GOVERNANCE COMMITTEE

Monday, 15th July 2013
at 6.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor David Furnell (Chair)
Councillor Edward Daunt
Councillor John Inglis
Councillor Satvir Kaur
Councillor Eamonn Keogh
Councillor Georgina Laming
Councillor Brian Parnell

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

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Democratic Support Officer
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PUBLIC INFORMATION

Role of the Governance Committee

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

02 Part 2 - Articles

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

Public Representations

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

Southampton City Council's Seven Priorities

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

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

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

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

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

Dates of Meetings: Municipal Year 2013/14

2013	2014
15 July	3 February
23 September	28 April
16 December	

CONDUCT OF MEETING

Terms of Reference

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

03 - Part 3 - Responsibility for Functions

Business to be discussed

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

Quorum

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

Rules of Procedure

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

DISCLOSURE OF INTEREST

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

DISCLOSABLE PERSONAL INTERESTS

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

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

(ii) Sponsorship:

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

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

1 APOLOGIES

To receive any apologies.

2 ELECTION OF VICE-CHAIR

To appoint a Vice-Chair to the Committee for this municipal year 2013/2014.

3 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

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

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

4 STATEMENT FROM THE CHAIR

5 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 30th April 2013 and to deal with any matters arising, attached.

6 FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2012-13

Report of the Head of Legal, HR and Democratic Services detailing annual statistical information for the financial year 2012-13 Freedom of Information, Data Protection and Regulation of Investigatory Powers Acts, attached.

7 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2012/13

Report of the Head of Finance (Chief Financial Officer) detailing the Treasury Management activities and performance for 2012/13 against the approved Prudential Indicators for External Debt and Treasury Management., attached.

8 CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012/13

Report of the Chief Internal Auditor's regarding the adequacy and effectiveness of the Council's internal control environment for the year ending 31st March 2013, attached.

9 EXTERNAL AUDIT ANNUAL PLAN - YEAR ENDING 31 MARCH 2013

Report of the External Auditor detailing the External Auditor's Audit Plan Year Ending 31 March 2013, attached.

Friday, 5 July 2013 Head of Legal, HR and Democratic Services

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 30 APRIL 2013

Present:	Councillors Furnell (Chair), Kaur (except minute numbers 36-40) (Vice-Chair), Daunt, Inglis, Keogh and Parnell
Independent Members	Mr Geoff Wilkinson
Apologies:	Councillors Chaloner and Mr D Blake

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

RESOLVED: that the minutes for the Committee meetings 5th February 2013 and 19th March 2013 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

It was noted that a report regarding usage and provision of mobile phones within the Authority would be brought to a future meeting of the Committee.

33. **CODE OF CORPORATE GOVERNANCE**

The Committee considered the report of Head of Legal, HR and Democratic Services regarding changes to the Council's Code of Corporate Governance. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED that the updated Code of Corporate Governance (CCG) set out in the report as Appendix 1 be noted and approved.

34. **ANNUAL CHANGES TO THE CONSTITUTION**

The Committee considered the report of the Head of Legal, HR and Democratic Services, seeking approval for changes to the City Council's Constitution. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED:

(i) that the changes to the Constitution as set out in the report be agreed;

(ii) that the Head of Legal, HR and Democratic Services be authorised to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision(s) of Full Council; and

(iii) that the City Council's Constitution, as amended, including the Officer Scheme of Delegation for the municipal year 2013/14 be approved.

35. **UPDATE TO COMMENTS, COMPLIMENTS AND COMPLAINTS POLICY**

The Committee considered the report of the Head of Communities, Change and Partnerships regarding proposals to revise the corporate complaints policy and to establish a single complaints unit for the Council. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED:

(i) that the proposed amendment to the Council's complaints procedure, comprising the removal of the current Stage 2 of the corporate procedure and amendments to the remaining two stages be agreed;
(ii) that the draft Comments, Compliments and Complaints Policy updating the current complaints policy to reflect recommended industry practice and proposed process changes, as set out in Appendix 1 of the report be agreed; and
(iii) that the proposals to establish a single complaints unit for the Council be noted.

36. **RISK MANAGEMENT STRATEGY 2013-14 AND ANNUAL ACTION PLAN**

The Committee considered the report of the Head of Finance and IT regarding the Annual review of the Council's Risk Management Strategy and the annual Risk Management Action Plan summarising the intended activity/actions in the forthcoming period to further develop and embed risk management. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED:

(i) that the Risk Management Strategy 2013-14 set out in Appendix 1 of the report be noted and approved;
(ii) that the status of the Risk Management Action Plan for 2012-13 set out in Appendix 2 of the report be noted; and
(iii) that the Risk Management Action Plan for 2013-14 set out in Appendix 3 of the report be noted and approved.

37. **EXTERNAL AUDIT: ANNUAL AUDIT LETTERS 2012/13 AND 2013/14**

The Committee noted the report of the Chief Internal Auditor regarding the reports of the external audit. (Copy of the report circulated with the agenda and appended to the signed minutes).

38. **INTERNAL AUDIT ANNUAL PLAN 2013/14**

The Committee considered the report of the Chief Internal Auditor regarding the Internal Audit Annual Plan 2013/14. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED that the Internal Audit Plan for 2013/14 be approved.

39. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS - INTERNAL AUDIT CHARTER**

The Committee considered the report of the Chief Internal Auditor / Head of Partnership, Southern Internal Audit Partnership regarding the Public Sector Internal Auditing Standards which all public sector bodies will be required to adopt with effect from 1 April 2013. (Copy of the report circulated with the agenda and appended to the signed minutes).

RESOLVED

(i) that the implications and actions necessary to meet compliance with the Public Sector Internal Audit Standards be noted; and

(ii) that the Internal Audit Charter be approved.

40. **TAXPAYER-FUNDED PENSIONS FOR COUNCILLORS AND OTHER ELECTED LOCAL OFFICE HOLDERS**

The Committee considered the report of the Head of Legal, HR and Democratic Services regarding the Government proposals to remove access by Councillors to the tax-funded Local Government Pension Scheme in England from April 2014, and the issues raised in the Government's consultation proposal. (Copy of the report circulated with the agenda and appended to the signed minutes).

Following discussion, the Committee were in agreement with Option 3 of the Government's options, that access to the taxpayer-funded Local Government Pension Scheme should remain for all councillors and elected local office holders on the same basis as at present.

RESOLVED that authority be delegated to the Head of Legal, HR and Democratic Services, after consultation with the Chair of the Governance Committee, to send a response to the Government Proposal on behalf of the Council setting out the Committee's comments.

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DECISION-MAKER:	GOVERNANCE COMMITTEE			
SUBJECT:	FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2012-13			
DATE OF DECISION:	15 JULY 2013			
REPORT OF:	HEAD OF LEGAL, HR AND DEMOCRATIC SERVICES			
CONTACT DETAILS				
AUTHOR:	**Name:**	Tracy Horspool	**Tel:**	023 8083 2027
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Director	**Name:**	Mark Heath	**Tel:**	023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

A report detailing statistical information for the financial year 2012-13, the eighth year of implementation of the Freedom of Information Act 2000 (FOIA) and associated legislation. This report also details statistical information on requests received under the Data Protection Act 1998 (DPA) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA).

RECOMMENDATIONS:

(i) To note and comment on the update of the statistical information for the year 1st April 2012 – 31st March 2013 relating to:

(a) Freedom of Information Act 2000 and associated legislation;

(b) Data Protection Act 1998; and

(c) Regulation of Investigatory Powers Act 2000.

REASONS FOR REPORT RECOMMENDATIONS

1. To keep members informed as to the impact of the legislation to the Council and to detail the form and type of requests received in 2012-13, the eighth full year of FOIA implementation.

2. To keep members informed as to the type of DPA requests received and the Council's activity under the RIPA.

3. To ensure that members continue to be aware of the Council's statutory obligations under FOIA and associated legislation, DPA and RIPA.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. The alternative to bringing this report before members is to not report the yearly analysis. This was rejected because it is considered to be good

governance to report such matters to members; it provides an audit trail to demonstrate to the Information Commissioner that the Council has robust structures in place to comply with the legislation and to maintain the profile of information law requirements and resource implications within the organisation.

DETAIL (Including consultation carried out)

5. As soon as possible after the meeting of the Governance Committee, the information detailed in this report will be reported in the Access to Information pages on the Council's website.

FOIA

6. The FOIA came fully into force on 1st January 2005, marking a major enhancement to the accessibility of information held by public authorities.

7. Running parallel to the FOIA regime is the Environmental Information Regulations (EIRs) that give a separate right to request environmental information from public authorities, the DPA which gives an individual the right to access their own personal data and the Re-Use of Public Sector Information Regulations (RUPSIRs) which allow a requester to re-use (under licence) information provided to them by a public authority.

8. Under the FOIA and associated legislation, anybody may request information from a public authority with functions in England, Wales and/or Northern Ireland. Subject to exemptions, the FOIA confers two statutory rights on applicants:

   i. The right to be told whether or not the public authority holds that information; and

   ii. The right to have that information communicated to them.

9. There are two types of exemptions that may apply to requests for information – absolute and qualified.

10. Information that falls into a particular exemption category, for example, information relating to commercial interests, will have to be disclosed unless it can successfully be argued that the public interest in withholding it is greater than the public interest in releasing it. Such exemptions are known as qualified exemptions.

11. Where information falls within the terms of an absolute exemption, for example, information reasonably accessible by other means or information contained in court records, a public authority may withhold the information without considering any public interest arguments.

12. The Council has now experienced the eighth full year of the FOIA and the number of requests received has slightly decreased from 978 for the year ending March 2012 to 935 for the year ending March 2013. Please see appendix 1 for the directorate breakdown of the requests.

13. To summarise, the Council has received a total of 935 'non' routine' requests between 1st April 2012 and 31st March 2013. This comprises 930 dealt with as FOIA requests and 5 as EIR requests.

14. The average number of requests received per month was 78, compared with 81 last year.

15. During the year, 97% of all monitored FOI and EIR requests (excluding those 'on hold' or lapsed) were dealt with within the statutory deadline of 20 working days. In cases where the deadline was exceeded, this was usually by one or two days and reflects the volume, increasing complexity and quantity of information requested. The overall response time remains good, with the Council responding to requests within 11.42 days on average. As per the reported figures, the Environment and Economy Directorate and Corporate Services received the most requests.

16. The complexity and detail of requests has remained static this year. Under FOIA, where the cost of responding to the request will exceed the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (which is currently set at £450 for local authorities) the Council may refuse to comply with it. For 2012/13, the Council issued 57 Refusal Notices on fees grounds compared with 58 last year.

17. Of all requests received during the year, 72% of information requested was disclosed in full. Of the remaining 28% of requests, 6% of information was not held by the Council, 19% of information was withheld either because a fees notice was issued or it was exempt (e.g. requests for personal information such as individual/contact details or confidential/commercially sensitive contract or financial information). The remainder of the requests (3%) were withdrawn.

