

Public Document Pack

# Governance Committee

Monday, 15th June 2015  
at 5.00 pm

**PLEASE NOTE TIME OF MEETING**

## Conference Room 3 - Civic Centre

This meeting is open to the public

### **Members of the Committee**

Councillor Barnes-Andrews (Chair)  
Councillor Daunt  
Councillor Inglis  
Councillor Jordan  
Councillor Lewzey  
Councillor Noon  
Councillor O'Neill

### **Contacts**

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## **PUBLIC INFORMATION**

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

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

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

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

### **Public Representations**

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

#### **Southampton City Council's Priorities:**

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

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

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

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

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

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

#### **Dates of Meetings: Municipal Year 2015/16**

<b>2015</b>	<b>2016</b>
15 June	8 February
14 September	25 April
9 November	
14 December	

## CONDUCT OF MEETING

### **Terms of Reference**

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

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

### **Rules of Procedure**

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

### **Business to be discussed**

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

### **Quorum**

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

## **DISCLOSURE OF INTERESTS**

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

### **DISCLOSABLE PECUNIARY INTERESTS**

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

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

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

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

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

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

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

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

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

## **Other Interests**

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

## **Principles of Decision Making**

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

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

In exercising discretion, the decision maker must:

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

## AGENDA

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

### **1 APOLOGIES**

To receive any apologies.

### **2 ELECTION OF VICE-CHAIR**

To elect the Vice Chair for the Municipal Year 2015/16.

### **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)**

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 27<sup>th</sup> April 2015 and to deal with any matters arising, attached.

### **6 FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2014-15**

(Pages 3 - 14)

Report of Head of Legal and Democratic Services detailing performances against information law obligations for the year 2014-15, attached.

### **7 FINANCIAL STATEMENTS 2014/15**

(Pages 15 - 22)

Report of the Council's Chief Financial Officer setting out the draft unaudited Financial Statements for 2014/15 for consideration and sign off, attached.

### **8 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2014/15**

(Pages 23 - 58)

Report of the Council's Chief Financial Officer detailing Treasury Management activities and performance for 2014/15 against the approved Prudential Indicators for External Debt and Treasury Management, attached.

**9 ANNUAL GOVERNANCE STATEMENT 2014-2015**

(Pages 59 - 76)

Report of the Chief Financial Officer seeking to review the draft Annual Governance Statement 2014-15 and to note the status of the 2013-14 Action Plan, attached.

**10 CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2014-2015**

(Pages 77 - 104)

Report of the Chief Internal Auditor detailing the Annual Report and Opinion 2014-15 for approval, attached.

Friday, 5 June 2015

HEAD OF LEGAL AND DEMOCRATIC SERVICES

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## GOVERNANCE COMMITTEE

### MINUTES OF THE MEETING HELD ON 27 APRIL 2015

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Present: Councillors Burke (Chair), Chamberlain, Daunt, Inglis, Keogh (Vice-Chair), Noon and O'Neill

Apologies: Mr D Blake and Mr G Wilkinson

34. **STATEMENT FROM THE CHAIR**

The Chair noted that the changes recommended to Council at the last meeting relating to Independent Members had been confirmed and expressed the thanks of the Committee and the Council to David Blake and Geoff Wilkinson for their services as Independent members to the Committee.

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

**RESOLVED:** that the minutes for the Committee meeting 9<sup>th</sup> February 2015 be approved and signed as a correct record.

36. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee considered the report of the Head of Legal and Democratic Services reviewing and updating the Constitution.

The Panel noted that following amendments set by Central Government there would be some minor changes to the Scheme of Delegation.

**RESOLVED**

- (i) That additional changes to the Constitution would be circulated to Committee by email prior to the Annual Council Meeting; and
- (ii) That Committee would recommend that Council agreed the proposed changes set out in the report to the Constitution at Council

37. **RISK MANAGEMENT STRATEGY 2015-16 AND ANNUAL ACTION PLAN**

The Committee considered the report of the Chief Financial Officer seeking approval of the Risk Management Strategy 2015-16 and the Annual Action Plan.

