	£0
Total audit fees	£325,500	£325,500	£0

I have agreed with officers that I will separately invoice the Council for the fee for dealing with correspondence with local electors. At the end of October 2010 this amounted to £23,000.

Appendix 2 VFM conclusion

Criteria	Proper arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 3 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. This includes how it has checked the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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



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November 2010

Agenda Item 6

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT
DATE OF DECISION:	3 FEBRUARY 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The audit and inspection plan is based on the Audit Commission's risk-based approach to audit planning as set out in the Code of Audit Practice. An update on progress against the Plan(s) is attached as an appendix to this report.

RECOMMENDATIONS:

- (i) That the Audit Commission's progress reports as attached, be noted.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The Audit Commission's Progress report 2009/10 and 2010/11 is attached for consideration as Appendix 1.
4. The external auditor will be in attendance at the Committee meeting to answer any questions.
5. The report as attached has been discussed and agreed with the appropriate officers.

RESOURCE IMPLICATIONS

Capital/Revenue

6. None

Property/Other

7. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

8. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

9. None

POLICY FRAMEWORK IMPLICATIONS

10. None

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	Not applicable
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Audit Commission: Progress report 2009/10 and 2010/11
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

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

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

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

1	None
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Progress Report

Southampton City Council

Audit 2009/10 and 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Progress with 2009/10 audit.....	2
Progress with 2010/11 audit.....	4

Progress with 2009/10 audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Financial statements					
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2010	September 2010	The AGR was presented at the September meeting of the Audit Committee and Standards & Governance Committee. A meeting was also held with the Chair of the Standards & Governance Committee on 29 September 2010 in respect of the treatment of the Equal Pay Provision in the 2009/10 financial statements.
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2010	September 2010	An unqualified audit opinion was issued on 30 September 2010
Final Accounts memorandum (If appropriate)	Mike Bowers	Rob Carr	October 2010	N/A	An exit meeting has been held with officers following the completion of the 2009/10 opinion audit. There are no further issues that we need to bring to members attention.
Use of Resources					
Value for money conclusion	Kate Handy	Brad Roynon	September 2010	N/A	An unqualified value for money conclusion was issued on 30 September 2010

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Annual Audit Letter					
Annual Audit Letter	Kate Handy	Standards and Governance Committee	November 2010	November 2010	The Annual Audit Letter was issued to members before the 30 November 2010, and will be presented to the Audit Committee and Standards & Governance Committee in December 2010.

Progress with 2010/11 audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2010/11	Kate Handy	Audit Committee	June 2010	June 2010	The initial fee letter for 2010/11 was presented at the June 2010 meeting. A more detailed opinion plan will be prepared and discussed with officers when the audit for 2009/10 has been completed.
Financial statements					
Interim audit memorandum (If appropriate)	Mike Bowers	Andrew Lowe	June 2011		The pre statements audit is planned to be completed during the period February to April 2011.
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2011		
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2011		
Final Accounts memorandum (If appropriate)	Mike Bowers	Andrew Lowe	October 2011		
Value for money conclusion					
Value for money conclusion	Kate Handy	Standards and Governance Committee	September 2011		
Highways maintenance	Tim Thomas	Lorraine Brown	March 2011		An initial set up meeting has been held in November 2010 with key officers.

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Certification of grant claims and returns					
Annual report	Mike Bowers	Andrew Lowe	March 2011		

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- any third party.



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Agenda Item 7

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	INTERNAL AUDIT: STATUS OF WORK
DATE OF DECISION:	3 FEBRUARY 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

Under the Accounts and Audit (Amendment) (England) Regulations 2006, the Council is responsible for:

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

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

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

The appendix summarises the activities of internal audit for the period ending November 2010.

RECOMMENDATIONS:

- (i) That the Internal Audit Status of Work report for the period ending November 2010 be noted.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The status report for the period ending November 2010 is attached for

consideration in the appendix.

The Status of Work report for the period ending November 2010 has been received by the Chief Officers' Management Team.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	Not applicable
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Internal Audit: Status of Work Report period ending November 2010
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

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

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

Title of Background Paper(s)

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

1.	None
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SUBJECT:	Internal Audit: Status of Work
MEETING:	Chief Officers Management Team
DATE OF MEETING:	30 November 2010
REPORT OF:	Chief Internal Auditor
REPORT DATE:	10 November 2010

1 Opinion definitions

Opinion	Framework of governance, risk management and management control
Substantial assurance [G]	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance [A1]	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance [A2]	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance [R]	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed [X]	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

2 Status of 'live' reports:

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Across Schools Thematic Reviews – Security	16/06/08	Executive Director Children's Services and Learning	Children's Services and Learning	A2	G	8 (4)	1 (0)
School PFI Contract Management	03/07/09	Executive Director, Children Services and Learning	Children Services and Learning	A1	G	8 (1)	1 (0)
CCTV Services	05/01/10	Executive Director of Neighbourhoods	Neighbourhoods	G	G	11 (2)	2 (0)
Procurement Follow Up	08/02/10	Executive Director of Resources	Resources	G	X	3 (2)	0
Adult Learning and Disability	25/02/10	Executive Director of Health and Adult Social Care	Health and Adult Social Care	G	G	2 (0)	1 (0)
Payroll	23/03/10	Executive Director of Resources	Resources	G	G	3 (2)	2 (1)
Creditors	31/03/10	Executive Director of Resources	Resources	G	G	5 (0)	2 (0)
Housing Rents Collection and Debt Management	08/04/10	Executive Director of Neighbourhoods	Neighbourhoods	G	X	8 (1)	0
Decent Homes	11/05/10	Executive Director of Neighbourhoods	Neighbourhoods	A1	G	7 (1)	1 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current		
Corporate Governance Framework	12/05/10	Solicitor to the Council	Chief Executives	G	X	3 (0)	0
Pupil Referral Unit	10/06/10	Executive Director, Children Services and Learning	Children Services and Learning	R	X	24 (18)	0
Risk Management	15/06/10	Executive Director of Resources	Resources	G	G	3 (0)	3 (0)
Fuel Management and Fleet Workshop	13/07/10	Executive Director, Environment Executive Director, Neighbourhoods	Environment Neighbourhoods	A2	G	14 (6)	2 (1)
Children's Trust Arrangements for the Delivery of the Children's and Young Peoples Plan	20/07/10	Executive Director, Children Services and Learning	Children Services and Learning	G	X	2 (0)	0
4Social Care Work	26/07/10	Executive Director, Children Services and Learning	Children Services and Learning	A2	A2	6(6)	6 (6)
Bereavement Services	03/08/10	Executive Director, Environment	Environment	G	G	3 (2)	3 (2)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Data Management – Children Services	05/08/10	Executive Director, Children Services and Learning	Children Services and Learning	A1	A1	12 (9)	6 (4)
Safeguarding – Contact Scheme	13/08/10	Executive Director, Children Services and Learning	Children Services and Learning	R	X	34 (28)	0
Hollybrook Junior School	13/09/10	Executive Director, Children Services and Learning	Children Services and Learning	G	G	8 (1)	3 (1)
Commissioning Plan for Health and Wellbeing	21/09/10	Executive Director, Health and Adult Social Care	Health and Adult Social Care	G	G	7 (7)	1 (1)
IT Solutions Development and Support	12/10/10	Interim Executive Director of Resources	Resources	G	X	2 (0)	0
Application and Software Management	12/10/10	Interim Executive Director of Resources	Resources	A2	A2	6 (0)	4 (0)
Network Management and Security	12/10/10	Interim Executive Director of Resources	Resources	A2	A2	17 (0)	12 (0)

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

Audit title: Application and Software Management (12/10/10)

Original published audit opinion: Limited assurance [A2]

Current audit opinion: Limited assurance [A2]

Executive summary:

Desktop installations of software are undertaken following the raising of an Infra Enterprise Service Management request. A process is followed to establish whether there is a licence which can be reallocated or whether a new purchase is required; however, there is no formalised documented procedure for this process. Details of software licences are held on a series of spreadsheets arranged by vendor. In addition, following installation there is no single location to store software media or licensing information.

If the software licensing process is not standardised and centralised, there are risks that the Council may not be fully licensed for all the software it is using, and that original media will go astray if not stored securely.

Capita use Microsoft SMS (System Management Server) and can extract reports of installed desktop applications, however, no exercise is undertaken to compare installed software with purchases/licences. Testing identified nine installations of Adobe Professional; whilst, records indicated only four purchases of Adobe Professional.

Where software audits are not regularly carried out there is a risk of unauthorised software being installed on the network. Where there is limited or no evidence available to verify all software owned by the Council, there is a risk that the Council over or under purchases licences which may result in direct financial loss and reputational damage to the Authority.