18. Of the 919 requests responded to, 179 were deemed to be covered by absolute exemptions and accordingly some or all of the requested information was withheld.

19. Of the 919 requests responded to, 32 requests were considered by the Public Interest Test Panel as they were deemed to be covered by one or more qualified exemptions.

20. Eight individuals sought a review of decisions made to withhold or partially withhold information requested. Of these two were requesting new information and were responded to as new requests. Two appeals were partly upheld and further information was disclosed. Four appeals were dismissed.

21. To our knowledge, there have been no FOI appeals made to the Information Commissioner's Office (ICO) this year.

22. As with all years, types of requests have been varied and covered every service area of the Council. Requesters have sought information relating to Council finances, HR matters, council tax data, highways maintenance and the provision of social services.

23. For the period covered in this report, 69% of requests came from private citizens, 13% came from the media, 11% from companies/businesses. The remaining 7% came from a combination of charities, students, lobby groups and political parties etc.

24. In previous years, members have requested information as to how much time and resources each directorate spends on dealing with requests. Last year we reported that on average it takes over two hours to process an FOI request for the Council. This year we have not been able to specifically

capture this information; however, we estimate that the time spent by Council officers in dealing each request has remained the same as of the previous year.

25. On 1 April 2012, the Council appointed a SIRO (Senior Information Risk Officer) for each directorate. This replaced the previous FOI Champion structure. The introduction of the SIRO role is intended to improve information governance and compliance with Data Protection and Freedom of Information obligations across the Council and to ensure directorates have clear 'ownership' of requests made to them and a better understanding of the impact of information law requirements on the Council and directorate resources. This new structure is working well in terms of improving accountability for requests and also from a practice point of view.

DPA

26. The Data Protection Act 1998 gives individuals the right to know what information is held about them and provides a framework to ensure that personal information is handled properly.

27. Under the Act, an individual is entitled to access personal data, held by an organisation, of which that individual is the data subject. Such requests for information are known as subject access requests.

28. For the year 2012/13, the Council received 141 subject access requests compared with 73 last year; 64 of these were dealt under the corporate procedures and 77 were relating to social services and were dealt by the Customer Care and Complaints Team of Children Services and Learning ('CSL') directorate.

29. 95% of the Subject Access Requests were responded to within the statutory timescales of 40 calendar days. Three of the corporate and five of the CSL relating requests were not responded to within the statutory timescales of 40 calendar days.

30. Four DPA appeals were made to the Council's Internal Corporate Complaints department, regarding decisions made to withhold or partially withhold information requested. Three of these were dismissed and following review of one appeal, additional information was located and released to the requester. All of these four cases were social care records requests.

31. In 2012/13, the Information Commissioner investigated no incidents of loss of personal data by the Council. However, it should be noted that in 2012/13, the ICO served a decision notice on the Council in relation to audio recordings in taxis which was appealed at the Information Tribunal. As a result of the decision of the Tribunal, the Council has now ceased audio recordings in taxis.

32. In 2011, the Council reported a former employee who unlawfully obtained sensitive medical information relating to over 2,000 people. The former employee, who previously worked as a Community Health Promotions Manager for the Council and was responsible for managing the Council's Active Options GP referral service, sent the information to his personal email account after being told he was being made redundant. He was hoping to use the data for a new fitness company he was setting up. He was prosecuted

under s55 of the DPA, fined £3,000, ordered to pay a £15 victim surcharge and £1376.00 costs.

33. Sometimes there is a requirement to disclose of personal data which might otherwise be in breach of the Act. Where an exemption from the non-disclosure provisions applies, such disclosure is not in breach of the Act. Examples of exemptions include section 29 (the crime and taxation exemption) and section 35 (disclosures required by law or made in connection with legal proceedings). Such requests are typically made to the Council by regulatory authorities such as the police, the Department of Work and Pensions and so on as part of their investigations.

34. In 2012/13, the Council received 539 requests for data from such third party organisations compared to 433 in the previous year.

RIPA

35. There have been 11 authorisations under RIPA in 2012/13, compared to 13 in 2011/12.

36. Examples of activity authorised in the main include covert surveillance of individuals suspected of anti-social behaviour and/or harassment towards local residents.

37. Under RIPA, the Council as a public authority is permitted to carry out directed surveillance, the use of covert human intelligence sources and to obtain communications data if it is both necessary for the purpose of preventing or detecting crime and/or disorder and if the proposed form and manner of the activity is proportionate to the alleged offence.

38. The Council is required to formally appoint a 'Senior Responsible Officer' responsible for RIPA within the Council. The Head of Legal, HR and Democratic Services undertakes this role. The Senior Responsible Officer has responsibility for maintaining the central record of authorisations; the integrity of the RIPA process within his authority; compliance with the Act and Codes of Practice; oversight of reporting of errors to the Surveillance Commissioner; engagement with Inspectors from the Office of Surveillance Commissioners and implementation of any subsequent action plan.

39. The Protection of Freedom Act 2012 gained Royal Assent on 1st May 2012 and changed, amongst other things, the manner in which RIPA authorisations may be obtained and the process for doing so. In particular the Act requires judicial approval for surveillance activities through application to the Magistrate Court. This has provided a degree of independent oversight over the Council's RIPA activities.

40. The Council was subject to its biennial RIPA inspection in May 2013 by an Inspector from the Office of Surveillance Commissioners. The Council received an extremely positive report and the Inspector concluded that "as found on previous inspections of Southampton City Council, there is much to commend: the regularly updated training on RIPA; the engaged and conscientious approach of all staff to use of the powers and their input to the inspection process; the very good policy documentation; the internal oversight regime and the good overall compliance standards. " (*Office of Surveillance Commissioners Inspection Report, Southampton City Council, 14th May 2013*)

RESOURCE IMPLICATIONS

Capital/Revenue

41. None directly related to this report. The administration of information law within the Authority is managed within corporate overheads.

Property/Other

42. None directly related to this report.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

43. The statutory obligations relating to information law are detailed in the body of this report.

Other Legal Implications:

44. None directly related to this report.

POLICY FRAMEWORK IMPLICATIONS

45. The information contained in this report is consistent with and not contrary to the Council's Policy Framework.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

Appendices

1.	FOI, EIR and DP requests received in the year 2012-13 (directorate breakdown)

Documents In Members' Rooms

1.	None

Equality Impact Assessment

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

Other Background Documents

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

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

Appendix 1

FOI, EIR and DP requests received in the year 2012-13 (directorate breakdown)

Directorate	FOI and EIR	SAR	TOTAL
CS&L / H&ASC	237	3	240
Corporate Services	276	15	291
Environment and Economy	365	41	406
Information Compliance Officer	58	5	63

Please note that some of the above requests were relating to more than one directorate and in the table these have been logged against the directorate who took the lead on such requests and coordinated the response across the Council.

This does not include SAR requests relating to social services which were dealt by the Customer Care & Complaints Team of Children Services and Learning (‘CSL’) directorate.

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DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2012/13		
DATE OF DECISION:		15 JULY 2013 17 JULY 2013		
REPORT OF:		HEAD OF FINANCE & IT (CHIEF FINANCIAL OFFICER)		
CONTACT DETAILS				
AUTHOR:	**Name:**	Alison Chard	**Tel:**	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		
Director	**Name:**	Mark Heath	**Tel:**	023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2012/13 against the approved Prudential Indicators for External Debt and Treasury Management.

This report specifically highlights that:

i. Borrowing activities have been undertaken within the borrowing limits approved by Council on 13 February 2013.

ii. Investment returns during 2012/13 continued to remain low as a result of low interest rates, returning £0.8M. However, the average rate achieved for fixed term deals (0.92%) exceeded the performance indicator of the average 7 day LIBID rate (0.49%), mainly due to the rolling programme of yearly investments which was reintroduced in November 2012 following recommendations from our Advisors.

iii. In order to continue to balance the impact of ongoing lower interest rates on investment income we continued the use of short term debt which is currently available at lower rates than long term debt due to the depressed market. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.35%, is lower than that budgeted for, but slightly higher than last year which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for an extended period. However, it should be noted that the forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA. A PWLB 25 year fixed rate maturity loan is currently around 4%.

iv. In achieving interest rate savings the Council has exposed itself to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change. During 2013/14 the Council will continue to review the position and take action as necessary 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 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).

v. Net loan debt increased during 2012/13 from £304M to £315M as detailed in paragraph 12.

vi. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 15 February 2012.

vii. Immediate action has been taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in paragraphs 33 to 36

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Notes the Treasury Management (TM) activities for 2012/13 and the outturn on the Prudential Indicators

ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.

iii) Notes the immediate action taken in response to down rating of the Authority's Bankers, (the Co-operative Bank).

COUNCIL

It is recommended that Council:

i) Notes the Treasury Management (TM) activities for 2012/13 and the outturn on the Prudential Indicators

ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.

iii) Notes the immediate action taken in response to down rating of the Authority's Bankers, (the Co-operative Bank).

REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2012/13 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.

2. The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options are relevant to this report

DETAIL (Including consultation carried out)

CONSULTATION

4. Not applicable.

BACKGROUND

5. Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2012/13 were:

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

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

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

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

9. This report:

   a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code,
   b) presents details of capital financing, borrowing, debt rescheduling and investment transactions,
   c) reports on the risk implications of treasury decisions and transactions,
   d) gives details of the outturn position on treasury management transactions in 2012/13, and
   e) confirms compliance with treasury limits and Prudential Indicators.

10. Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2012/13.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

PWLB Certainty Rate

11. The Certainty Rate was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20 base points on the Standard Rate. Appendix 2 shows details of market rates during the financial year for specific dates plus the average, minimum and maximum rates quoted.

12. Activity within the debt portfolio is summarised below:

	Balance on 01/04/2012 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/3/2013 £M	Increase/ (Decrease) in Borrowing £M
Short Term Borrowing	0	0	34	34	34
Long Term Borrowing	300	(24)	0	276	(24)
Total Borrowing	**300**	**(24)**	**34**	**310**	**10**

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term.

	31/03/2012 Actual £M	31/03/2013 Actual £M	31/03/2014 Current Estimate £M	31/03/2015 Current Estimate £M	31/03/2016 Current Estimate £M
External Borrowing:					
Fixed Rate – PWLB Maturity	149	139	152	170	179
Fixed Rate – PWLB EIP	107	93	115	100	85
Variable Rate – PWLB	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9
Long Term Borrowing	300	276	311	314	308
Short Term Borrowing					
Fixed Rate – Market	0	34	50	50	50
Other Long Term Liabilities					
PFI / Finance leases	54	57	61	66	63
Deferred Debt Charges	18	17	17	16	16
Total Gross External Debt	372	384	439	446	437
Investments:					
Deposits and monies on call and Money Market Funds	(62)	(66)	(50)	(50)	(50)
Supranational bonds	(6)	(3)	(3)	(3)	(3)
Total Investments	(68)	(69)	(53)	(53)	(53)
Net Borrowing Position	**304**	**315**	**386**	**393**	**384**

13. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2013 was estimated at £437M in February 2013 when the strategy was last updated, (see Table 1, Appendix 3). The Council's actual CFR at the end of the year was £433M.