Members sought assurances about the processes used by officers during assessment of risk. It was explained that this was done through an analysis of the likelihood and impact of the risk occurring. Members requested that, in the early new municipal year, a training session detailing the assessment process be held.

**RESOLVED**

- (i) that the Risk Management Strategy 2015-16 as set out in Appendix 1 of the report, be noted and approved;

- (ii) that the Risk Management Action Plan for 2015-16 as set out in Appendix 2 of the report, be noted and approved; and
- (iii) that the Risk Management Actions: Status Report 2014-15 as set out in Appendix 3 of the report, be noted.

38. **EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2015**

The Committee received and noted the report of the Chief Internal Auditor regarding the External Auditor's Plan for the year ending 31 March 2015.

39. **INTERNAL AUDIT CHARTER 2015-16**

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit Charter 2015-16.

**RESOLVED** that the Internal Audit Charter 2015-16 be approved.

40. **INTERNAL AUDIT PLAN 2015-16**

The Committee considered the report of the Chief Internal Auditor regarding the Internal Audit Annual Plan 2015-16.

**RESOLVED** that the Internal Audit Plan for 2015 2016 be approved.

41. **INTERNAL AUDIT PROGRESS REPORT - MARCH 2015**

The Committee received and noted the report of the Chief Internal Auditor regarding internal audit progress to the period March 2015.



<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE
<b>SUBJECT:</b>	FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2014-15
<b>DATE OF DECISION:</b>	15 JUNE 2015
<b>REPORT OF:</b>	HEAD OF LEGAL AND DEMOCRATIC SERVICES
<b>STATEMENT OF CONFIDENTIALITY</b>	
None	

## **BRIEF SUMMARY**

A report detailing statistical information for the financial year 2014-15, the tenth 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 1<sup>st</sup> April 2014 – 31<sup>st</sup> March 2015 relating to:
  - a. FOIA and associated legislation;
  - b. DPA 1998;
  - c. RIPA 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 2014-15, the tenth 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**

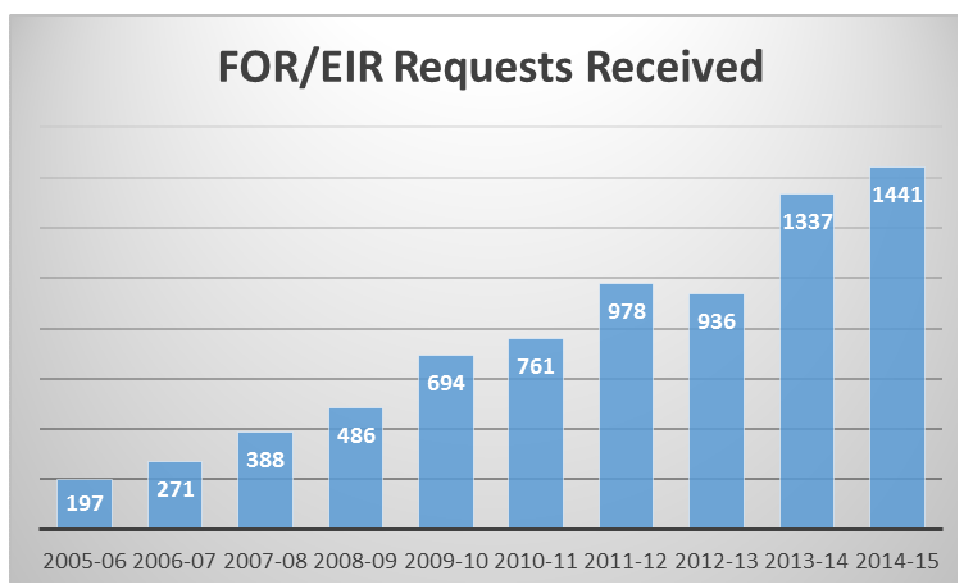
4. The alternative to bringing this report before members is to not report the yearly analysis. This was rejected because it is considered to be good governance to report such matters to members, provides an audit trail to demonstrate to the Information Commissioner that the Council has robust structure in place to comply with the legislation, and to maintain the profile of information law requirements and resource implication 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 1<sup>st</sup> 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 tenth full year of the FOIA and statistics show a continued increase in the number of information (FOI/EIR) requests received.