Records are maintained of applications owned by Capita and the Council, however, do not include details of the method of licensing, e.g. concurrent users or per seat.

Where a full inventory of installed software and its licensing method is not maintained, there is risk of unauthorised software not being identified and of the Council being fined for using unlicensed software.

A comprehensive Information Security Policy is in place, which is currently in the process of being reviewed. A review of logical security identified that password complexity has not been enabled on a sample of applications.

Ensuring that application security is in line with the requirements of the Information Security Policy will assist in ensuring the integrity of the access control security over key Council applications.

The Council has a documented Business Impact Analysis which was conducted in 2004/2005. This was used as the basis of the identification of a list of Critical Applications for which a Disaster Recovery solution has been implemented. However, it is not clearly identifiable how the final listing of critical systems was arrived at from the Business Impact Analysis. In addition, there is no system of prioritisation in place for the critical systems. It was also identified that there are inconsistencies within Business Continuity Planning documentation in relation to the number of supported applications.

Failure to ensure that regular reviews are undertaken of the Business Impact Analysis process may result in the supported disaster recovery critical applications not being in line with the Council's needs.

Management actions and update:

An appropriate management action plan has been compiled

Audit title: Network Management and Security (12/10/10)

Original published audit opinion: Limited assurance [A2]

Current audit opinion: Limited assurance [A2]

Executive summary:

Data backed up to tape is not encrypted. In the event of backup tapes being lost or stolen it is possible that data may be recoverable. There is no Router/Firewall Policy to define the way in which network traffic of different types should be handled, and how the network should be protected, additionally, there is no firewall between the SCC/Capita joint area and the Capita 'cloud', which is an external network accessible by other Capita clients.

The server room air conditioning is in need of upgrade to match leading standards. There is no generator to provide power to the server room in the event of a power cut

Security Settings in some instances were found to be historic increasing the risk of unencrypted passwords being transmitted. Analysis identified a volume of accounts that had either not logged in or had not changed their password for in excess of 3 months and a further number of accounts for which passwords never expire or use zero-length passwords. Additionally a significant level of accounts retain administrative privileges.

Management actions and update:

An appropriate management action plan has been compiled.

4 Update on previously published reports where critical weaknesses or unacceptable levels of risk identified:

Audit title: 4 Social Work and Public Sector Staffing

Original published audit opinion: Limited assurance [A2]

Current audit opinion: Limited assurance [A2]

Executive summary:

The locum social work, Vivek Bokinala (VB) left the employment of the Council on 13th November 2009, however three invoices / timesheets were subsequently submitted by '4SocialWork' for the proceeding three weeks between 16th November 2009 to 4th December 2009 for the respective values £1,121.25, £1,106.30 and £1,106.30

Despite having paid one of the fraudulent invoices, a legitimate invoice dating back to September 2009 remained unpaid (£897) and was subsequently cancelled reducing the Council's loss to £224.25.

Following liaison with '4SocialWork', the residual balance owed to the Council (£224.25) was repaid on 25th March 2010.

Only one social worker (VB) has been employed using '4SocialWork', who are currently suspended as a Council supplier.

Following initial investigations this matter was referred to Southampton Central CID who passed the case to the Metropolitan Police (Hounslow CID) due to the location of '4SocialWork' headquarters and the residence of VB, however, Hounslow CID have reported that they are no longer going to pursue the investigation due to lack of resources.

To date and on the advice of Hounslow CID, all reference requests relating to VB have been refused.

The investigation has highlighted a number of control weaknesses with regard payment authorisation; procurement arrangements (integrity checks on suppliers); and processes followed in respect of leavers

High priority actions overdue:

The Temporary Employment Agency should liaise as appropriate with Procurement to undertake and document the necessary integrity checks prior to the use of any new staffing agency (Jul 10)

The Temporary Employment Agency to liaise with Procurement to review and update the current framework agreement in accordance with the Contract Procedure Rules (Jul 10)

Management Instruction will be issued that states that detailed checks should be undertaken and a robust process documented, implemented and communicated for the payment of all staffing agency invoices to ensure their validity and authorisation by an appropriate officer(s).

Management Instruction will be issued that states that appropriate procedures should be implemented to ensure relevant parties i.e. TEA and staffing agencies are aware of starters and leavers.

Following development of a framework agreement, management should assess reinstatement and continued use of '4SocialWork'. (Jul 10)

Issue a management instruction that a 'standard reference' is provided for all future reference requests for VB. (Jul 10)

5 Internal Audit Performance

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service in 2009.

Results from a survey conducted earlier this year demonstrate that management are largely satisfied with the internal audit service and its ability to contribute to the Council's control environment and assist in achieving its objectives.

Survey Question	Response - Good, Very Good or Excellent
How do you rate the service provided by Internal Audit	83.3%
Survey Question	Response - Yes
The internal audit service makes an effective contribution to the Council's control environment?	89.1%
Internal audit is of value and assists the Council in achieving its objectives?	91.5%

6 Planning and Resourcing

With effect from 1 November 2010 Southampton City Council and Hampshire County Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduces a shared Chief Internal Auditor role across both authority's in which three days a week is directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council

Delivery of internal audit services within each of the Council's will remain largely unchanged with two discrete teams operating to exclusive strategic audit plans appropriately aligned to the individual authority's priorities and objectives. Service responsibilities within the Southampton City Council internal audit service have been appropriately realigned to ensure continuity of service; with the Chief Internal Auditor maintaining key strategic responsibilities.

This is a significant opportunity to develop a shared service approach for the provision of the Internal Audit Service generating immediate efficiency savings and potential for the development of future savings through shared resources in areas of expertise including IT specialisms and economies of scale generated through training and development.

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<u>2010/11 Audit Plan</u>					
Annual Governance Statement	✓	✓	✓	✓	19/05/10
Hampshire Camera Partnership	✓	✓	✓	✓	24/05/10
Abandoned Vehicles	✓	✓	✓	✓	22/06/10
Bereavement Services	✓	✓	✓	✓	03/08/10
Solent Sea Rescue	✓	✓	✓	✓	09/08/10
Safeguarding – Contact Scheme	✓	✓	✓	✓	13/08/10
General School Review – Holybrook Junior	✓	✓	✓	✓	13/09/10
Main Accounting System	✓	✓	✓	✓	21/09/10
NNDR	✓	✓	✓	✓	05/10/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Sports and Recreation Partnership	✓	✓	✓	✓	06/10/10
Housing Rent and Collection	✓	✓	✓	✓	29/10/10
Expenses Management	✓	✓	✓	✓	
Across School Thematic	✓	✓	✓	✓	
Thornhill Plus You	✓	✓	✓	✓	
Heating Charges (Audit Commission)	n/a	✓	✓	✓	
General School Review - St Johns Primary School	✓	✓	✓	✓	
General School Review - Vermont School	✓	✓	✓		
Payroll	✓	✓	✓		
Housing and Council Tax Benefit Administration	✓	✓	✓		
Creditors	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Section 106 agreements	✓	✓			
National Fraud Initiative	n/a	✓			
European Funding	n/a	✓			
Provider Services	✓	✓			
Council Tax	✓	✓			
VAT Accounting	✓				
Partnership Governance and Reviews	✓				
Sport Development and Active Options	✓				
Debtors	✓				
General School review – St Marks	✓				
Financial Management Standards in Schools	8 of 22 complete				

FMSiS Analysis				
Schools Assessed (2010-11)	Pass	Conditional	Not Achieved	Comments
8	3	5		

The end of the Financial Management Standard in Schools (FMSiS)

Michael Gove, Secretary of State for Education, announced [15 November 2010] the decision to end the current Financial Management Standard in Schools (FMSiS) with immediate effect. A simpler standard will be developed as a replacement and is expected to be introduced next year.