14. The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However due to the continued depressed markets and the cost of carry associated with long term debt, the council deferred long term borrowing and raised £34M of new loans (including the replacement of maturing debt) from other Local Authorities through the short term market at an average rate of 0.36%.

<u>Loans at Variable Rates</u>

15. The loan portfolio contains £35M of PWLB variable rate loans which currently have an average rate of 0.55% which mitigate the impact of changes in variable rates on the Council's overall treasury portfolio (the Council's investments are deemed to be variable rate investments due to their shorter-term nature). The Council's variable rate loans were borrowed prior to 20 October 2010, (the date of change to the PWLB's lending arrangements post the Comprehensive Spending Review), and are maintained on their initial terms and are not subject to the additional increased margin. The uncertain interest rate outlook further supported the case for maintaining variable rate debt. As the economy still appeared susceptible to economic shocks, growth remained insipid and official interest rates were forecast to remain low for much longer, the Council determined that exposure to variable rates was warranted. It also made sense from an affordability and budgetary perspective in the short to medium term. Any upward move in interest rates and interest paid on variable rate debt would be 'hedged' by a corresponding increase in interest earned on the Council's variable rate investments.

16. The interest rate risk associated with the Council's strategic exposure is regularly reviewed with our Treasury Advisors against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.

17. In achieving interest rate savings, the Council has exposed itself to variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it has restructured.

18. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt, and maintained at a prudent level to help to manage increases in the future and ensure that there is minimal impact on annual budget decisions. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period during which the council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon.

<u>Internal Borrowing</u>

19. Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt (3.86% average rate for a 20 year PWLB fixed rate maturity) and the return generated on the Council's temporary investment returns was significant (3%).

20. As at the 31 March 2013 the Council used £52M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, approved by Council in February 2013, the Council is expected to borrow £74M between 2013/14 and 2015/16. Of this £21M relates to new capital spend and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rises.

    However due to the continued and increased uncertainty in the markets and the expectations of interest rates staying lower for longer it may be appropriate to maintain the council use of internal resources for part or all of this amount; providing that balances can support it.

Lender's Option Borrower's Option Loans (LOBOs)

21. The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date. All of our LOBOs are in their call period so are treated as due within the year for analysis purposes (see Table in paragraph 28). We do not however expect them to be called during the year, but if they were it is likely that they would be replaced by a PWLB loan.

INVESTMENT ACTIVITY

22. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2012/13. Investments during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Stable Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies
- Bonds issued by Multilateral Development Banks

23. The table below summarises activity during the year:

	Balance on 01/04/2012	Investments Repaid	New Investments	Balance as at 31/3/2013	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	10	(88)	104	26	16	7 Months	0.95%
Money Market Funds & Call Accounts	52	(329)	317	40	(12)	I Day	0.46%
EIB Bonds	6	(3)	0	3	(3)	9.5 Years	5.40%
Long Term Investments	0	0	0	0	0	0	0
Total Investments	**68**	**(420)**	**421**	**69**	**1**		

24. **Security / Credit Risk: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.** Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; Gross Domestic Product (GDP) of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, Standard & Poor's (S&P) and Moody's.

25. In June Moody's downgraded a swathe of banks with global capital market operations, including the UK banks on the Council's lending list (Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB Bank/Bank of Scotland, Santander UK plc), as well as several non UK banks, but none of the ratings fell below the Council's minimum A-/A3 credit rating threshold.

26. The table below summarises the nominal value of the Council's investment portfolio at 31 March 2013, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Outstanding Investments as at 31 March 2013

Counterparty	Credit Rating Criteria Met When Investment Placed	Credit Rating Criteria Met on 31 March 2013	Under 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	Over 12 Months	Total
	YES/NO	YES/NO	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
UK									
Bank Deposits	YES	YES	27,073	5,000		4,000	3,000		**39,073**
Building Societies	YES	YES					3,000		**3,000**
Gov't & Local Authority Deposits	YES	YES							**0**
Money Market Funds	YES	YES	23,675						**23,675**
Bonds							0	3,036	**3,036**
Total Investments			**50,748**	**5,000**	**0**	**4,000**	**6,000**	**3,036**	**68,784**

27. As reported previously along with many other authorities the Council uses the Co-operative Bank as its banker which no longer meets the minimum credit criteria of A- (or equivalent) long term and is still subject to negative watch. More information about this and the immediate action taken in response to the down grade of the Co-operative Bank in order to limit the credit risk are set out in paragraphs 33 to 36.

28. **Liquidity: The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.** In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the nominal value of the Council's debt at 31 March 2013 was as follows:

Outstanding 01 April 2011	% of total debt portfolio	Outstanding 31 March 2012	% of total debt portfolio	Total borrowing	Outstanding 31 March 2013	% of total debt portfolio
£000's	**%**	**£000's**	**%**	**Source of Loan**	**£000's**	**%**
177,733	79	290,825	97	Public Works Loan Board	267,320	86
46,944	21	9,404	3	Other Financial Institutions	42,673	14
224,677	**100**	**300,229**	**100**		**309,993**	**100**
				Analysis of Loans by Maturity		
48,413	22	32,909	11	Less than 1 Year	55,178	18
18,121	8	12,505	4	Between 1 and 2 years	11,505	4
19,561	8	34,515	11	Between 2 and 5 years	34,515	11
64,582	29	81,453	28	Between 5 and 10 years	69,948	23
		0		Between 10 and 15 years	0	0
6,000	3	0	0	Between 20 and 25 years	0	0
10,000	4	10,000	3	Between 25 and 30 years	5,000	2
8,000	4	5,000	2	Between 30 and 35 years	10,000	3
25,000	11	25,000	8	Between 35 and 40 years	42,000	13
10,000	4	47,900	16	Between 40 and 45 years	50,600	16
15,000	7	50,947	17	Over 45 years	31,247	10
224,677	**100**	**300,229**	**100**		**309,993**	**100**

29. **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% since March 2009 and short-term money market rates have remained at very low levels. The Council's investment income for the year was £0.8M and new deposits for periods up to one year have been made at an average rate of 0.92%. This was mainly as a result of the reintroduction of the rolling programme of yearly deals which was restarted in November 2012 following advice from our Treasury Advisors.

COMPLIANCE WITH PRUDENTIAL INDICATORS

30. The Council can confirm that it has complied with its Prudential Indicators for 2012/13, approved by Full Council on 15 February 2012. The 2012/13 Treasury Strategy can be found as Item 72 on the Council Meetings Agenda found via the following web link:

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2031&Ver=4

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2013 on 13 February 2013, item 100.

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4

31. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2012/13. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Details can be found in Appendix 3.

OTHER ITEMS

PWLB Project Rate

32. The 2012 Autumn Statement announced that the Government would make available a new concessionary PWLB rate to an infrastructure project nominated by each Local Enterprise Partnership LEP) in England, (excluding London), with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

The March 2013 Budget announced details of the “project rate” which will enable English local authorities working with their LEP to access cheaper borrowing on up to £1.5 billion of investment.

The “project rate” has been set at 40 basis points below the standard rate across all loan types and maturities and will be available to local authorities in England from 1 November 2013 to support strategic local capital investment projects. The Government is asking each LEP to work with the authorities in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs; in consultation with authorities, the power to prioritise the projects that best support shared local goals. The Government is now seeking business cases from LEPs; agreed with authorities, setting out borrowing requirements for their chosen local project.

Authority Banking Arrangements:

33. It is becoming common for local authorities to bank with financial institutions that do not meet their investment criteria but action can be taken to minimise any risk this may present. It is a costly and complicated process to change bankers and we are under contract with the Co-operative Bank until October 2014. However following the recent down grading of the Co-operative Bank we immediately started discussions with Procurement about options and timescales regarding the tendering process with a view to precipitating this timeline.

34. We have also taken the following immediate action to mitigate our risk in the meantime:

- **Pooling Arrangements –** It is common for local authorities to hold a number of accounts at the same bank and to group these together for overdraft limit and interest purposes under a netting-off or pooling arrangement. Under this arrangement, some accounts will have a substantial credit balance while others will have a large overdraft, but the total balance is kept close to zero. Procedures in place were such that staff who manage the TM activity on a daily basis traditionally aimed for the net closing daily balances across all our accounts to be close to our current ‘free’ overdraft limit of £50,000. However, Arlingclose advised that it is likely in the event of any insolvency/banking resolution procedure that this netting down may not apply and that we would need to repay our overdrawn accounts in full and credit balances could also be at risk (in part or in full).

As a consequence procedures have been changed so that at the start of each day any account that has a balance in excess of £5,000 will be cleared back to the general account to minimise credit balances and limit our exposure (i.e. we will “sweep” the accounts and action inter-account transfers).

- **Cleared and Ledger Balances –** Overdraft interest charges are calculated in reference to the “cleared balance” and traditionally staff who manage the TM activity on a daily basis aim for this balance to be close to our current ‘free’ overdraft limit of £50,000. However, the total sum of money held in the current account is the ledger balance which is normally higher than the cleared balance. Arlingclose have advised that in the event of insolvency or other banking resolution procedure the “ledger balance” at the date of failure represents our exposure. Therefore, we now use the “ledger balance” to calculate our position and inform the action required.
- **Intraday Exposure –** Arlingclose advice is that although any action by resolution authorities is likely to take place outside banking hours to prevent a disorderly impact on the UK banking system, it cannot be ruled out that a bank will halt operations during the business day. Therefore we aim to reduce our daylight exposure by making outgoing payments at the beginning of the day. In addition, where it is known in advance that a large receipt is expected, (for example, the first day of the month when council tax is collected), we now set up payments to leave the Council’s bank account at the commencement of business. Furthermore, arrangements have been made to change the automatic sweep on the pay-point account from weekly to daily, although the balance on this account will still be subject to timing differences.
- **Imprest Accounts –** We are undertaking a review of Imprest Accounts (which are held locally to manage small transactions) to ensure that the levels held are minimised.
- **Advice to Schools –** Advice has been sent to schools updating them on action that it is appropriate for them to take in respect of any locally held accounts.

35. These changes impact on the level of staff resource required to manage TM activity and will result in increased bank charges but this is seen as an acceptable trade off in light of the priority given to security. Staff resource is being redirected to TM activity and priorities have been reassessed in order that this can be managed within existing employee budgets. Additional bank charges are forecast to be in the region of £10,000 per annum and can be met from within the current TM estimates.