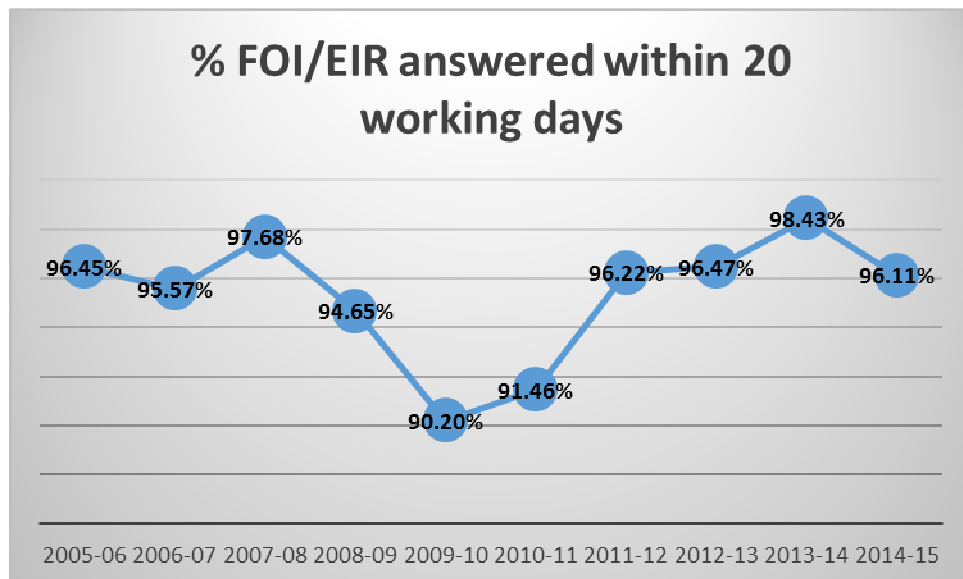


The number has increased from 1337 for the year ending March 2014 to 1441 for the year ending March 2015.

The directorate breakdown of the requests is as follows:

2014-15	FOI			EIR		
	Rec'd	Resp %	Days	Rec'd	%	Days
Corporate	502	98.41	8.05	0	n/a	n/a
People	452	94.91	14.48	0	n/a	n/a
Place/Trans	467	94.65	12.49	20	100	10.94
<b>Total</b>	<b>1421</b>	<b>96.18</b>	<b>11.56</b>	<b>20</b>	<b>100</b>	<b>10.94</b>

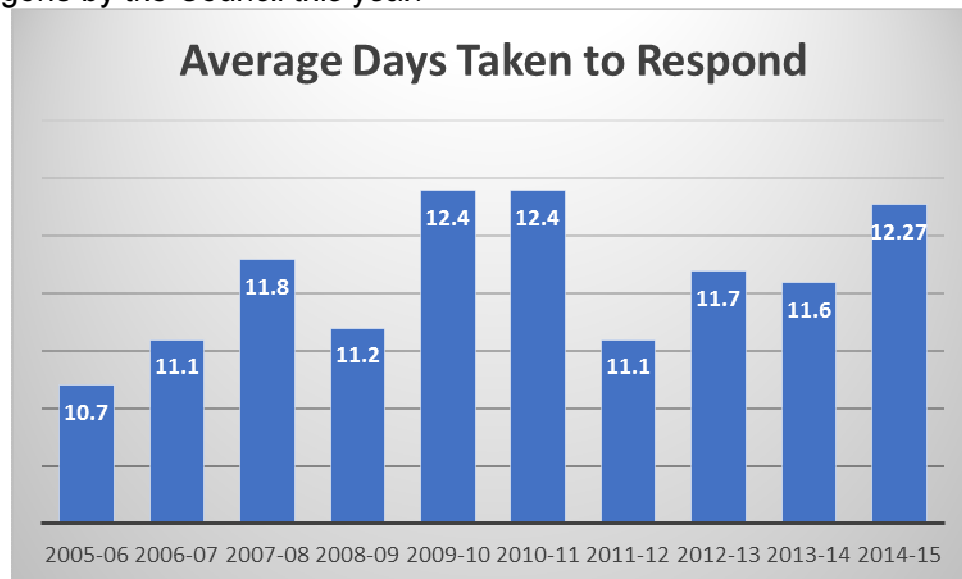
13. To summarise, the Council has received a total of 1441 requests in 2014/15. This comprises 1421 dealt with as FOI requests and 20 EIR requests.
14. 2014/15 has seen an overall increase in the volume of requests received in comparison to previous years. The average number of requests received per month was 120, compared with 111 last year.
15. During the year, 96.11% of all monitored FOI and EIR requests (excluding those 'on hold' or lapsed) were dealt with within the statutory deadline of 20 working days. This is a 2.32% decrease on last year, which brings to an end a period of improvement for the Council.