8 Status of 'Live' External Audit

Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Opinion Interim Report	June 08	Executive Director of Resources	Resources	5 (2)	1 (1)
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Use of Resources	March 09	Executive Director of Resources	Resources	7 (4)	1 (1)
Annual Governance Report	Sept 10	Executive Director of Resources	Resources	4 (4)	4 (4)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Opinion Interim Report (Jun 08)							
Social Services Income							
6	Identify the cause of the failure of the social care billing, and implement changes to the system to ensure that this does not continue into future years.	3	Penny Furness - Smith	Agreed	Significant resources are still being employed to manage the current billing situation. A major project to develop a new charging policy and billing system to be introduced for 2009/10 is now underway.	Apr-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
Final Account Memo (Dec 08)							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry should be continued until completed.	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.	Ongoing	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Use of Resources (Mar 09)							
Internal Control							
-	Ensure that the revised non-residential social care billing policy and the replacement income billing module are implemented.	3	Penny Furness - Smith	Yes	The new policy and charging module are in the process of being delivered per the specific action plan resulting from the PWC review.	Dec-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
Annual Governance Report 2009/10							
Record of electricity meters in dwellings							
-	Review the record of electricity meters and implement a more effective database and system of controls.	3	Utilities Manager Decent Homes	Yes	Work is underway to trial new software for the monitoring and estimating process of the utility supplies. It is a dedicated database for the utility market and will hold all site information and enable estimates to be established more easily in the future and the monitoring of information to continue. Access has been arranged for Council staff to use this software on a sample of data to review its capabilities. If deemed suitable and appropriate the aim is to have this software operational for the	Apr 11	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					start of the new financial year.		
	Confirm the designation of electricity meters.	3	Utilities Manager Decent Homes	Yes	In January 2010 there were circa 2,500 meters, this is a constantly changing figure as meters are removed and added. Of these 2,500 meters we are actively working on a small minority (57) of these with SSE to determine whether these are in operation or have been removed, any funds paid on account on these meters can easily be removed from the heating account if subsequently they are found not to be in place. There are 665 meters that are known to exist but the designation needs to be confirmed by visually checking the cabling to these meters and determining whether these are communal heating or lighting supplies. The investigatory work to check these 722 sites has commenced and the data collected including serial numbers and readings will be used to update records. This has been requested to be completed by the end of October with any problem areas being addressed during November 2010.	Oct 10	Survey due for completion November 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
	Establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders.	3	Utilities Manager Decent Homes and Corporate Finance	Yes	Following the outcome of the meter review the number of errors will be known and this can be used to establish any possible financial impact	Dec 10	
	Review the record of gas meters to determine if there are similar weaknesses in these records and how improvements can be made.	3	Utilities Manager Decent Homes and Housing Finance Support	Yes	Each gas meter is within a tenants home therefore if we do not gain access to the home we cannot receive an actual read/bill and rely on estimates. As we carry out a gas safety check on all properties annually we will instruct our engineers to complete a serial number and meter readapt that point and this will be passed to our gas supplier for invoicing purposes. Each gas meter is within the tenant's property, therefore there is not the same potential of incorrect allocation of heating costs as with electric meters	Apr 11	

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Agenda Item 8

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	INTERNAL AUDIT: REVIEW OF THE ANNUAL OPERATIONAL PLAN 2010/11
DATE OF DECISION:	3 FEBRUARY 2011
REPORT OF	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The Annual operational plan, as approved by the Audit Committee (18th March 2010), provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

The plan should be subject to ongoing review and adjustment to ensure it remains aligned with significant business risks and is responsive to the priorities and concerns of the management team. The plan also requires adjustment to ensure it makes most appropriate use of available internal audit resources.

The revised Annual operational plan for 2010/11 is attached as an appendix to this report.

RECOMMENDATIONS:

- (i) That the Committee comment on and approve the revised Annual Operational Internal Audit Plan for 2010/11.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to approve, but not direct, the Annual Operational Internal Audit Plan.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The revised Annual Operational Internal Audit Plan for 2010/11 is attached in the appendix for consideration.
4. Supplementary resources have been procured to provide technical support in completion of the Internal Audit Plan for 2010/11.
5. The revised Plan remains appropriately balanced to ensure sufficient assurance work will be carried out to enable a reasonable conclusion to be formed on the adequacy and effectiveness of the Council's risk management, control and governance processes.

6. Amendments to the plan have been identified through internal audit's ongoing contact and liaison with the Chief Officers Management Team, Heads of Service, the Audit Committee and the Risk and Assurance Manager.

RESOURCE IMPLICATIONS

Capital/Revenue

7. None

Property/Other

8. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

9. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

10. None

POLICY FRAMEWORK IMPLICATIONS

11. None

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	Not applicable
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SUPPORTING DOCUMENTATION

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

Appendices

1.	Internal Audit: Revised Annual Operational Plan 2010/11
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

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

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

Title of Background Paper(s)

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

1.	None
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1 Appendix: Strategic Internal Audit Plan 2010/11 to 2012/13

Key to review theme or type:	
Reference	Description
TP	Transformational Projects
CC	Corporate/ Cross Cutting Reviews
IS	Information Systems Reviews:
FM	Financial Management Reviews:
CO	Corporate Governance
QS	Providing good value, high quality services
CW	Getting the city working
ET	Investing in education and training
PS	Keeping people safe
CG	Keeping the city clean and green
LP	Looking after people
MS	Reviews of miscellaneous services
OA	Other Direct Audit Activity:

Key to Audit Sponsor:	
Reference	Description
CEX	Chief Executive
CHC	Executive Director, Communities, Health and Care
CSL	Executive Director, Children's Services and Learning
ENV	Executive Director, Environment
NBH	Executive Director, Neighbourhoods
RES	Executive Director, Resources
SOL	Solicitor to the Council

Review Type	Audit	Audit Sponsor	Priority	Audit Status
Transformational Projects				
TP	Decent homes and Estates	NBH	H	scheduled 02/11
TP	Putting People First (In Control)	CHC	H	ongoing
TP	Building Schools for the Future	CSL	H	removed from plan
TP	City Renaissance	ENV	H	ongoing
TP	Town Depot Relocation	ENV	M	ongoing
TP	Local and Regional Planning	ENV	M	ongoing
TP	Developing the Neighbourhood Agenda and Community hubs	NBH	M	removed from plan
TP	Use of Natural Resources	ENV	H	removed from plan
TP	Estate Regeneration	NBH	H	ongoing
TP	Sheltered housing review	NBH	M	combined with decent homes
TP	Heritage centre	NBH	M	ongoing
TP	Tudor House Museum	NBH	M	ongoing
Corporate Cross Cutting Reviews				
CC	Contract management	RES	H	scheduled 02/11
CC	Information governance	RES	M	deferred
CC	Workforce Strategy	RES	M	scheduled 02/11
CC	Partnerships governance and reviews	CEX	H	ongoing
CC	Procurement	RES	H	scheduled 02/11

Review Type	Audit	Audit Sponsor	Priority	Audit Status
CC	Project management	RES	H	ongoing
CC	Strategic service partnership	RES	H	scheduled 03/11
CC	Customer services	RES	L	ongoing
CC	Local and multi area agreement	CEX	M	ongoing
CC	Repairs and Maintenance	RES	M	scheduled 02/11
Financial Management Reviews				
FM	Housing and Council Tax Benefits administration	RES	M	ongoing
FM	Asset management	RES	M	scheduled 01/11
FM	Cash collection and banking	RES	M	scheduled 04/11
FM	Creditors	RES	L	ongoing
FM	Debtors	RES	M	ongoing
FM	Expenses management	RES	M	draft report issued
FM	Housing rent collection and debt management	NBH	M	complete
FM	Council Tax	RES	M	ongoing
FM	NNDR	RES	M	complete
FM	Main Accounting System	RES	M	complete
FM	Payroll	RES	M	draft report issued
FM	VAT accounting	RES	L	scheduled 01/11
Information System Reviews				

Review Type	Audit	Audit Sponsor	Priority	Audit Status
IS	IS security management	RES	M	scheduled 02/11
IS	IS strategy and service delivery	RES	H	scheduled 02/11
IS	IT operating systems	RES	M	deferred
IS	Internet/e-mail	RES	M	scheduled 02/11
Corporate Governance Reviews				
CO	Corporate performance management	CEX	L	scheduled 03/11
CO	Internal audit	RES	L	ongoing
CO	Annual Governance Statement	RES	L	complete
CO	Fraud Thematic Review	RES	H	scheduled 03/11
CO	Precautions against fraud	RES	H	complete
Key Priority - Providing good value, high quality services				
QS	Joint Commissioning Standards	CHC	M	scheduled 02/11
QS	Efficiency Strategy	RES	M	scheduled 02/11
Key Priority - Getting the city working				
CW	Highways futures	ENV	H	ongoing
CW	Section 106 agreements	ENV	M	ongoing
Key Priority - Investing in education and training				
ET	Across Schools thematic reviews	CSL	H	scheduled 02/11
ET	General school reviews	CSL	H	2 of 3 complete

Review Type	Audit	Audit Sponsor	Priority	Audit Status
ET	Sports and recreation partnership	NBH	H	complete
ET	Post 16 Provision	CSL	H	scheduled 03/11
ET	School admissions	CSL	M	scheduled 01/11
Key Priority - Keeping people safe				
PS	Contact Point	CSL	H	removed from plan
PS	Safeguarding	CSL	H	complete
Key Priority - Keeping the city clean and green				
CG	Street Lighting PFI	ENV	H	ongoing
Key Priority - Looking after people				
LP	Housing Management	NBH	M	ongoing
LP	Thornhill Plus You	CEX	H	draft report issued
LP	Intermediate Care	CHC	M	ongoing
LP	Provider services	CHC	H	ongoing
Miscellaneous Service Reviews				
MS	Abandoned vehicles	ENV	L	complete
MS	Bereavement Services	ENV	L	complete
Other Audit Activity				
OA	European funding	CEX	L	ongoing
OA	Financial Management Standards in Schools	CSL	H	8 of 22 complete