36. This action will minimise any credit risk but cannot eliminate it entirely. A progress report will be submitted to the Governance Committee in September

RESOURCE IMPLICATIONS

<u>Capital / Revenue</u>

37. The report is a requirement of the TM Strategy, which was approved at Council on 13 February 2013.

38. The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £9.5M in 2012/13 compared with an approved estimate of £11.2M, a saving of £1.7M. This is mainly due to interest rates being lower than those estimated and the use of temporary borrowing in place of long term debt.

39. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2012/13 £0.8M was earned against a budget of £0.4M, an increase of £0.4M and was mainly due to the use of Money Market Funds and call accounts which currently pay a higher rate than short term fixed rates and the reintroduction of the rolling yearly investment programme from November 2012.

40. The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £123,000 in 2012/13 compared to an estimate of £165,000. This decrease was mainly due to deferring PWLB borrowing to 2013/14 resulting in a saving on commission paid in year.

<u>Property/Other</u>

41. None

LEGAL IMPLICATIONS

<u>Statutory power to undertake proposals in the report</u>:

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

<u>Other Legal Implications</u>:

43. None

POLICY FRAMEWORK IMPLICATIONS

44. This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	2012/13 Economic Background
2.	Summary of Interest Rates Movement During 2012/13
3.	Compliance with Prudential Indicators During 2012/13
4.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

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

Other Background Documents

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

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

1.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 to 2015/16 – Council 13 February 2013 http://www.southampton.gov.uk/modernGov/documents/s15581/TM%20Strategy%20RPT.pdf
2.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2012/13 to 2014/15 – Council 15 February 2012 http://www.southampton.gov.uk/modernGov/documents/s7802/TM%20Strategy%20Report.pdf

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2012/13 ECONOMIC BACKGROUND

The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

In the UK the economy shrank in the first, second and fourth quarters of calendar year 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases; Quantitative Easing (QE), in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146 billion and sees gross debt rising above 100% of GDP by 2015/16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015/16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but this was still below expectation for SMEs.

The big four banks in the UK – Barclays, RBS, Lloyds and HSBC – and several other global institutions including JP Morgan, Citibank, Rabobank, UBS, Credit Suisse and Deutsche came under investigation in the LIBOR rigging scandal which led to fines by and settlements with UK and US regulators. Banks' share prices recovered after the initial setback when the news first hit the headlines.

Europe: The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Quarter 4 of 2012.

US: The US Federal Reserve extended QE through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. The Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved.

Gilt Yields and Money Market Rates: Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors namely the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month LIBID rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

SUMMARY OF INTEREST RATES MOVEMENT DURING 2012/13

The average, minimum and maximum rates quoted in the tables below correspond to the rates during the financial year rather than those in the tables below which are for specific dates.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2012		0.50		0.55	0.55	0.61	1.00	1.33	1.84	1.24	1.30	1.59
30/04/2012		0.50		0.50	0.65	0.60	0.99	1.32	1.84	1.35	1.43	1.68
31/05/2012		0.50		0.48	0.65	0.57	0.97	1.30	1.82	1.20	1.20	1.34
30/06/2012		0.50		0.50	0.50	0.55	0.83	1.13	1.65	0.96	0.99	1.25
31/07/2012		0.50		0.50	0.65	0.45	0.63	0.92	1.43	0.76	0.77	1.02
31/08/2012		0.50		0.50	0.52	0.40	0.57	0.81	1.23	0.75	0.78	1.01
30/09/2012		0.50		0.25	0.52	0.40	0.47	0.66	0.95	0.70	0.76	1.00
31/10/2012		0.50		0.25	0.44	0.40	0.44	0.55	0.82	0.69	0.77	1.05
30/11/2012		0.50		0.25	0.30	0.40	0.44	0.54	0.80	0.73	0.80	1.05
31/12/2012		0.50		0.25	0.43	0.40	0.44	0.54	0.80	0.69	0.76	1.00
31/01/2013		0.50		0.42	0.43	0.40	0.44	0.54	0.80	0.73	0.86	1.17
29/02/2013		0.50		0.41	0.42	0.40	0.44	0.54	0.80	0.59	0.69	1.05
31/03/2013		0.50		0.40	0.40	0.40	0.44	0.51	0.75	0.59	0.68	0.97
Minimum		**0.50**		**0.25**	**0.30**	**0.40**	**0.44**	**0.51**	**0.75**	**0.55**	**0.65**	**0.90**
Average		**0.50**		**0.39**	**0.49**	**0.45**	**0.62**	**0.82**	**1.19**	**0.84**	**0.90**	**1.17**
Maximum		**0.50**		**0.55**	**0.65**	**0.61**	**1.00**	**1.33**	**1.84**	**1.38**	**1.45**	**1.72**
Spread		**0.00**		**0.30**	**0.35**	**0.21**	**0.56**	**0.82**	**1.09**	**0.83**	**0.80**	**0.82**

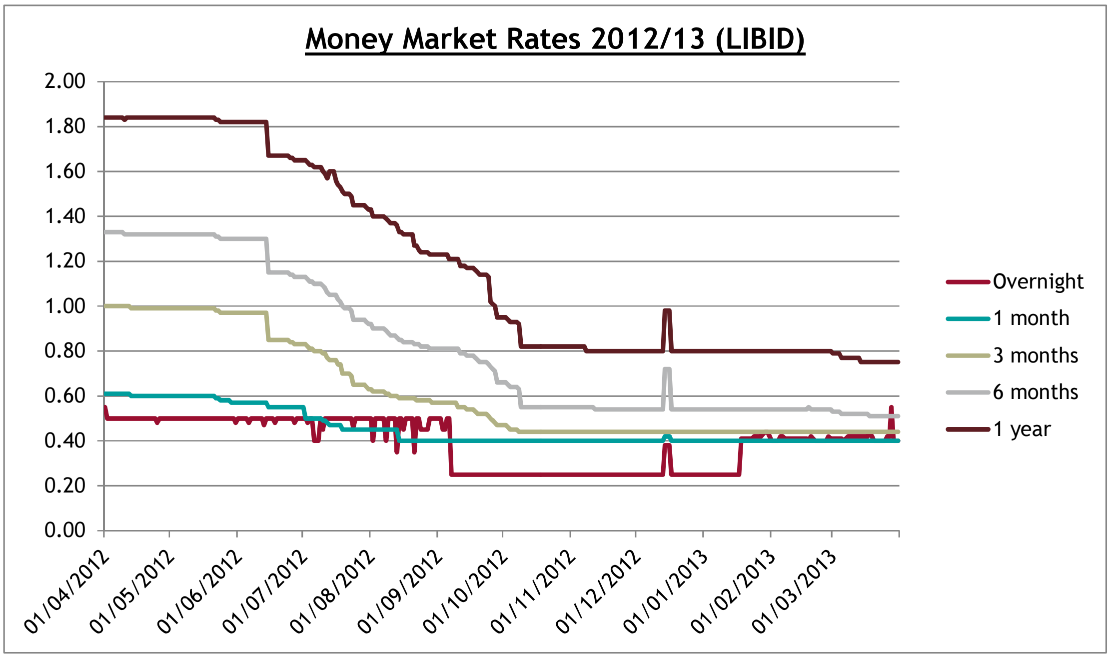


Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.29	2.07	3.25	4.22	4.43	4.46	4.41
30/04/2012	166/12	1.31	2.09	3.15	4.13	4.38	4.42	4.39
31/05/2012	210/12	1.19	1.76	2.74	3.79	4.13	4.19	4.16
29/06/2012	248/12	1.20	1.84	2.83	3.79	4.11	4.19	4.16
31/07/2012	292/12	1.01	1.57	2.58	3.60	3.97	4.07	4.05
31/08/2012	336/12	1.07	1.62	2.61	3.62	4.05	4.14	4.11
28/09/2012	376/12	1.15	1.67	2.64	3.71	4.12	4.2	4.14
28/10/2012	422/12	1.19	1.82	2.82	3.81	4.17	4.25	4.19
30/11/2012	466/12	1.22	1.81	2.74	3.74	4.1	4.16	4.11
31/12/2012	504/12	1.22	1.89	2.83	3.82	4.18	4.25	4.21
31/01/2013	044/13	1.26	2.06	3.10	4.06	4.37	4.43	4.40
28/02/2013	084/13	1.16	1.91	3.04	4.04	4.36	4.43	4.40
28/03/2013	124/13	1.13	1.75	2.84	3.87	4.18	4.25	4.22
	Low	**1.01**	**1.57**	**2.58**	**3.60**	**3.97**	**4.07**	**4.05**
	Average	**1.18**	**1.84**	**2.86**	**3.86**	**4.20**	**4.26**	**4.23**
	High	**1.31**	**2.09**	**3.25**	**4.22**	**4.43**	**4.46**	**4.41**