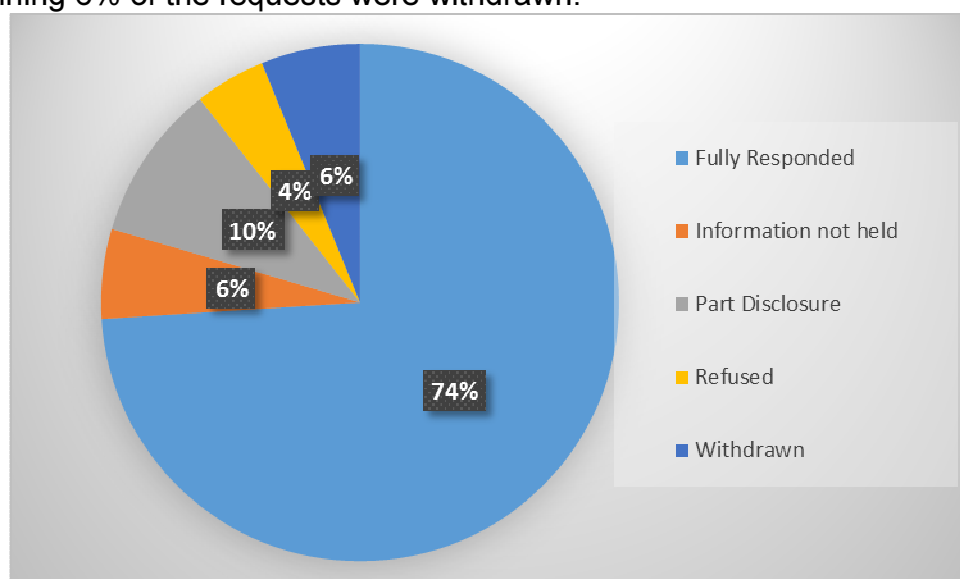
The exact reason for this decrease is unknown, but can be attributed to a number of factors. The Business Support Review has had an impact of the processing of information requests, certainly in the months leading to its full implementation. The Council's Transformation project has also seen a number of key individuals seconded from their IG roles. It should also be noted that the complexity of requests have increased, as members of the public and organisation are becoming more aware of the FOIA, and its potential.

The average number of pieces of information sought per request has nearly doubled, from 3.83 in 2013-14 to 7.5 in 2014-15. Whilst the response rate has dropped, the 96.11% average is still far above the desired response rate of 85%, as recently suggested by the Information Commissioner's Office (ICO).

16. The overall response time remains good, with the Council responding to requests within 12.27 days on average. Whilst this is again a slight increase on last year, it still represents an excellent turnaround, in light of the changes undergone by the Council this year.