Review Type	Audit	Audit Sponsor	Priority	Audit Status
OA	Audit Commission Liaison	-	-	ongoing
OA	Audit Committee support/ member liaison	-	-	ongoing
OA	Hampshire camera partnership	-	L	complete
OA	National Fraud initiative	-	H	complete
OA	Solent sea rescue	-	L	complete
Special Commissions/ ad hoc consultancy and advice/ contingency				
Heating Charges		NBH	H	complete
Pupil Referral Unit		CSL	H	complete
Holybrook Junior School		CSL	L	complete
Sports Development and Active Options Team		NBH	L	ongoing
INV10-01		-	H	complete
INV10-02		-	H	complete
INV10-03		-	H	ongoing
INV10-04		-	H	ongoing
INV10-05		-	H	ongoing
INV10-06		-	H	complete
INV10-07		-	H	ongoing
INV10-08		-	H	ongoing
INV10-09		-	H	ongoing

Review Type	Audit	Audit Sponsor	Priority	Audit Status
INV10-10		-	H	ongoing
INV10-11		-	H	complete
INV10-12		-	H	complete
INV10-13		-	H	complete
INV10-14		-	H	ongoing
INV10-15		-	H	ongoing
INV10-16		-	H	ongoing
INV10-17		-	H	ongoing

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Agenda Item 9

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	RISK MANAGEMENT ACTION PLAN 2010-11: STATUS REPORT		
DATE OF DECISION:	3 FEBRUARY 2011		
REPORT OF:	EXECUTIVE DIRECTOR OF RESOURCES (ACTING)		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			

SUMMARY

The Committee will recall the 'Risk Management Strategy and Action Plan' report and supporting documents that were presented and approved at the Audit Committee meeting on 23rd June 2010. In accordance with the Strategy, progress against the agreed 'Risk Management Action Plan' shall be reported to the Audit Committee on an annual basis with a 'mid term' status report.

RECOMMENDATIONS:

- (i) That the Risk Management Action Plan 2010-11: Status Report (Appendix 1) be noted.

REASONS FOR REPORT RECOMMENDATIONS

1. This report is presented to the Audit Committee in their capacity as the member body with responsibility for providing independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the statement of internal control.
2. The Audit Committee is also responsible for providing assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

CONSULTATION

3. None. A decision on which Board is most appropriate to include risk management within its remit / terms of reference is still under consideration.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. Not applicable.

DETAIL

5. Effective risk management is a key element of corporate governance, and is recognised as such in:-
 - The CIPFA/SOLACE Corporate Governance Framework; and

- CIPFA's guidance on the Statement on Internal Control.

6. The Accounts and Audit (Amendment) (England) Regulations 2006 also state that the Council is "responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk".

FINANCIAL/RESOURCE IMPLICATIONS

Capital

7. None

Revenue

8. None

Property

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

Other

10. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

12. None

POLICY FRAMEWORK IMPLICATIONS

13. None

SUPPORTING DOCUMENTATION

Appendices

1.	Risk Management Action Plan 2010-11: Status Report
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Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

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

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

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

FORWARD PLAN No: N/A

KEY DECISION?

N/A

WARDS/COMMUNITIES AFFECTED:

Not applicable

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RISK MANAGEMENT ACTION PLAN 2010-11: Status Report

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
1.	<p>Embedding Risk Management</p> <p>Implementation of further in-house developments and refinements to the risk functionality developed within CorVu (the council's performance management software).</p>	<p>Further review regarding whether the development of a 'risk indicator' field, when reporting on the status of key priorities and objectives, would be useful.</p> <p>Explore the relationship between PM Connect (the Council's centralised project management system) and CorVu in terms how 'high risk' projects might feature on the risk registers held in CorVu.</p> <p>Roll out of the 'Portfolio Risk Reports',</p>	<p>SEPT 10 REVISED (to Mar 11)</p> <p>MAR 11</p> <p>SEPT 10 REVISED (to Mar 11)</p>	<p>IN PROGRESS</p> <p>COMPLETED</p> <p>PENDING</p>	<p>Action is pending implementation of recent proposed changes to the corporate business planning process whereby plans are to be held centrally on CorVu. The potential and value of creating more explicit links between key objectives and key priorities is being explored.</p> <p>The monthly Highlight Report, that all Project Managers are required to complete, includes an overall RAG status to confirm whether the project is on track. It is therefore considered that there would be limited added value in replicating this information on the directorate risk registers. The respective Project, Programme and Capital Boards receive the Highlight Reports and would be expected to ensure that appropriate action is taken to manage risk.</p> <p>Portfolio Risk Reports have been developed within CorVu however they will not be 'rolled out' until after the 2011-12 Directorate and Corporate Business Plans and associated risk registers have been developed.</p>
2.	<p>Embedding Risk Management</p> <p>The focus of the Council's integrated business planning process is to ensure that service areas clearly identify their key priorities and the associated resources implications. The key priorities are then used to inform development of the Directorate Risk Registers for the forthcoming period recognising that 'significant risks' will need to be identified and managed.</p>	<p>Review the content of the Directorate Risk Registers to ensure consistency of approach.</p> <p>Facilitate review of the Strategic Risk Register in consultation with the Chief Officers Management Team.</p>	<p>SEPT 10</p> <p>SEPT 10</p>	<p>COMPLETED (Sept 10)</p> <p>COMPLETED (Sept 10)</p>	<p>Service areas are directed to update both their Directorate and any Strategic risks on CorVu to reflect the end of quarter position. The review process is aligned with the updating of performance information on CorVu.</p> <p>Review undertaken with the Chief Officers Management Team on 31st August 2010 and updated document reported to Audit Committee at the 22nd September 2010 meeting.</p>