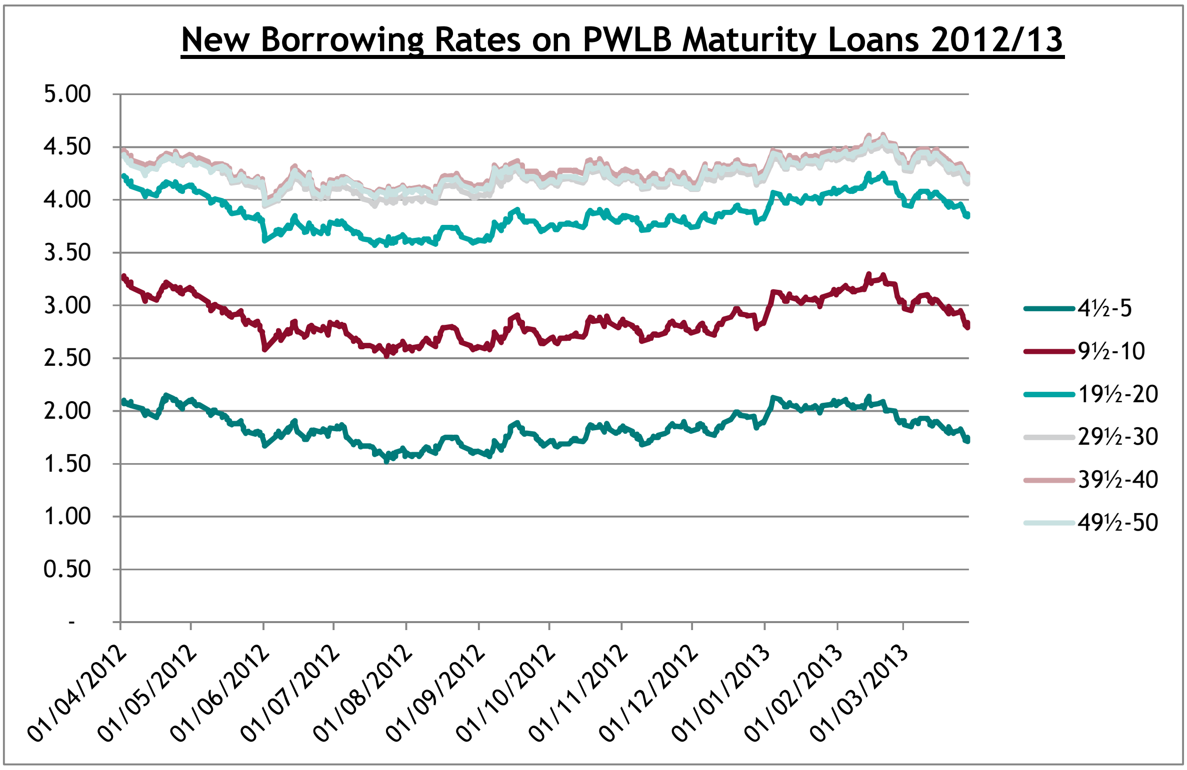


Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	0.18	0.84	2.04	3.08	3.32	3.31	3.24
30/04/2012	166/12	0.20	0.87	1.95	3.00	3.27	3.27	3.22
31/05/2012	210/12	0.07	0.54	1.53	2.64	3.01	3.07	3.04
29/06/2012	248/12	0.07	0.62	1.63	2.64	2.99	3.07	3.04
31/07/2012	292/12	0.02	0.35	1.37	2.44	2.84	2.94	2.92
31/08/2012	336/12	0.02	0.40	1.41	2.47	2.92	3.02	2.99
28/09/2012	376/12	0.03	0.46	1.44	2.55	2.99	3.08	3.02
28/10/2012	422/12	0.07	0.59	1.62	2.66	3.05	3.13	3.07
30/11/2012	466/12	0.10	0.60	1.54	2.59	2.97	3.04	2.98
31/12/2012	504/12	0.10	0.66	1.63	2.67	3.05	3.13	3.09
31/01/2013	044/13	0.14	0.81	1.90	2.91	3.24	3.31	3.27
28/02/2013	084/13	0.04	0.66	1.83	2.89	3.23	3.31	3.27
28/03/2013	124/13	0.02	0.52	1.62	2.72	3.05	3.13	3.10
	Low	**0.02**	**0.30**	**1.31**	**2.41**	**2.81**	**2.88**	**2.84**
	Average	**0.08**	**0.62**	**1.67**	**2.72**	**3.09**	**3.16**	**3.12**
	High	**0.22**	**0.92**	**2.10**	**3.11**	**3.42**	**3.50**	**3.47**

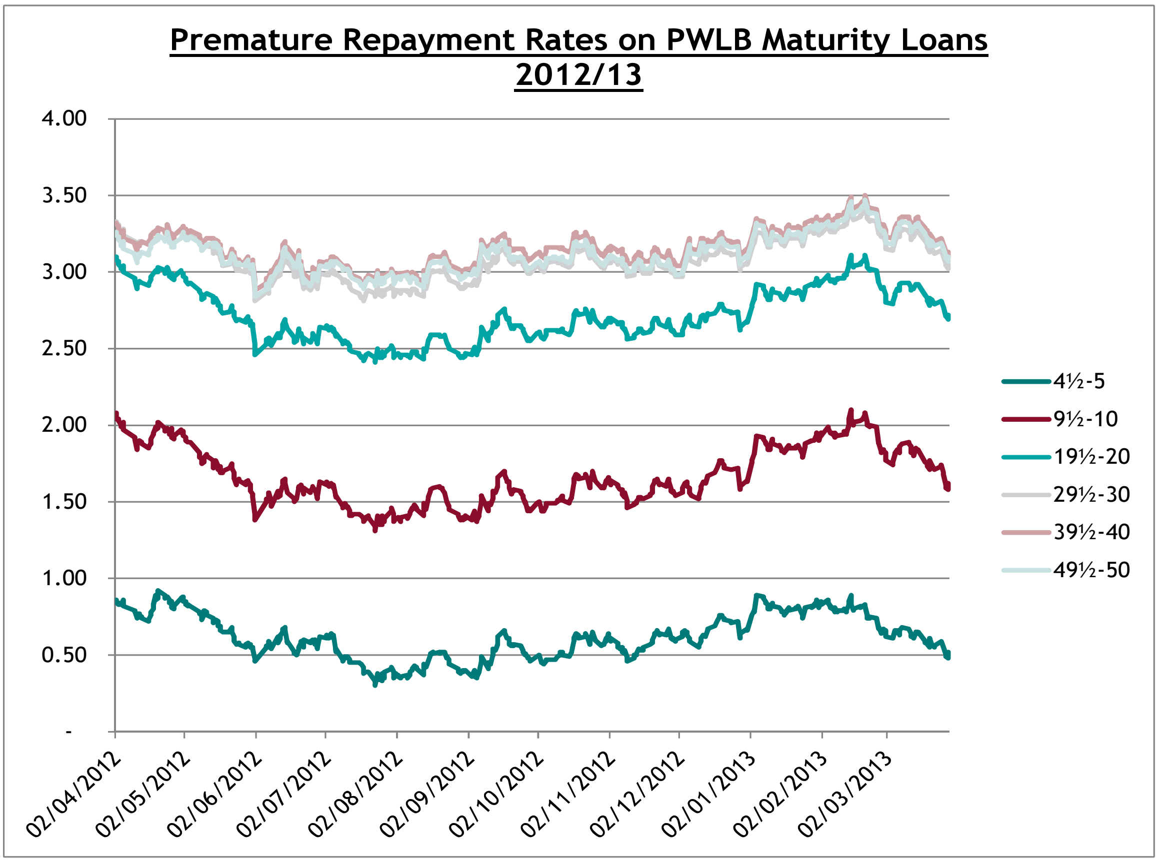


Table 4: PWLB Borrowing Rates – Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	-	1.56	1.77	2.14	2.77	3.91	4.38
30/04/2012	166/12	-	1.60	1.81	2.15	2.72	3.81	4.31
31/05/2012	210/12	-	1.37	1.52	1.81	2.33	3.41	4.03
29/06/2012	248/12	-	1.41	1.59	1.89	2.42	3.45	4.01
31/07/2012	292/12	-	1.17	1.33	1.63	2.16	3.23	3.85
31/08/2012	336/12	-	1.22	1.38	1.67	2.20	3.25	3.90
28/09/2012	376/12	-	1.29	1.44	1.72	2.23	3.31	3.99
28/10/2012	422/12	-	1.39	1.56	1.88	2.42	3.46	4.05
30/11/2012	466/12	-	1.41	1.58	1.86	2.36	3.37	3.98
31/12/2012	504/12	-	1.45	1.64	1.94	2.45	3.46	4.06
31/01/2013	044/13	-	1.54	1.76	2.12	2.69	3.73	4.27
28/02/2013	084/13	-	1.39	1.60	1.97	2.59	3.70	4.25
28/03/2013	124/13	-	1.31	1.49	1.81	2.38	3.53	4.08
	Low	**-**	**1.14**	**1.28**	**1.57**	**2.10**	**3.18**	**3.81**
	Average	**-**	**1.40**	**1.58**	**1.90**	**2.45**	**3.52**	**4.10**
	High	**-**	**1.64**	**1.85**	**2.21**	**2.85**	**3.94**	**4.45**

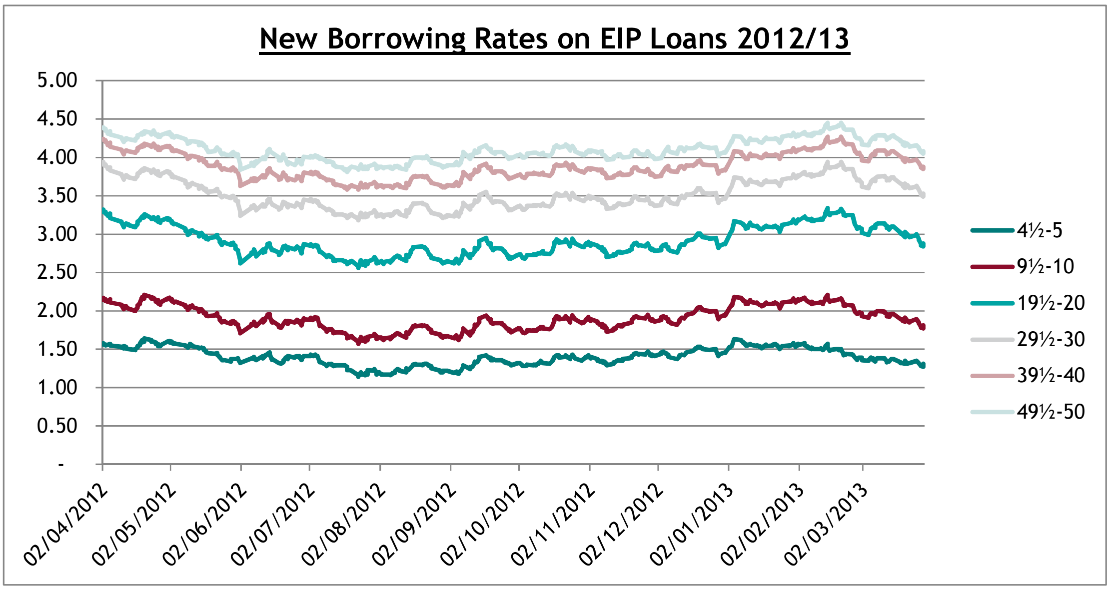


Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	-	0.40	0.60	0.96	1.60	2.78	3.26
30/04/2012	166/12	-	0.44	0.64	0.98	1.56	2.67	3.20
31/05/2012	210/12	-	0.21	0.36	0.64	1.16	2.27	2.90
29/06/2012	248/12	-	0.25	0.42	0.72	1.25	2.31	2.88
31/07/2012	292/12	-	0.02	0.17	0.45	0.99	2.09	2.72
31/08/2012	336/12	-	0.07	0.21	0.50	1.03	2.10	2.77
28/09/2012	376/12	-	0.14	0.28	0.55	1.06	2.16	2.86
28/10/2012	422/12	-	0.23	0.39	0.70	1.24	2.32	2.93
30/11/2012	466/12	-	0.26	0.41	0.69	1.19	2.23	2.86
31/12/2012	504/12	-	0.29	0.47	0.77	1.28	2.32	2.93
31/01/2013	044/13	-	0.37	0.58	0.94	1.52	2.59	3.14
28/02/2013	084/13	-	0.22	0.42	0.79	1.41	2.56	3.12
28/03/2013	124/13	-	0.16	0.32	0.63	1.21	2.39	2.95
	Low		**0.02**	**0.12**	**0.40**	**0.93**	**2.04**	**2.69**
	Average		**0.24**	**0.41**	**0.73**	**1.28**	**2.37**	**2.98**
	High		**0.48**	**0.69**	**1.04**	**1.68**	**2.81**	**3.32**