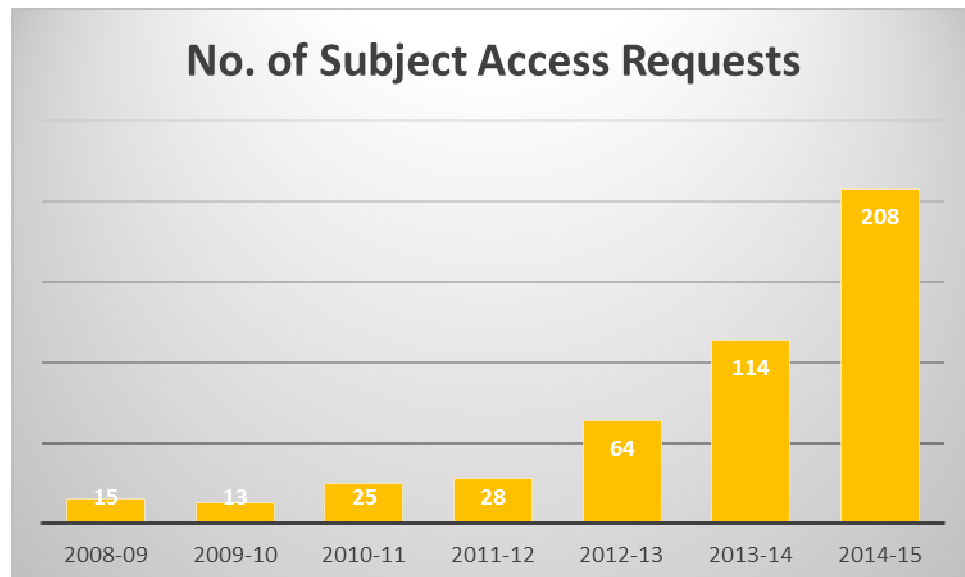
17. The complexity and detail of requests has increased again this year. Under FOIA, where the cost of responding to the request will exceed the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (which is currently set at £450 for local authorities), the Council may refuse to comply with it. For 2014/15, the Council issued 54 Refusal Notices on fees grounds, which remains consistent with 60 being issued last year.
18. Of all requests received during the year, 74% of information requested was disclosed in full. Of the remaining requests, 6% of information was not held by the Council, 10% were partly responded to by the Council (i.e. some parts of the request were subject to an exemption), and 4% were completely refused as information was withheld 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 remaining 6% of the requests were withdrawn.



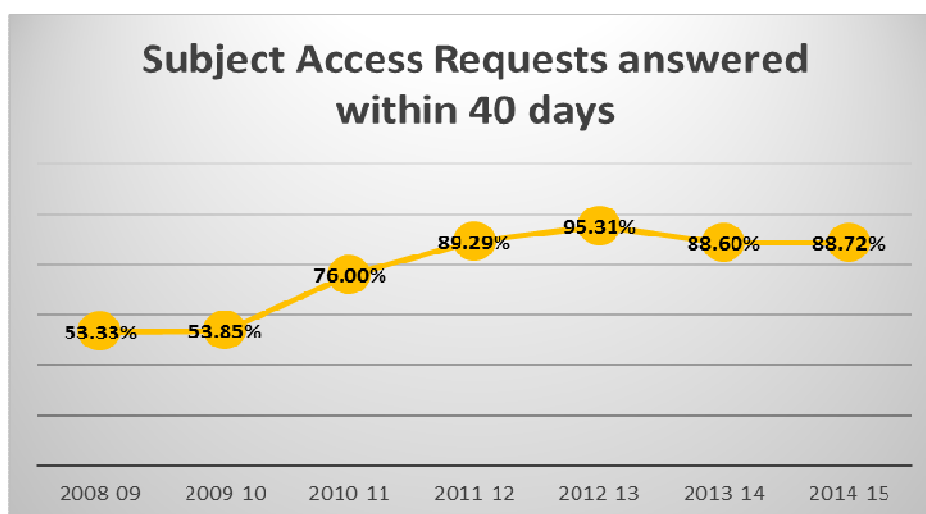
19. Of the 1392 requests responded to (49 were withdrawn, or are still on hold), 149 were deemed to be covered by absolute exemptions and accordingly some or all of the requested information was withheld.
20. Of the 1392 requests responded to, 27 requests (18 of which were 'virtual' – so were considered without a physical meeting) were considered by the Public Interest Test Panel as they were deemed to be covered by one or more qualified exemptions.
21. 14 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.
22. There has only been one occasion where an appeal was made to the ICO as a result of the Council's decision in respect of their internal review.
23. As with all years, types of requests have been varied and covered every service area of the Council, including budget, HR, council tax data, highways maintenance and social services.
24. For the period covered in this report, 49% of requests came from private citizens, 13% came from the media, 20% from companies/businesses. The remaining 18% came from a combination of charities, students, researchers, lobby groups, MP's/ Councillors and other Councils etc.
25. Previously, members requested information as to how much time and resources each directorate spends on dealing with requests. We do not record this information. Previous years (2011/12) have shown that it took us approximately 2 hours to respond to each request. However, current research from Parliamentary post-legislative scrutiny of the Act indicates "the best-performing local authorities took between one and six hours for each request". We can estimate that our time spend on requests is comparable to this, and using the £25 per hour rate that the Act allows us to charge for staff time when refusing requests, we can estimate that each request costs the Council between £25 and £150 to respond on average.
26. In the Corporate Legal team there is only 1 FTE member of staff dedicated to providing advice and monitoring compliance with information law. We have added a Modern Apprentice post to the Corporate Legal Team, to assist in the administration of information law matters, but this is a "trainee" post, and requires considerable support and training alongside their contribution to workloads. Other members of staff support this function when their capacity allows it.
27. Other members of staff who are involved in the FOI process are the Senior Information Risk Officers (also known as SIROs). They are responsible for managing information compliance within their respective Directorates, as well as being a single point of contact for providing advice and guidance at a "local" level. However, they are not wholly dedicated to information compliance as their roles within the Council are to support business generally. In the new Business Support structure, the four Team Leaders have now assumed these SIRO roles.