Appendix 1

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
3.	<p>Managing Risks in Partnerships</p> <p>Guidance in respect of 'managing risks in partnerships' forms part of the Council's Partnership Code and Toolkit formally adopted in May 2009 and forming part of the Council's Constitution.</p> <p>Key statutory and non-statutory partnerships are required to undertake a self-assessment using the Code and Toolkit by Jan 2011.</p>	<p>Ensure that any feedback or comments on the 'risk management' element of the Code or Toolkit arising from the completed self assessments are appropriately actioned.</p> <p>Develop a review mechanism so that a sample check of 'partnership risk registers' can be undertaken to review both the quality and ensure compliance with the agreed process.</p>	<p>MAR 11 (DEFERRED) 2011-12</p> <p>MAR 11 (DEFERRED) 2011-12</p>	<p>ON HOLD</p> <p>ON HOLD</p>	<p>In light of the Coalition Government's significant reform programme together with the comprehensive spending review, the current economic climate and the new 'City Priorities & Challenges' the Southampton Partnership Delivery Board has commissioned a fundamental 'root and branch' review of the current partnership framework. The outcome of this review (31st March 2011) is likely to lead to a significant change in the existing arrangements and composition of the partnerships. The 'self assessment' exercise has therefore been put on hold for the time being. Internal Audit is however engaged with the Southampton Partnership Review process in an advisory / critical friend capacity.</p>
4.	<p>Managing Risks in Projects</p> <p>PM Connect (the Council's centralised project management system) is now in place and from 1st April 2010 all projects will need to comply with the principles and guidelines of PM connect.</p> <p>Assurance that the risk management elements, which form an intrinsic part of PM Connect, are being consistently complied with and are fit for purpose.</p>	<p>Review the existing on-line risk matrix template in consultation with the officer responsible for the implementation and development of PM Connect (Programme Management Officer) to ensure that it is aligned with the corporate approach to risk management.</p> <p>Support the Programme Management Officer in respect of any questions that may arise during the course of the monthly PM Connect 'drop-in' sessions relating to risk.</p> <p>Develop a review mechanism so that a sample check of 'project risk registers' can be undertaken to review both the quality and ensure compliance with the agreed process.</p>	<p>SEPT 10</p> <p>MAR 11</p> <p>DEC 10</p>	<p>COMPLETED (Dec 10)</p> <p>IN PROGRESS</p> <p>COMPLETED (Nov 10)</p>	<p>A step by step guide to 'managing risks in projects', explicitly aligned with the Council's project management methodology, has been developed and published on both the PM Connect (Sharepoint) system and on the intranet.</p> <p>The focus of the support has now changed with the emphasis on supporting individuals as opposed to providing group sessions. To date, no specific issues have been flagged in respect of the elements relating to identifying and managing risk.</p> <p>All project documents are required to be held on PM Connect including Outline Project Proposals, Business cases etc which all make reference to the need for key risks to be identified and considered thereby enabling sample checking to be undertaken.</p>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
5.	<p>Risk Reviews</p> <p>As part of the new insurance programme the Council will receive 5 days of liability risk management support and 3 days of property risk management support from the respective insurers. The risk management support is provided on an annual basis and at no cost to the Council.</p>	<p>To work with the new insurers (via their risk survey / loss control service teams) and identify and develop an appropriate risk survey/ risk review programme encompassing both strategic and operational risk issues.</p>	MAR 11	IN PROGRESS	<p>A number of fire and security surveys have been undertaken by insurers at a selection of premises. The surveys are primarily to enable insurers to better understand the risks that they are covering. The survey programme has included the Civic Centre Complex (incl ASAP & Sea City projects), St Anne's School, Netley Court School and Itchen Bridge. In addition, Motor Accumulation surveys have been undertaken at both Town Depot and Red Lodge Depot. In all cases no significant issues were identified.</p> <p>In addition, liability insurers have undertaken a risk review which has identified some areas where further guidance/training may be of benefit and are therefore being pursued.</p>
6.	<p>Risk Financing</p> <p>Triennial actuarial review of the internal self insurance fund in line with good practice.</p>	<p>Commission, via the Council's appointed insurance broker/advisor (Marsh), an actuarial review of self insurance funds.</p>	SEPT 10	COMPLETED (Sept 10)	<p>As reported to the Audit Committee at the 22nd September 2010 meeting.</p> <p>Recommendation to Council that contributions be reduced by £500k. Recharges for 2012-13 and 2013-14 to remain at this reduced contribution level.</p>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
7.	Training To provide appropriate risk management training opportunities for members and council officers relevant to their needs / responsibilities.	Review the completed feedback forms received in respect of the 2009-10 Management Academy programme and to consider what further actions may be required to support and build upon the learning. Develop and make available appropriate risk management training opportunity for Members.	DEC 10 MAR 11	COMPLETED (Dec 10) NOT STARTED	Now forms part of the corporate Learning and Development programme with the 'Business Tools' subject area. No further action required at this point.
8.	Communication Ensure that a range of risk management guidance documents and templates (including those relating to insurance) are available and are aligned with the requirements of service areas.	Review and update the intranet.	DEC 10	COMPLETED (Nov 10)	Essential changes to reflect the new insurance contract were made but noting that a corporate project to redesign the intranet is currently being undertaken with an intended launch by 31 st March 2011.
9.	Communication To ensure that a relevant and appropriate risk action plan is in place and that arrangements are in place to review progress.	Prepare an annual risk management action plan/status report and interim report for the Audit Committee.	JUNE 10 DEC 10	COMPLETED (June 10) COMPLETED (Feb 11)	
10.	Policy and Strategy To ensure that the Risk Management Strategy and Policy are still relevant and appropriate.	Review and update the Risk Management Strategy and Policy as necessary and report any significant changes to the Audit Committee for approval.	JUNE 10	COMPLETED (June 10)	As approved by the Audit Committee at the 23 rd June 2010 meeting.

Agenda Item 10

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2009-10: ACTION PLAN STATUS REPORT		
DATE OF DECISION:	3 FEBRUARY 2011		
REPORT OF:	EXECUTIVE DIRECTOR OF RESOURCES (ACTING)		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			

SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to complete an Annual Governance Statement ('AGS'). The AGS is a key corporate document which is intended to provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where improvement is required. The council is expected to develop and monitor actions to address those areas where improvement is required.

RECOMMENDATIONS:

- (i) That the content of the Annual Governance Statement 2009-10 Action Plan Status document (Appendix 1) be noted.

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee has responsibility to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. This responsibility extends to receiving assurance that the actions identified to address those areas where improvement is required are being satisfactorily progressed or implemented.

CONSULTATION

2. The updated Action Plan Status document has been developed in consultation with those 'lead officers' previously identified as being responsible for progressing the agreed actions.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

DETAIL

4. The purpose of the AGS is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight any areas where gaps or improvements are required. Although the AGS is published with the authority's financial statements it is concerned with the overall corporate governance arrangements and is not confined to financial issues.
5. A robust assurance gathering process has been developed by the Council, in accordance with the guidance published by the Chartered Institute of Public

Finance and Accountancy (“CIPFA”) and the Society of Local Authority Chief Executives (“SOLACE”), to support the preparation of the AGS.

6. The AGS highlights the ‘significant governance issues’ that were identified and includes a summary of the proposed action to address the issues together with a timescale for completion.
7. An AGS Action Plan was subsequently developed by the CAMG who are responsible for “reviewing progress in respect of action plans to address any identified significant control weaknesses”.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

8. None

Revenue

9. None

Property

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

Other

11. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

13. None

POLICY FRAMEWORK IMPLICATIONS

14. None

SUPPORTING DOCUMENTATION

Appendices

1.	AGS 2009-10 Action Plan Status Report
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Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

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

1.	None
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Background documents available for inspection at: Internal Audit, Risk and Assurance Office, North Block Basement, Civic Centre

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

FORWARD PLAN No: N/A

KEY DECISION?

N/A

WARDS/COMMUNITIES AFFECTED:

Not applicable

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ANNUAL GOVERNANCE STATEMENT 2009-10: ACTION PLAN

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2009-10:

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
1	The Council's Code of Corporate Governance ("CCG") is not currently subject to a formal review process	The CCG will be reviewed formally by Council's Standards and Governance Committee on a biennial basis (next review 2012). Should there be any significant actions arising from the previous review these will be reported annually.	Next biennial review - April 2012	COMPLETED	Solicitor to the Council	Standards and Governance Committee to review CCG in April 2012.
2	Assurance that the requirements of the Partnership Code and Toolkit, formally adopted in May 2009 and part of the Council's Constitution, are being consistently complied with.	Key statutory and non-statutory partnerships are required to undertake a self-assessment using the Code and Toolkit. Review and assess output and identify/communicate any learning outcomes as necessary.	Jan 2011 Mar 2011	ON HOLD	Executive Director Corporate Policy & Economic Development	In light of the Coalition Government's significant reform programme together with the comprehensive spending review, the current economic climate and the new 'City Priorities & Challenges' the Southampton Partnership Delivery Board has commissioned a fundamental 'root and branch' review of the current partnership framework. The outcome of this review (31 st March 2011) is likely to lead to a significant change in the existing arrangements and composition of the partnerships. The 'self assessment' exercise has therefore been put on hold for the time being. Internal Audit is however engaged with the Southampton Partnership Review process in an advisory / critical friend capacity.

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
3	Assurance that the requirements of centralised Project Management system, developed to provide a consistent corporate approach toward project management, are being consistently complied with.	From 01 April 2010 all projects will need to comply with the principles and guidelines of PM connect. A six month progress report will be submitted to the Council's Chief Officers Management Team for review.	Mar 2011	IN PROGRESS	Executive Director of Resources	<p>The introduction of PM Connect has been well received with all parts of the Council using the system. All Project Managers are required to complete a monthly Highlight Report which provides a progress report on the project and an overall RAG status to confirm whether the project is on track. The Highlight Reports form a fundamental part of Project, Programme and Capital Boards.</p> <p>A PM Connect Questionnaire was completed in November 2010 by Project Sponsors and Project Managers with 71% rating the Council's project management arrangements as 'above average'. The process has been well adopted with regular status reports consistently completed for over 90% of projects (95% in December).</p> <p>A report, based on the findings of the review together with an associated action plan, is to be reported to the PM Connect project board and then to either COMT or the Strategic Planning Board to agree the action plan.</p>

	ISSUE	ACTION POINT	TARGET DATE	STATUS	LEAD OFFICER	COMMENTS
4	Ensure consistent understanding of the council's corporate standards by relevant officers	<p>'Corporate Standards' workshop forms part of the 2010-11 Management Academy Programme. The workshops are scheduled to commence in Sept 10</p> <p>Additional training complimentary to the Management Academy will be provided by the Solicitor to the Council on an annual rolling basis. This will initially be by targeted emails and subject to review of effectiveness by the Solicitor to the Council.</p>	<p>Apr 2011</p> <p>Mar 2011</p>	<p>IN PROGRESS</p> <p>IN PROGRESS</p>	<p>Executive Director of Resources / Solicitor to the Council</p> <p>Solicitor to the Council</p>	<p>It is intended that the 'Corporate Standards' workshop is in place for early 2011 once 'Business Metrics' module has been rolled out.</p> <p>Legal Services are currently in discussion with HR to formulate the best method of rolling out the agreed training. It is anticipated that this will take place early in the New Year, subject to resources and other corporate priorities.</p>

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Agenda Item 11

DECISION-MAKER:	AUDIT COMMITTEE COUNCIL		
SUBJECT:	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2011/12 TO 2013/14		
DATE OF DECISION:	3 rd FEBRUARY 2011 16 th FEBRUARY 2011		
REPORT OF:	ACTING EXECUTIVE DIRECTOR OF RESOURCES		
AUTHOR:	Name:	ANDREW LOWE	Tel: 023 8083 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk	
STRATEGY OF CONFIDENTIALITY			
NOT APPLICABLE			

SUMMARY

Treasury Management is a complex subject and the majority of this report is set out in accordance with statutory requirements and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The information provided is therefore mainly technical, but in essence this information forms the basis of the Treasury Management Strategy and Objectives that are being followed, even if these are not spelt out in simple terms. The purpose of this summary therefore is to interpret this information in such a way that provides Members with key messages on the approach to Treasury Management within the Council.