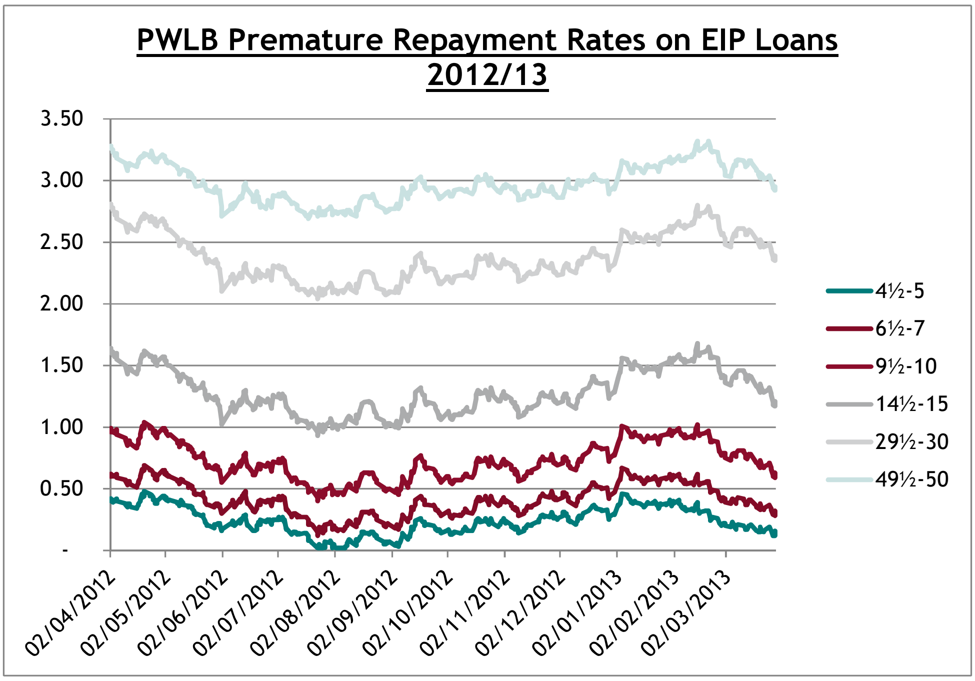
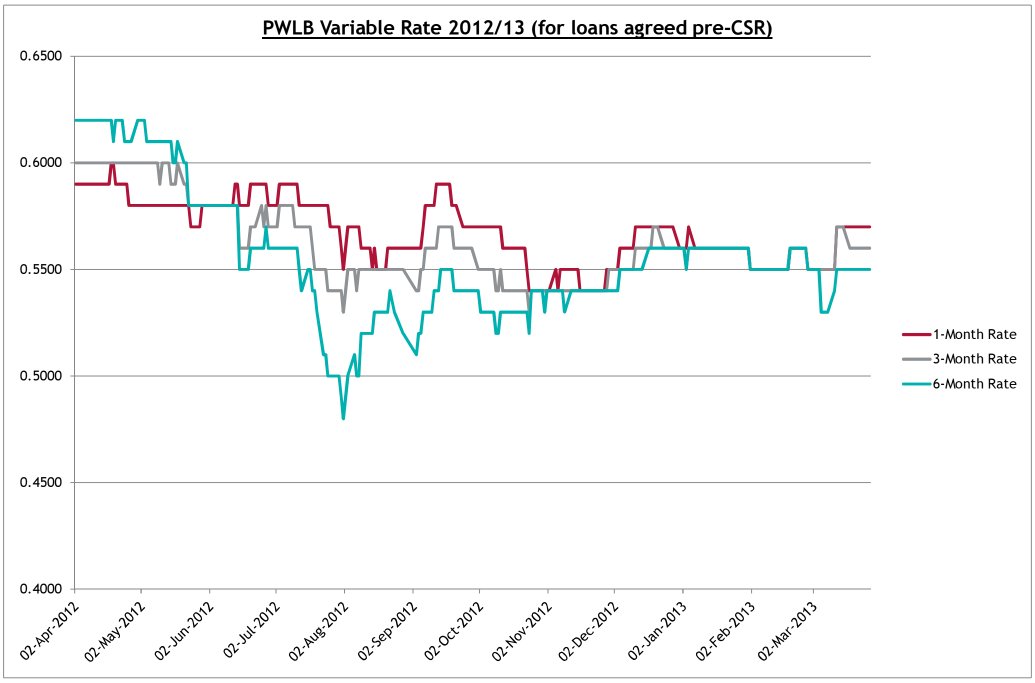
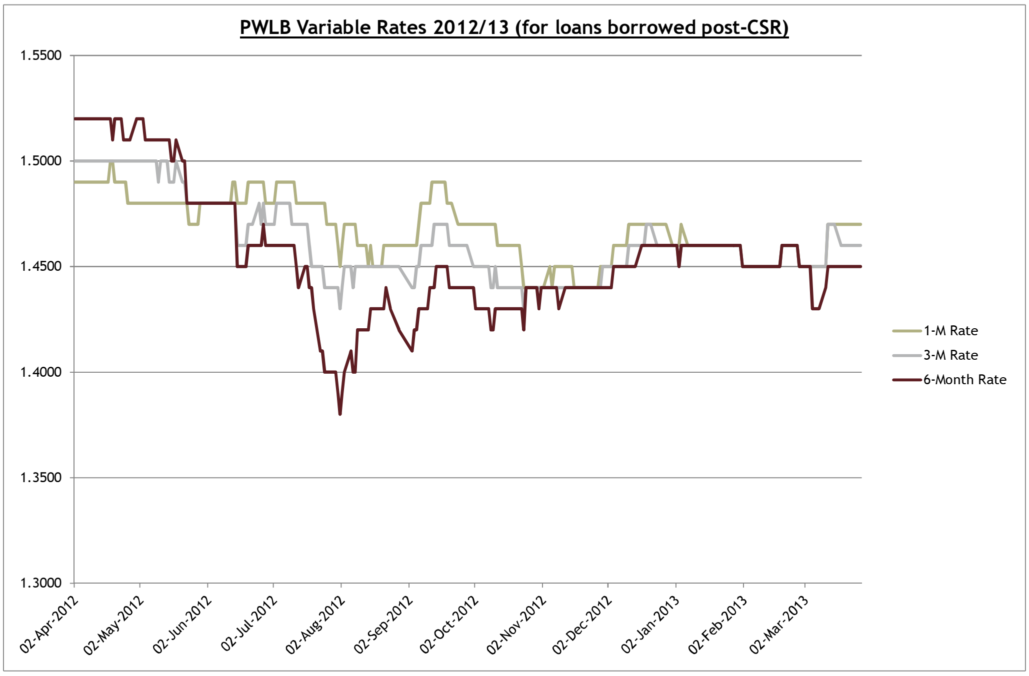


Table 6: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR			Post-CSR		
02/04/2012	0.59	0.60	0.62	1.49	1.50	1.52
29/06/2012	0.58	0.57	0.56	1.48	1.47	1.46
28/09/2012	0.57	0.56	0.54	1.47	1.46	1.44
31/12/2012	0.56	0.56	0.56	1.46	1.46	1.46
28/03/2013	0.57	0.56	0.55	1.47	1.46	1.45
Low	**0.54**	**0.53**	**0.48**	**1.44**	**1.43**	**1.38**
Average	**0.57**	**0.56**	**0.55**	**1.47**	**1.46**	**1.45**
High	**0.60**	**0.60**	**0.62**	**1.50**	**1.50**	**1.52**





Appendix 3

COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2012/13

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

1. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts in the Balance Sheet relating to capital expenditure and its' financing.

Capital Financing Requirement	2011/12 Actual £M	2012/13 Revised Estimate £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
General Fund	271	268	269	265	260	252
HRA	174	169	164	171	174	174
Total CFR	**445**	**437**	**433**	**436**	**434**	**426**

The actual position as at 31 March 2013 and the estimated position for the next two years based on the capital programme approved at council on the 13 February 2013 is due to the following:

Capital Financing Requirement	2011/12 Actual £M	2012/13 Revised Estimate £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balance B/F	**360**	**445**	**445**	**433**	**436**	**434**
Capital expenditure financed from borrowing	21	13	11	25	15	5
Temporary Funding (Repayment)	0	(6)	(3)	(6)	(3)	0
HRA Debt	74	5				
HRA Debt Voluntary Repayments			(10)	(7)	(5)	(5)
Revenue provision for debt Redemption.	(7)	(18)	(8)	(6)	(7)	(6)
Movement in Other Long Term Liabilities	(2)	(2)	(2)	(3)	(2)	(2)
Cumulative Maximum External Borrowing Requirement	**445**	**437**	**433**	**436**	**434**	**426**

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

In the Prudential Code Amendment (November 2012), it states that the Chief Financial Officer (CFO) should make arrangements for monitoring with respect to gross debt and the CFR such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

The table below shows our current and projected position; please note the small amount of borrowing in excess of the CFR in latter years represents short term (temporary) borrowing for cash flow purposes and the expectation that we will need to externalise debt (which is currently supported by internal funds) as balances are expected to fall. Along side temporary borrowing the council runs an investment programme as detailed in the main report, (Paragraphs 22 to 31), which brings our net borrowing down below the CFR. The Authority had no difficulty in meeting this requirement in 2012/13 and does not envisage any difficulties in future years. This view takes into account current commitments and existing plans set out in the approved budget.

Capital Financing Requirement	**2012/13 Approved Estimate £M**	**2012/13 Actual £M**	**2013/14 Estimate £M**	**2014/15 Estimate £M**	**2015/16 Estimate £M**
CFR	441	433	437	438	430
Gross Long Term Debt	410	350	389	396	387
Difference	**31**	**83**	**48**	**42**	**43**
Short Term Debt	25	34	50	50	50
Difference	**6**	**49**	**(2)**	**(8)**	**(7)**
Borrowing in excess of CFR? (Y/N)	N	N	Y	Y	Y
Investments	(53)	(69)	(53)	(53)	(53)

3. Balances and Reserves

The Council's level of Balances and Reserves for 2012/13 and estimates to 2015/16 are currently as follows, although the forecasts for future years will be updated in the light of the actual position for 2012/13 and the development of both future revenue and capital spending plans during 2013/14:

	2011/12 Actual £M	**2012/13 Actual £M**	**2013/14 Estimate £M**	**2014/15 Estimate £M**	**2015/16 Estimate £M**
Balances and Reserves	70	76	41	29	27

4. Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which is also known as the Authorised Limit should not be breached. The Council's Authorised Limit was set at £809M for 2012/13 and £817M for 2013/14.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2012/13 was set at £772M and £779M for 2013/14.

The CFO confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year and borrowing at its peak was £310M.

5. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

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

6. Total Principal Sums Invested for Periods Longer Than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £50M. In 2012/13 the actual principal sum invested for periods longer than 364 days peaked at £13M, (compared to £27M in 2011/12). This was lower than the previous year due to the suspension of the rolling yearly programme of investments which was reintroduced in November 2012.

7. Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period.