## Data Protection Act

28. The Data Protection Act 1998 (DPA) gives individuals the right to know what information is held about them and provides a framework to ensure that personal information is handled properly.
29. Under the DPA, 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.
30. For the year 2014/15, the Council received 208 subject access requests compared with 114 last year. A proportion of these were dealt under the corporate procedures, but requests relating to social services (Adult Services and Children Services and Learning requests) were processed by the Customer Relations Team, with support from the Corporate Legal Team where appropriate.



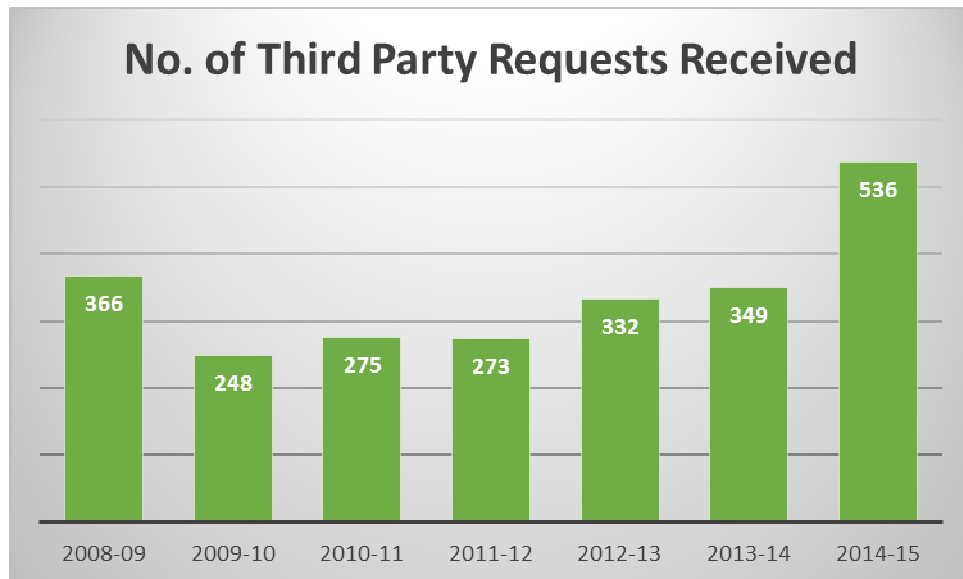
31. 88.72% of the Subject Access Requests were responded within the statutory timescales of 40 calendar days compared with 88.6% last year.