The core elements of the strategy for 2011/12 are :

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

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

The minimisation of net borrowing costs contributes to the Council's priority for providing efficient value for money services and active treasury management can help in lessening the impact of both economic conditions and reductions in government funding on the City Council. This has been demonstrated through the use of variable

rate loans, the interest on which is currently significantly less than longer term fixed rate loans, which has offset the reduction in investment portfolio income due to lower rates. This also demonstrates that the Council takes a rounded view to Treasury Management, considering jointly the debt and investment portfolio together rather than one being the consequence of activity in the other.

The Council can also demonstrate integrated thinking through work that it has been doing on balance sheet analysis and forecasting and working with our advisors on potential changes to Housing Revenue Account (HRA) subsidy and debt arrangements. The Council is also very cognisant of the requirements of accounting conventions and changes relating to International Financial Reporting Standards (IFRS). However, these do not drive treasury management decisions and this has been demonstrated by past decisions to undertake major restructuring which then caused huge complexities in representing this in the accounts in line with accounting conventions.

There are a huge number of variables and risks associated with Treasury Management but the key risks and the Council's approach to them are detailed below:

- **Interest Rate Risk** – The Council has exposed itself to interest rate risk by taking out variable debt during 2009 and 2010. This was and continues to be very financially favourable in current markets but does mean that the Council must monitor markets to ensure it is not caught out. During 2011/12 the Council will almost certainly start to take action to lessen this risk through a balanced combination of :-
 - longer term fixed maturity loans,
 - medium term Equal Instalment of Principle (EIP) loans which are currently cheaper than longer term fixed,
 - longer term Public Works Loan Board (PWLB) variable loans which have the option to be fixed at very short notice for a small fee and
 - variable rate investments to take advantage of increasing interest rates, mainly through the use of money market funds (MMF).
- **Investment Risk** – The risks to capital investment are more known now than they have ever been and the Council has a good track record in respect of appropriate risk exposure during the global economic crisis of recent years. Current investment limits and instruments have been set in the context of current conditions and will continue to be monitored and amended as appropriate.
- **Changes in Market Conditions** – The Council must be able to react quickly to changes in market conditions either good or bad and all Treasury Management decisions are taken by the Chief Financial Officer (CFO) in line with the strategy. In addition, decision sheets are signed off by the CFO containing 'trigger points' for market changes which can then be automatically actioned at short notice without the need to get formal sign off on the day. Furthermore, in response to the continued financial uncertainty, this report recommends that the CFO continues to be given delegated authority to make any changes to this strategy that will aid good treasury management. Any decisions made under this power will be reported in full at a later date.

Furthermore, in order to mitigate these risks further, the Council took the opportunity in 2009 to use the savings created by a debt restructure (around £1.5M) to create an

Interest Equalisation Reserve which is available to smooth any significant fluctuations in market conditions in future years, so that there is no adverse impact on budgets or council tax in any single year.

In this report, Council is requested to approve the Prudential Indicators and the Treasury Management Strategy and to note the main activities undertaken during 2010/11 to date which are summarised below:

- (i) Investment returns are expected to decrease from £1M in 2009/10 to an estimated £0.8M in current year as a result of the continued low interest rates and the fact that income earned in 2009/10 included deals arranged before the decline in the markets which have since matured. The average rate achieved to date (0.99%) is inline with the performance indicator of the average 7 day LIBID rate (0.41%), mainly due to the rolling programme of yearly deals which was restarted in October 2010 following advice from our Treasury Advisors.
- (ii) In order to continue to balance the impact of ongoing lower interest rates on investment income we have continued to use short term debt which is currently available at lower rates than long term debt. As a result the average rate for repayment of debt, (the Consolidated Interest Rate – CRI), at 2.97% is lower than that budgeted for but slightly higher than last year (2.82%) which is in line with reported strategy. It should be noted that the forecast for longer term debt is a steady increase over the next few years and so new long term borrowing will be taken out above this rate therefore, leading to an anticipated increase in the CRI (reaching 4.95% by 2013/14).

The estimates for interest payable and the Prudential Indicators contained within this report assume that the recommendations in the Capital and Revenue budget reports, elsewhere on the agenda, are approved. If there are any changes to the capital programme or the level of borrowing the Prudential Indicators will need to be revised.

RECOMMENDATIONS:

Audit Committee is recommended to

- (i) Endorse the Treasury Management Strategy for 2011/12 as outlined in the report.
- (ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.
- (iii) Note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

Council is recommended to

- (i) Approve the Council's Prudential Indicators as detailed within the report.

- (ii) Approve the 2011 MRP Statement.
- (iii) Approve the Treasury Management Strategy for 2011/12 as outlined in the report.
- (iv) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved. Should the recommendations change, the Prudential Indicators may have to be recalculated.
- (v) Continue to delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources and Workforce Planning, to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example increase the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to this strategy.

REASONS FOR REPORT RECOMMENDATIONS

1. In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve a treasury management strategy which includes:
 - Treasury Management Strategy for 2011/12 (Borrowing; paragraphs 20-37, Debt Rescheduling; paragraphs 43-48, Investments; paragraphs 49-62).
 - Prudential Indicators (NB - The Authorised Limit is a statutory limit).
 - MRP Statement – Paragraphs 64-68.
 - Use of Specified and Non-Specified Investments – Appendix 2.

CONSULTATION

2. The proposed capital and revenue budgets on which this report is based have been subject to their own consultation processes outlined in the relevant reports elsewhere on the Council agenda.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. Alternative options for borrowing would depend on decisions taken on the setting of the capital programme, which are being taken at Full Council on 16th February 2011.

DETAIL

Background

4. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury

Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the DCLG's Investment guidance.

6. CIPFA has defined Treasury Management as:

“the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

7. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its Treasury Management function, it has appointed Treasury Management Advisors (Arlingclose) who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

8. The Council's proposed strategy for 2011/12 - 2013/14 also takes into account the outlook for interest rates (see Appendix 3) and the Council's current treasury position, projected treasury management and capital financing activities and approved Prudential Indicators.

9. The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing; paragraphs 20-37, Debt Rescheduling; paragraphs 43-48, Investments; paragraphs 49-62).
- Prudential Indicators (NB - The Authorised Limit is a statutory limit) .
- MRP Statement – Paragraphs 64-68.
- Use of Specified and Non-Specified Investments – Appendix 2.

10. The Council approved the adoption of the CIPFA TM code at its Council meeting on 19th February 2003 and has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.
11. All treasury activity will comply with relevant statute, guidance and accounting standards.

Reform to the Council Housing Subsidy System

12. The DCLG published a summary of responses to the consultation held between March and July 2010 on proposals for the reform of the current system of council housing finance which would see the removal of the subsidy system by offering a one-off reallocation of debt. There was widespread agreement with the general methodology proposed in the Prospectus. Many of the reservations related to assumptions about costs and the affordability of allocated debt. There was broader acceptance that a level of housing debt redistribution was an acceptable or necessary price to pay for the freedoms and benefits that the reforms would bring and there was strong support for retaining and clarifying the operation of the HRA ring fence. The Housing Minister confirmed that the new system of HRA self-financing will be most likely implemented in 2012. Full details of the Government's policy on reforming council housing finance will be published in early 2011.

In the Consultation the PwC self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the DCLG the difference between the two, which is approximately £60M. This will require the Council to fund this amount in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on following discussions with the Housing department and the Councils' Treasury Advisors.

All the figures within this report are based on the position prior to the inclusion of the HRA debt, due to the uncertainty about timing and amounts. It should be noted that this will have a significant impact on the indicators as this will represent an increase of actual debt of approx 25% in 2012 at rates of potentially 6-7% which are significantly higher than our projected portfolio of 4.23%. Any changes will be reported as required.