The table below is not directly comparable to the information shown in paragraph 28 of the main report which represents the position reported in the Statement of Accounts and in order to satisfy accounting conventions splits out EIP loans in the early period based on repayments and not the maturity date.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/3/2013 £M	Average Fixed Rate as at 31/3/2013 %	% of Fixed Rate as at 31/3/2013	Compliance With Set Limits?
Under 12 months	0	45	35	0.96	13.06	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	92	3.23	34.62	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	5	4.65	1.88	Yes
30 years and within 35 years	0	75	10	4.65	3.76	Yes
35 years and within 40 years	0	75	42	3.99	15.81	Yes
40 years and within 45 years	0	75	51	3.62	19.19	Yes
45 years and within 50 years	0	75	31	3.56	11.67	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			266	**3.33**	**100.00**	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

8. Capital Expenditure

This indicator is set to ensure that the level of proposed 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	2012/13 Approved £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
General Fund	69,658	54,190	52,894	23,666	4,282
HRA	31,196	24,270	37,202	35,622	34,609
Total	**100,854**	**78,460**	**90,096**	**59,288**	**38,891**

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2012/13 Approved £000's	2012/13 Actual £000's	2013/14 Approved £000's	2014/15 Approved £000's	2015/16 Approved £000's
Capital receipts	18,107	11,393	15,402	11,079	1,049
Government Grants	36,978	32,488	30,946	10,762	2,100
Contributions	5,103	3,722	2,624	2,586	2,832
Major Repairs Allowance	17,172	16,206	16,117	16,843	16,841
Revenue	11,025	9,111	11,354	9,677	11,169
Total Financing	**88,385**	**72,920**	**76,443**	**50,947**	**33,991**
Unsupported borrowing	12,469	5,540	13,653	8,341	4,900
Total Funding	**100,854**	**78,460**	**90,096**	**59,288**	**38,891**
Temporary Financing (Repayment)	(6,100)	(2,560)	(5,860)	0	0
Total Financing & Funding	**94,754**	**75,900**	**84,236**	**59,288**	**38,891**

9. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income.

This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012. During 2012/13 the HRA made a voluntary debt repayment of £10.4M, which has led to an increase in the financing ratio for the year. This will result in lower borrowing costs for future years.

The upper limit for this ratio is currently set at 10% for the General Fund 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 approved capital programme adjusted for actual borrowing made in year.

Ratio of Financing Costs to Net Revenue Stream	**2011/12 Actual %**	**2012/13 Approved %**	**2012/13 Actual %**	**2013/14 Approved %**	**2014/15 Approved %**	**2015/16 Approved %**
General Fund	6.30	6.84	6.14	6.78	6.97	7.24
HRA	4.65	10.92	24.95	17.51	16.18	15.57
Total	**7.12**	**8.84**	**12.06**	**10.43**	**10.20**	**10.54**

10. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 19 February 2003

11. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing.

HRA Summary of Borrowing	**2012/13 Approved £M**	**2012/13 Actual £M**	**2013/14 Estimate £M**	**2014/15 Estimate £M**	**2015/16 Estimate £M**
Brought Forward	174.2	174.2	163.8	170.7	173.8
Maturing Debt	(8.6)	(10.4)	(5.6)	(5.1)	(5.1)
New borrowing	4.8	0.0	12.5	8.2	4.9
Carried Forward	**170.4**	**163.8**	**170.7**	**173.8**	**173.6**
HRA Debt Cap (as prescribed by DLG)	201.3	199.6	199.6	199.6	199.6
Headroom	**30.9**	**35.8**	**28.9**	**25.8**	**26.0**

12. Summary

As indicated in this report none of the Prudential Indicators have been breached.

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GLOSSARY OF TREASURY TERMS

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

Comprehensive Spending Review (CSR): Comprehensive Spending Review is a governmental process in the United Kingdom carried out by **HM Treasury** to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).
Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
CPI : Consumer Price Index – the UK's main measure of inflation.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Department for Communities and Local Government (DCLG) : The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.
Federal Reserve: The US central bank. (Often referred to as "the Fed").

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

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

Gilts:

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

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

The ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard and replaced the Claimant Unemployment Rate as the international standard for unemployment measurement in the UK.. Under the ILO approach, those who are considered as unemployed are either out of work but are actively looking for a job or out of work and are waiting to start a new job in the next two weeks. ILO Unemployment Rate is measured by a monthly survey, which is called the Labour Force Survey in United Kingdom. Approximately 40,000 individuals are interviewed each month, and the unemployment figure reported is the average data for the previous three months.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO:

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

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

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

Minimum Revenue Provision (MRP):

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

Money Market Funds (MMF):

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

Multilateral Development Banks:

See Supranational Bonds below.

Non Specified Investment:

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

Operational Boundary:

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

Premiums and Discounts:

In the context of local authority borrowing,

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

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

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

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

Prudential Code:

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

Prudential Indicators:

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

Public Works Loans Board (PWLB):

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

Quantitative Easing (QE):

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

Revenue Expenditure:

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

RPI:

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

(Short) Term Deposits:

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

Specified Investments:

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

Supported Borrowing:

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

Supranational Bonds:

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

T-Bills:

Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.

Temporary Borrowing:

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

Treasury Management Code:

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

Treasury Management Practices (TMP):

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

Unsupported Borrowing:

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

Yield:

The measure of the return on an investment instrument.

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012/13
DATE OF DECISION:	15 JULY 2013
REPORT OF:	CHIEF INTERNAL AUDITOR

CONTACT DETAILS				
AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		
Director	Name:	Mark Heath	Tel:	023 8083 2371
	E-mail:	Mark.heath@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
Not Applicable

BRIEF SUMMARY

In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

The attached report provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2013.

The report concludes that Southampton City Council's framework of governance, risk management and management control is 'Adequate'.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

RECOMMENDATIONS:

(i) That the Governance Committee approves the Chief Internal Auditor's Annual Report and Opinion for 2012/13.

REASONS FOR REPORT RECOMMENDATIONS

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The Chief Internal Auditor's Annual Report and Opinion for 2012/13 is attached for consideration in the appendix. The main purpose of this report is to give the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's internal control environment for the year ending 31 March 2013.

4. The Governance Committee's attention is drawn to the following points:
    - internal audit was compliant with the CIPFA Code of Practice for Internal Audit in 2012/13;
    - the revised internal audit plan for 2012/13 has been substantially delivered;
    - the Council's framework of governance, risk management and management control is considered to be 'Adequate'; however, some weaknesses have been identified through internal audit's work or evidence was found that the framework may not be consistently applied;
    - where our work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed; appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.
5. Significant issues identified during the course of our work related to:
    - Mobile phones; and
    - Non residential care contributions
6. The Chief Internal Auditor's Annual Report and Opinion 2012/13 has been circulated and agreed by Senior Management

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

Other Legal Implications:

10. None

POLICY FRAMEWORK IMPLICATIONS

11. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

Appendices

1.	Chief Internal Auditor's Annual Report and Opinion 2012/13

Documents In Members' Rooms

1.	None

Equality Impact Assessment

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

Other Background Documents

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

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

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SOUTHAMPTON CITY COUNCIL ®

CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012 - 2013

Neil Pitman
Chief Internal Auditor
24 June 2013

Southern Internal Audit Partnership

Assurance through excellence and innovation

1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

1.1. Under the Accounts and Audit (England) Regulations 2011, the Council is required to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. For the purposes of our 2012/13 opinion the standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's *Code of practice for internal audit in Local Government in the United Kingdom (2006)* ["CIPFA Code"].

1.2. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.

1.3. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

2. INTERNAL AUDIT OPINION

2.1. The purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance from the work internal audit have carried out for the year ending 31 March 2013.

2.2. The report and opinion provides as a key contributor to the Annual Governance Statement, however, remains only one element of the wider assurance process.

2.3. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year;
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the CIPFA Code;
- any limitations which may have been placed on the scope or operation of internal audit; and
- the proportion of Southampton City Council's audit need that has been covered within the period.

Opinion

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

In my opinion, Southampton City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls generally to b working in practice.

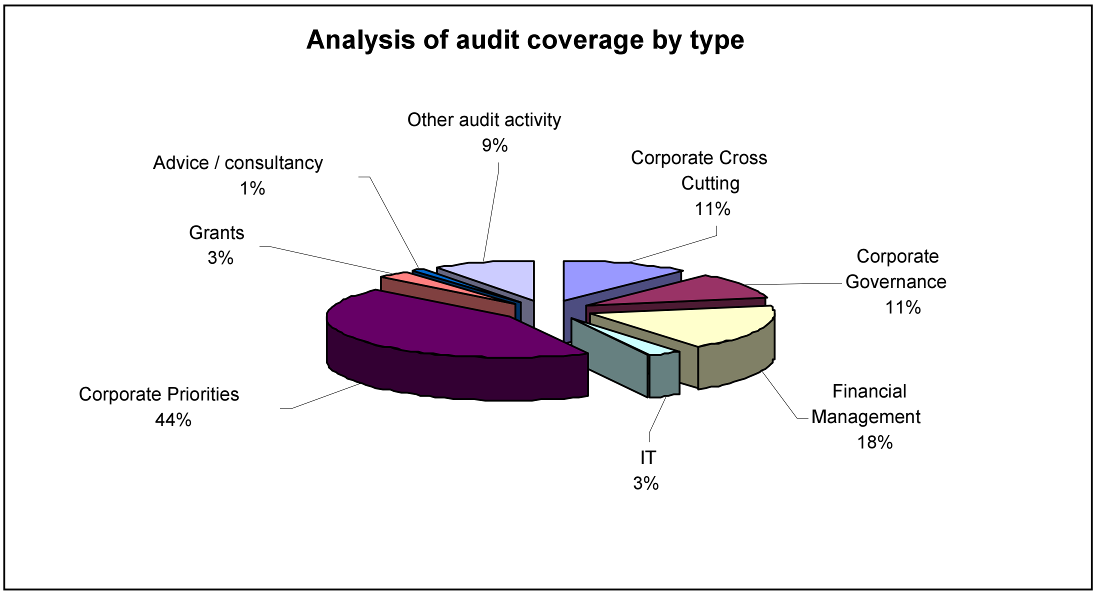
Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

3. INTERNAL AUDIT COVERAGE AND OUTPUT

3.1. The internal audit plan was prepared to take account of the characteristics and relative risks of Southampton City Council's activities and to support the preparation of the Annual Governance Statement.

3.2. The 2012 -13 internal audit plan, approved by the Audit Committee 23 April 2012 was informed by the internal audits own assessment of risk and materiality in addition to consultation with management and review of the corporate risk register, to ensure the plan addressed the key risks facing each directorate.

3.3. Internal audit delivered 970 audit days across 70 review areas over the course of the year ending 31 March 2013.



3.4. The revised 2012-13 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews remain work in progress:
  - Health & Safety
  - Human Resources

- Work is substantially complete and an opinion has been formed for 11 reviews, however, formal draft reports have not yet been agreed with management

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period.