The directorate breakdown is as follows:

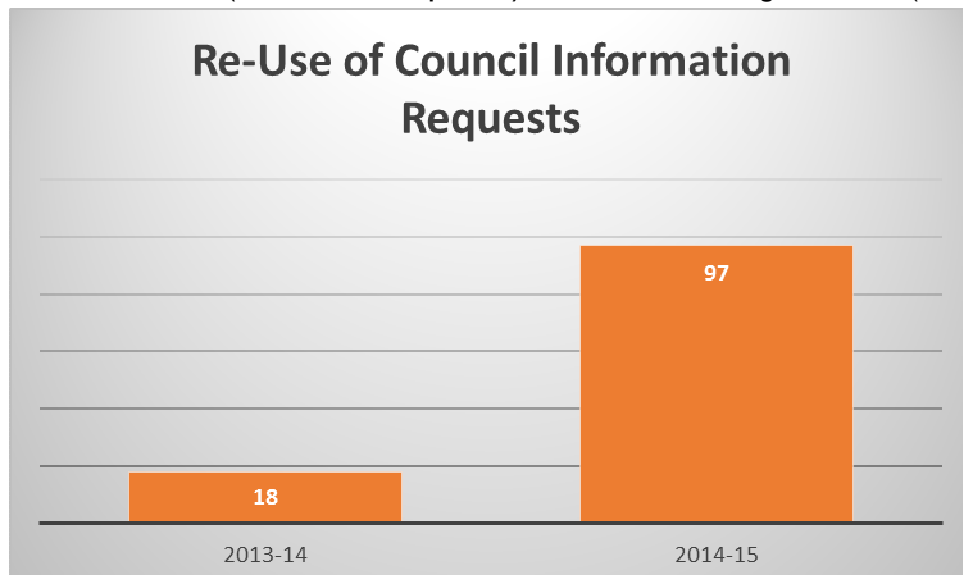
2014-15		SAR		
		Rec'd	%	Av. Days Taken
	Corporate	42	95.24	6.47
	People	133	82.71	24.35
	Place/Trans	33	100	7.83
	<b>Total</b>	<b>208</b>	<b>88.72</b>	<b>18.43</b>

32. Four individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.
33. There were four occasions where the ICO contacted the Council in light of data protection concerns they had about how personal information was handled.
34. In the year 2014/15, the Council did not self-report any instances of loss of personal data by the Council to the Information Commissioner.
35. Sometimes there is a requirement to disclose 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.
36. For the year 2014/15 the Council received 536 requests for data from such third party organisations compared to 349 in the previous year. This is a steep increase from last year, but this can be attributed to increased staff awareness of the need to submit such requests to Corporate Legal for logging and approval before disclosing the information requested.



In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 1101 and 188 third party requests respectively (179 of the Licensing requests were for footage from the internal taxi cameras). These requests are regulated by information sharing agreements, which removes the requirement to have each one authorised by Corporate Legal.

37. In addition to requests for information from external organisations, Corporate Legal also monitor and authorise requests from internal departments to re-use personal information already held by the Council. Such requests are commonly made where personal information is necessary when taking enforcement action, performing a statutory function, or improving the efficiency of Council services. In 2014/15, 97 requests were processed, with Council Tax being the most common source of information (61.86% of requests), and CCTV being the next (21.7%).