Balance Sheet and Treasury Position

13. The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) together with Balances and Reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue budget and Capital Programmes, are set out below:

	31/03/2011 Estimate £M	31/03/2012 Estimate £M	31/03/2013 Estimate £M	31/03/2014 Estimate £M
Capital Financing Requirement	360	360	356	346
Less:				
Existing Profile of Borrowing and Other Long Term Liabilities	302	323	316	310
Cumulative Maximum External Borrowing Requirement	58	37	40	36
Balances & Reserves	25	15	15	15
Cumulative Net Borrowing Requirement / (Investments)	33	22	25	21

15. As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

The year-on-year change in the CFR is due to the following:

Capital Financing Requirement	2009/10 Actual £M	2010/11 Estimate £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Balance B/F	275	310	360	361	356
Capital expenditure financed from borrowing	37	59	11	5	0
Revenue provision for debt Redemption.	(5)	(6)	(8)	(8)	(8)
Movement in Other Long Term Liabilities	3	(3)	(2)	(2)	(1)
Cumulative Maximum External Borrowing	310	360	361	356	347

Capital Financing Requirement	2009/10 Actual £M	2010/11 Estimate £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
General Fund	217	256	255	250	241
HRA	93	104	106	106	106
Total CFR	310	360	361	356	347

Estimates of Capital Expenditure

16. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2010/11 Approved £000's	2010/11 Revised £000's	2011/12 Estimate £000's	2012/13 Estimate £000's	2013/14 Estimate £000's
General Fund	107,673	92,921	69,426	14,580	9,257
HRA	40,720	38,057	25,892	24,512	0
Total	148,393	130,978	95,318	39,092	9,257

Capital expenditure is expected to be financed as follows:

Capital Financing	2010/11 Approved £000's	2010/11 Revised £000's	2011/12 Estimate £000's	2012/13 Estimate £000's	2013/14 Estimate £000's
Capital receipts	5,803	6,684	11,676	7,997	5,719
Government Grants	34,925	26,513	36,998	4,481	2,010
Revenue contributions	13,898	14,241	7,371	1,919	470
Major Repairs Allowance	10,394	10,394	13,096	13,247	0
Revenue	17,137	14,130	15,579	6,382	0
Total Financing	82,157	71,962	84,720	34,026	8,199
Supported borrowing	8,336	8,336	0	0	0
Unsupported borrowing	57,900	50,680	10,598	5,066	1,058
Total Funding	66,236	59,016	10,598	5,066	1,058
Total Financing & Funding	148,393	130,978	95,318	39,092	9,257

Incremental Impact of Capital Investment Decisions

17. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2010/11 Estimate £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	3.39	6.76	1.56	2.96
Increase in Average Weekly Housing	10.07	17.03	4.18	7.71

Ratio of Financing Costs to Net Revenue Stream

18. The estimate for interest payments in 2011/12 is £8.5M and for interest receipts is £0.6M. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	4.99%	6.14%	7.49%	8.43%	9.09%
HRA	5.14%	4.66%	5.75%	7.50%	8.69%
Total	5.55%	5.48%	7.09%	8.25%	8.46%

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

Outlook for Interest Rates

19. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

Borrowing, Rescheduling and Strategy

20. The Council's underlying need to borrow for capital purposes is measured by reference to its CFR as detailed in paragraph 15 above. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.
21. Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR, (the underlying need to borrow), and in turn produce an increased requirement to charge MRP in the Revenue Account.
22. Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.
23. The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon and is shown in Appendix 1. This is measured in a manner consistent for comparison with the Authorised Limit and the Operational Boundary.

24. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2010/11 Approved	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	£000's	£000's	£000's	£000's	£000's
Borrowing	361	443	486	536	538
Other Long-term Liabilities	22	81	77	73	71
Total	383	524	563	609	609

25. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other 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.

Operational Boundary for External Debt	2010/11 Approved	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	£000's	£000's	£000's	£000's	£000's
Borrowing	351	429	471	522	523
Other Long-term Liabilities	21	73	71	68	67
Total	372	502	542	590	590

26. The CFO has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to Council as part of the Outturn report.
27. The Council's strategy is to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
28. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Local authority stock issues
 - Local authority bills
 - Structured finance

29. Even though the cost of new local authority loans has increased to 1% above the cost of the Government's borrowing (following the issuance of Circular 147 on 20th October 2010 as part of the CSR announcement), the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term year Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and investment earnings, (the "cost of carry") remains acute, despite long term borrowing rates being at low levels, and this is expected to remain a feature during 2011/12.

The "cost of carry" associated with medium and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

30. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

31. The Council's existing PWLB variable rate loans borrowed prior to 20th October 2010 will be maintained on their initial terms and are not subject to the additional increased margin for new variable rate loans.

32. The Council long term debt includes £9M which are LOBO loans (Lender's Options Borrower's Option) all of which are currently in their option state. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty

33. Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year, in order to minimise borrowing costs. The Council will be advised by its financial advisors of the specific timing of borrowing. This may include borrowing in advance of future years' requirements provided that overall borrowing is maintained within the Council's projected CFR and its approved Affordable Borrowing Limit.

34. The maturity term of new borrowing will be consistent with the Council maintaining a prudent loans maturity profile in accordance with its Prudential Indicators.
35. **The Option for Forward Funding:** The Council does not have to rely on borrowing in discrete financial years to fund its capital financing requirement and the strategy provides flexibility to take forward borrowing decisions when rates are favourable and the need to borrow can be demonstrated. Overall borrowing must still be within the Council's Affordable Borrowing Limit.
36. **'Trigger' rates for borrowing:** The Council's treasury advisors, provide economic and interest rate forecasts as well as formulating views on borrowing and lending opportunities. In addition, decision sheets are signed off by the CFO containing 'trigger points' for market changes which can then be automatically actioned at short notice without the need to get formal sign off on the day.
37. The Council will maintain a pragmatic approach to borrowing, bearing in mind the Council's debt maturity profile and the need to minimise borrowing costs without compromising longer-term stability of the portfolio. Total borrowing for the year will be reported to Council in July 2011 as part of the Treasury Management Outturn report.

Value for Money

38. One of the key elements of the TMSS is to ensure the minimisation of borrowing cost and the maximisation of investment income commensurate with the level of risk exposure the Council feels is appropriate. Whilst recent events have underlined the potential pitfalls of exposure to risk for financial gain, this does not mean that Treasury Management activity can ignore value for money principles.
39. The Council has applied its TMSS in making borrowing and investment decisions and has taken a very active stance in past restructuring and changing both its borrowing and investment portfolio in response to changing market conditions.
40. In terms of assessing value for money, the Council monitors three key indicators, the details of which are shown in the table below and indicate that the direction of travel for the Council is very favourable. Furthermore comparing the Council's CRI with other authorities has shown that the council has one of the lowest rates in the country.
41. The table below shows our target and actual rates for the key Indicators set for Treasury Management:

	Target 2009/10	2009/10 Actual	Target 2010/11	2010/11 Actual YTD	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14
	%	%	%	%	%	%	%
Consolidated Rate of Interest		2.82		2.97			
Temporary Borrowing	0.60	0.43	0.60	0.38	1.00	2.50	3.35
Average Long Term Borrowing	5.00	3.20	5.00	3.32	6.00	6.00	6.00
Temporary Investments	0.58	0.86	0.57	0.99	0.90	2.40	3.25

42. The CRI is shown as actual only, to demonstrate the direction of travel, since it is not practical to set a target for this indicator due to complexities of measuring the overall debt portfolio over time.

Debt Rescheduling

43. The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility may provide opportunities for restructuring debt from time to time. The rationale for restructuring would be one or more of the following:
- Savings in interest costs with minimal risk.
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.
44. The rescheduling of PWLB debt since the introduction of its repayment rates on 1st November 2007 has not ceased, but has become undoubtedly harder and was further exacerbated by the 1% increase in PWLB rates, detailed in paragraph 29, as premature repayment rates did not benefit from the corresponding increase and the PWLB' methodology remained unchanged. Rescheduling now places greater emphasis on the timing and type of new borrowing.
45. The Council's debt portfolio is monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by the Council's treasury management advisors and discussed with the Council's officers. Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy and will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573).
46. Borrowing and debt rescheduling activity will be reported as part of quarterly monitoring, as part of outturn and in future updates to this strategy.
47. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

The Council's existing level of fixed interest rate exposure is 77% and variable rate exposure is 23% and the limits are shown below:

	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	35	50	50	50	50

48. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt:

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/12/10	Average Fixed Rate as at 31/12/10	% Fixed Rate as at 31/12/10
	%	%	£000's	%	
under 12 months	0	45	44,549	1.64%	28.83%
12 months and within 24 months	0	45	5,000	3.72%	3.24%
24 months and within 5 years	0	50	16,000	3.11%	10.35%
5 years and within 10 years	0	50	23,986	2.83%	15.52%
10 years and within 20 years	0	50			0.00%
20 years and within 30 years	0	75	10,000	4.68%	6.47%
30 years and within 40 years	0	75	30,000	4.62%	19.41%
40 years and within 50 years	0	75	25,000	3.89%	16.18%
50 years and above	0	100	0		0.00%
			154,534	3.27%	100.00%

Investment Policy and Strategy

Policy

49. Guidance from DCLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Council's investment priorities are:
- security of the invested capital,
 - liquidity of the invested capital and
 - an optimum yield which is commensurate with security and liquidity.
50. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix 2.
51. The CFO, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to Council as part of the Treasury Management Outturn report in July 2011.
52. The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Council will continue to maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraphs 58-60.