3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 52 reviews completed during the year[1].

3.6. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

3.7. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or as happens in time of significant change, superseded.

3.8. The opinion assigned to each internal audit review on issue of the report is defined as follows:

Opinion	**Framework of governance, risk management and management control**	**Number of opinions in this category (2012-13)**
Substantial assurance	A sound framework in place that is operating effectively.	13
Adequate assurance	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.	23 (incl 6 draft opinions)
Limited assurance	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.	14 (incl 4 draft opinions)
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	2 (incl 1 draft opinion)

[1] 16 reviews did not culminate in a formal opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or fraud and irregularity investigations

4. SIGNIFICANT ISSUES ARISING

4.1. Non residential care contributions – No assurance (DRAFT)

Southampton City Council has a duty to facilitate the provision of social care to those individuals who qualify under its current eligibility criteria. In accordance with Government guidance, the Council is permitted to require those people identified as needing social care who have the ability to pay to make a contribution towards the cost of that care.

There are approximately 3,600 Health and Social Care clients being billed; approximately 2,000 of which are in receipt of non residential care.

The primary purpose of this review was to assess the end to end billing process of non residential care costs.

The audit report currently provides a 'no assurance' opinion and is in draft form. Key observations detailed within the report have been presented to senior officers of the Council.

The report will be shared with the Governance Committee on finalisation.

4.2. Mobile phones

A review of mobile phones usage across the Council highlighted a significant ratio of handsets compared to establishment numbers (of which 20% were smart phones / Blackberry's)

The guidance to support the use of mobile phones had not been reviewed for a number of years

The acquisition of mobile devices lacked sufficient needs assessment or authorisation. Additionally there was no requirement for recipients of mobile devices to acknowledge awareness / compliance with the mobile phone policy.

Whilst a central inventory was maintained detailing receipts, issues and asset numbers of mobile devices a lack of compliance with documented procedures regarding changes in users undermined the reliability of the inventory database.

Procedures followed for the monitoring of mobile phone usage was inconsistent and there was no assurance that reimbursement was received for personal calls.

5. ANTI FRAUD AND CORRUPTION

5.1. During the year internal audit have facilitated the submission of relevant datasets for inclusion in the 2012/13 National Fraud Initiative (NFI).

Initial matches were fed back to local authorities in March 2013 and work has been scheduled to review all ‘high priority’ matches as part of our 2013/14 audit plan.

Regular updates on progress and potential savings from the NFI exercise will be fed back to the Governance Committee as part of our established quarterly ‘Progress Reports’

5.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of 11 allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act (“Whistle blowing”) Policy. Of these:

- 7 were investigated, but with no further action required;
- 3 resulted in disciplinary action; and
- 1 assisting police with their enquiries

6. INTERNAL AUDIT PERFORMANCE

6.1. The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators 2012-13		
Aspect of service	**2012-13 Target**	**2012-13 Actual**
% of revised plan delivered (inc 2011/12 carry fwd)	90%	97%
Compliance with professional standards	Compliant	Compliant
% of positive customer responses to quality appraisal questionnaires	90%	94%

6.2. Internal Audit Resources

On 1 February 2012 Southampton Council entered into a collaborative partnership with Hampshire County Council for the provision of internal audit services.

The development of the Southern Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

The Partnership benefits through pooled expertise and greater business resilience to ensure the professional and timely delivery of the internal audit plan(s), coupled with the ability to flex resource to meet service demands.

Our 'internal audit strategy' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.

Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Governance Committee

6.3. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2012-13 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the External Auditors to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- A review of the 'Effectiveness of the System of Internal Audit' in accordance with the Account and Audit (England) Regulations 2011;
- Registration under ISO 9001 quality management standard, complimented by a comprehensive set of audit and management procedures to underpin this; and
- the review and quality control of all internal audit work by professional qualified senior staff members.

7. ACKNOWLEDEGEMENT

7.1. I would like to take this opportunity to thank all those staff throughout Southampton City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Chief Internal Auditor
24 June 2013

DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		EXTERNAL AUDIT ANNUAL PLAN - YEAR ENDING 31 MARCH 2013		
DATE OF DECISION:		15 JULY 2013		
REPORT OF:		CHIEF INTERNAL AUDITOR		
		CONTACT DETAILS		
AUTHOR:	**Name:**	**Neil Pitman**	**Tel:**	**023 8083 4616**
	E-mail:	**Neil.pitman@southampton.gov.uk**		
Director	**Name:**	**Mark Heath**	**Tel:**	**023 8083 2371**
	E-mail:	**Mark.heath@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to provide the Governance Committee with a basis to review the external auditors proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements.

This report summarises the external auditor's assessment of the key risks which drive the development of the audit for the Council, and outlines their planned audit strategy in response to those risks.

RECOMMENDATIONS:

(i) That the Governance Committee notes the External Auditor's Audit Plan – Year Ending 31 March 2013 .

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee's Terms of Reference require it to be satisfied 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 External Auditor's report is attached for consideration in the appendix:
   - Audit Plan – Year Ending 31 March 2013
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 duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

Other Legal Implications:

9. None

POLICY FRAMEWORK IMPLICATIONS

10. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

Appendices

1.	Audit Plan – Year Ending 31 March 2013

Documents In Members' Rooms

1.	None

Equality Impact Assessment

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

Other Background Documents

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

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

Agenda Item 9

Appendix 1

Southampton City Council

Year ending 31 March 2013

Audit Plan

June 2013

ERNST & YOUNG

Councillor Furnell
Chair
Governance Committee
Southampton City Council
Civic Centre
Southampton
SO14 7LY

28 June 2013

Dear Councillor Furnell

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 15 July 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

K L Handy

Kate Handy
For and behalf of Ernst & Young LLP
Enc

Contents

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- Our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements.
- Developments in financial reporting and auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

At this stage, we do not feel that the overall level of risk in relation to the audit of the financial statements, or the value for money conclusion, is significantly different from last year. We have not identified any significant risks, but have identified a small number of other risks in sections 2 and 3 of this report. Our plans to address these audit risks are set out at pages 3 and 4.

We will provide an update to the Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2013.

Our process and strategy

- Financial Statement Audit

    - We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider qualitative issues, such as the impact on the public's and other stakeholder's understanding of your accounts and the information contained in them. Our audit is designed to identify errors above materiality.

    - We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

    - We seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit over their coverage of the controls on which we would wish to undertake a programme of audit work.

- Arrangements for securing Economy, Efficiency and Effectiveness

    - We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

    - We review the outcomes of the work of regulators, considering the output of their work and evaluating it against our responsibilities.

2. Financial Statement Risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Southampton City Council, identified through our knowledge of the entity's operations and discussion with members and officers.

We have not identified any significant risks to our audit at this stage.

Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.	Based on the requirements of auditing standards our approach will focus on: ► Identifying fraud risks during the planning stages. ► Inquiry of management about risks of fraud and the controls put in place to address those risks. ► Understanding the oversight given by those charged with governance of management's processes over fraud. ► Consideration of the effectiveness of management's controls designed to address the risk of fraud. ► Determining an appropriate strategy to address those identified risks of fraud. ► Performing mandatory procedures regardless of specifically identified fraud risks. We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Southampton City Council; and

2. Whether there are proper arrangements in place at Southampton City Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks to the value for money (vfm) conclusion. However, we have identified the following key areas that we will consider to support our vfm conclusion:

Financial resilience

► 2013/14 budget setting, and medium term financial planning arrangements, including assumptions made in response to the 2013/14 and provisional 2014/15 settlements.

► The Council's ongoing response to recent significant legislation, including the 2011 Localism Act, (in respect of local taxation and changes to governance, scrutiny and standards) , the Welfare Reform Act 2012 and the Local Government Finance Act 2012.

Economy, efficiency and effectiveness

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► Review the Audit Commission’s VFM profile data in respect of the Council.

Our audit approach

To update our understanding of the Council’s arrangements in respect of the above key areas, we will:

- ► Meet relevant officers to discuss the underpinning arrangements and outcomes.
- ► Review relevant minutes and key documents.
- ► Review relevant internal audit reports and working papers.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

i) financial statements; and

ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

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

4.2 Audit process overview

As part of our audit planning procedures we have assessed the design of your internal controls, determining that an effective audit strategy will be to take a controls reliance approach. Therefore, we will test the controls we determine as key to preventing and detecting material misstatement in the processes we list below.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts payable
- Accounts receivable
- Cash and bank

- ► Council tax
- ► Housing & Council Tax Benefits
- ► NNDR
- ► Payroll
- ► Pension liabilities

We have also identified the following key processes that we will test substantively post year-end:

- ► Housing rents
- ► Property, Plant and Equipment
- ► Financial Statements Close Process

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit work, where issues are raised that could impact the year-end financial statements.

In implementing our controls testing strategy, we intend to place reliance on the work of internal audit as much as possible, while complying with the requirements of auditing standards.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions.

Other procedures

We have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ► Addressing the risk of fraud and error.

- Significant disclosures included in the financial statements.
- Entity-wide controls.
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- Auditor independence.

Procedures required by the Code:

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". We intend to treat misstatements less than £383,100 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Southampton City Council is £189,216.

4.5 Your audit team

The engagement team is led by Kate Handy, who has significant experience of Southampton City Council. Kate is supported by Mike Bowers who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance. Steve High will lead the delivery of the audit opinion work and will be the key contact for the Finance Team and Internal Audit.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the audit committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Governance Committee in September incorporating the outputs from the year-end procedures. From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Governance Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Governance Committee timetable	Deliverables
High level planning:	**December**	April committee	Audit Fee letter
Risk assessment and setting of scopes	**January**	July Committee	Audit Plan
Testing of routine processes and controls	**March/April**		
Year-end audit	**August – September**	September Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Draft audit completion certificate (subject to completion of WGA)
	October		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kate Handy, your audit engagement partner, and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £	Actual Fee 2011/12 £	Explanation of variance
Total Audit Fee – Code work	**189,216**	**315,360**	40% reduction in scale fees achieved by the Audit Commission outsourcing its audit practice.
Certification of claims and returns*	32,950	66,677	Our fee for the 2012/13 certification of grant claims is based on the indicative scale fee set by the Audit Commission. Prior year fee represents actual hourly charges.
Non-audit work	0	0	

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- We are able to place reliance, as planned, on the work of internal audit;
- The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- Our accounts opinion and use of resources conclusion being unqualified;
- Appropriate quality of documentation is provided by the audited body; and
- Effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the governance committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balance on initial audits	Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Report to those charged with governance
Fraud ► Enquiries of the governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan Report to those charged with

Required communication	Reference
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence For listed companies, communication of minimum requirements as detailed in the ethical standards: ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The governance committee should also be provided an opportunity to discuss matters affecting auditor independence	governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Opening Balances (initial audits) ▶ Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
Certification work ▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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