Investment Strategy

53. The global financial market storm in 2008 and the continued uncertainty have forced investors of public money to reappraise the question of risk versus yield. Income from investments is key in supporting the Council's budget.
54. The UK Bank Rate has been maintained at 0.50% since March 2009. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies. To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix 2). The longer-term investments will be likely to include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
55. The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates. The Council's current level of investments is presented at Appendix 1.
56. Changes to the investment strategy for 2011/12 include:
- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds.
 - UK Treasury Bills (T-Bills), which are short-term Government debt instruments issued by the Debt Management Office (DMADF).
 - Local Authority Bills, which are debt instruments issued by other Local Authorities.
 - Term deposits in Sweden.
 - Maximum duration for new deposits 2 years.
57. In any period of significant stress in the markets, the default position is for investments to be made with the DMADF or UK Treasury Bills. The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.
58. The Council selects countries and the institutions within them (see Appendix 2), for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
 - Credit Default Swaps (where quoted)
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign Support Mechanisms/potential support from a well- resourced parent institution
 - Share Prices
 - Macro-economic indicators

- Corporate developments, news and articles, market sentiment.
59. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
60. We do remain in a heightened state of sensitivity to risk. Vigilance is key and this modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.
61. Limits for Specified Investments are set out in Appendix 2.
62. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

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

Balanced Budget Requirement

63. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

2011/12 MRP Statement

64. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003. The four options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods

65. MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4, (which may also be used for supported expenditure if the Council chooses).
66. The MRP Statement has to be submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time

67. The Council will apply Option 1 in respect of supported capital expenditure and either Option 3 or 4 in respect of unsupported capital expenditure but this does not exclude any other prudent methods that might meet the needs of the Council. The proposed MRP charges for 2011 are detailed below.

	31-Mar-11 Estimate £000's	31-Mar-12 Estimate £000's	31-Mar-13 Estimate £000's	31-Mar-14 Estimate £000's
Supported Borrowing	4,119	4,092	3,808	3,525
Unsupported Borrowing	1,541	3,102	3,364	3,496
HCC Transferred Debt	768	737	707	679
PFI and Finance Leases	2,766	2,481	1,934	2,075
Total MRP	9,194	10,412	9,814	9,775

68. MRP in respect of leases brought on Balance Sheet under the IFRS based Code of Practice will match the annual principal repayment for the associated deferred liability.

Monitoring and Reporting on the Annual Treasury Outturn and Prudential Indicators

69. The Chief Financial Officer will report to the Audit Committee on treasury management activity / performance as follows:
- (a) A mid year review against the strategy approved for the year.
 - (b) An outturn report on its treasury activity, no later than 30th September after the financial year end.
70. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

Member Training

71. CIPFA's revised Code requires the responsible officer to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Training was undertaken on the 10th December 2010.

Investment Consultants

72. To aid the Council in carrying out its Treasury Management function, it has appointed Treasury Management Advisors (Arlingclose) who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the Chief Financial Officer taking into account this advice and other internal and external factors.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

73. The Capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the agenda.

Revenue

74. The Revenue implications are considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the agenda

Property

75. None

Other

76. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

77. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
78. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

79. None

POLICY FRAMEWORK IMPLICATIONS

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

SUPPORTING DOCUMENTATION

Appendices

1.	Current and Projected Portfolio Position
2.	Specified and Non Specified Investments for use by the Council.
3.	Economic and Interest Outlook

Documents In Members' Rooms

1.	None
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Background Documents

Title of Background Paper(s)

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

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

KEY DECISION? No **WARDS/COMMUNITIES AFFECTED:** N/A

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**TREASURY MANAGEMENT STRATEGY STATEMENT
&
INVESTMENT STRATEGY 2011/12 to 2013/14**

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £M		31-Mar-11 Estimate £M	31-Mar-12 Estimate £M	31-Mar-13 Estimate £M	31-Mar-14 Estimate £M
External Borrowing:						
Fixed Rate – PWLB	125		117	142	140	134
Fixed Rate – Market	32		38	38	37	37
Variable Rate – PWLB	35		64	64	64	66
Variable Rate – Market	9		9	9	9	9
Existing long-term liabilities	19		19	18	18	17
IFRS long-term liabilities:						
- PFI	50		50	49	47	46
- Operating Leases	4		3	2	1	1
Total Gross External Debt	274		300	322	316	310
Investments:						
Deposits and monies on call and Money Market Funds	57		40	40	40	40
Supranational bonds	6		6	6	6	6
Total Investments	63		46	46	46	46
Net Borrowing Position	211		254	276	270	264

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SPECIFIED AND NON SPECIFIED INVESTMENTS

Appendix 2

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated,
- has a maximum maturity of 1 year,
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales Scotland or Northern Ireland or a parish or community council and
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

** Investments in these instruments will be on advice from the Council’s treasury advisor.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody’s and Standard & Poor’s, (where assigned).

- Long-term minimum: A1 (Moody’s); A+ (S&P); A+(Fitch)
- Short-term minimum: P-1 (Moody’s); A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	Country / Domicile	Counterparty	Maximum Counterparty Limits %/£M
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	15% of Total Investments (currently £5M)
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£1M
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	25% in aggregate
AAA-rated Money Market Funds	UK/Ireland/Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	15% of Total Investments and 5% of Fund Balance (currently £3.5M per fund)
Other MMFs and CIS	UK/Ireland/Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£1M

Note that any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB

Non-UK Banks - These should be restricted to a maximum exposure of 25-30% per country. This means that effectively all your authority's investments can be made with non-UK institutions should you wish, but it limits the risk of over-exposure to any one country.

Group Limits - For institutions within a banking group, a limit of 1.5 times the individual limit of a single bank within that group.

Individual banks and there associated limits are detailed below:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£M	Maximum Group Limit (if applicable) %/£M
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£5M	
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£5M	£7.5M
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£5M	£7.5M
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£5M	
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£5M	
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£5M	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£5M	
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£5M	£7.5M
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£5M	£7.5M
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£5M	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£1M	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£1M	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£1M	
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£1M	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£1M	
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£1M	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£1M	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£1M	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£1M	
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£1M	
Term Deposits/Call Accounts	France	BNP Paribas	£1M	

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£M	Maximum Group Limit (if applicable) %/£M
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£1M	
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£1M	
Term Deposits/Call Accounts	France	Société Générale	£1M	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£1M	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£1M	
Term Deposits/Call Accounts	Netherlands	Rabobank	£1M	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£1M	
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£1M	
Term Deposits/Call Accounts	US	JP Morgan	£1M	

Note that this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use

	In-House Use	Maximum Maturity	Max % of Portfolio	Capital Expenditure ?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ CDs with banks and building societies 	✓	2 Years	60% in aggregate	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments 	✓ (on advice from treasury advisor)	25 Years	25% in aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	10%	No
Government guaranteed bonds and debt instruments issued by corporate bodies	✓	10 Years	£5M	Yes

	In-House Use	Maximum Maturity	Max % of Portfolio	Capital Expenditure ?
Non-guaranteed bonds and debt instruments issued by corporate bodies	✓	10 Years	£5M	Yes
Pooled funds which are not capital expenditure investments as defined by regulations.	✓ (on advice from treasury advisor)		£5M	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

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The economic interest rate outlook provided by the Council’s treasury advisor, Arlingclose Ltd, for December 2010 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow, uneven and more “Square root” than “V” shaped.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying assumptions:

- The framework and target announced in the Comprehensive Spending Review to reduce the budget deficit and government debt are the same as announced in June and focuses on how the cuts are to be distributed. The next big fiscal milestone will be the Office of Budget Responsibility’s assessment of the CSR’s implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee’s meeting suggest a movement away from further Quantitative Easing. Despite Money supply

being weak and growth prospects remaining subdued the MPC have gravitated towards increasing rates in the New Year as global inflation continues to rise along with household inflation.

- Consumer Price Inflation is stubbornly above 3% and will likely spike above 4% in January as VAT, Utilities and Rail Fares are increased.
- Unemployment remains near a 16 year high at just over 2.5 Million and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. The restructuring of UK bank balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q3's fairly strong performance.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases might be required. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.