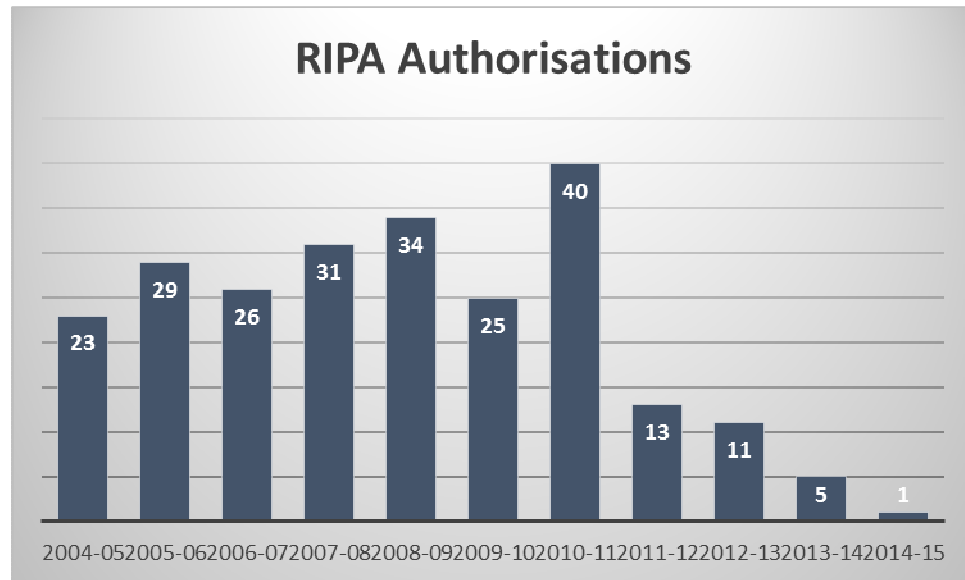


This represents an increase on the number of such requests received last year, and this can be attributed to steps taken by Corporate Legal to ensure that, not only are these requests correctly logged and authorised, but that this information can be re-used effectively and efficiently where there is a legal basis for doing so.



## RIPA

38. Under RIPA, the Council as a public authority is permitted to carry out directed surveillance, the use of covert human intelligence sources and obtain communications data if it is both necessary for the purpose of preventing or detecting crime and/or disorder and the proposed form and manner of the activity is proportionate to the alleged offence.
39. There has only been one authorisation under RIPA in 2014/15, a decrease on last year's five authorisations.



As previously reported, the Protection of Freedom Act 2012 is now in force, and this makes it a requirement for judicial approval for surveillance activities through application to the Magistrate Courts, therefore imposing a higher threshold for use. As such, there has been a significant decrease in applications made by the Council.

40. Examples of activity authorised include covert surveillance of a victim's home to detect acts of criminality, directed surveillance of individuals who were involved in fraudulent activities and a Covert Human Intelligence Source ("CHIS") was used to form an online relationship with a suspect to make a test purchase of suspected counterfeit goods.
41. The Council is required to formally appoint a 'Senior Responsible Officer' for RIPA. The Head of Legal and Democratic Services is the officer who 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 the reporting of errors to the Surveillance Commissioner; engagement with Inspectors from the Office of Surveillance Inspectors and implementation of any subsequent action plan.
42. Training and guidance for Council officers involved in RIPA processes is currently being arranged by the Corporate Legal Team and will take place in Autumn 2015.

43. The Office of Surveillance Commissioners carried out a review of Southampton City Council's management of covert activities in 2013. In his report, Chief Surveillance Inspector, Sir Christopher Rose noted:

*"Your regularly updated RIPA training, the engaged and conscientious approach of your staff, your very good policy documentation, your internal oversight regime and your good overall compliance standards are commendable".*

## **RESOURCE IMPLICATIONS**

### **Capital**

40. None directly related to this report.

### **Revenue**

41. None directly related to this report. The administration of information law within the authority is managed within corporate overheads, but the continuing upward trend in the number of requests received is increasing pressure on finite resources for maintaining compliance with these statutory processes.

### **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.

<b>AUTHOR:</b>	Name:	Tracy Horspool	Tel:	023 8083 2027
	E-mail:	Tracy.Horspool@southampton.gov.uk		

**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	None
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**SUPPORTING DOCUMENTATION**

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

**Appendices**

1.	None
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**Documents In Members' Rooms**

1.	None
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**Integrated Impact Assessment**

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

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

Title of Background Paper(s)

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

1.	None	
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# Agenda Item 7

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	FINANCIAL STATEMENTS FOR 2014/15		
<b>DATE OF DECISION:</b>	15 JUNE 2015		
<b>REPORT OF:</b>	CHIEF FINANCIAL OFFICER		
<b><u>CONTACT DETAILS</u></b>			
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## STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

## BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2014/15 were signed by the Chief Financial Officer (CFO) on 29 May 2015. A month earlier than the statutory requirement to have the statements signed by the 30 June. A copy of the draft unaudited Financial Statements is available in the Members Room.

The Annual Audit, carried out by our auditors Ernst & Young, commenced on 8 June 2015 and is due to be completed by the end of August 2015. Any major changes to the Financial Statements arising from the annual audit will be reported to the September Governance Committee after the completion of the audit.

## RECOMMENDATIONS:

**It is recommended that Governance Committee:**

- (i) Notes that the Draft Financial Statements 2014/15 have been signed by the CFO.
- (ii) Notes that the approval of the audited Financial Statements 2014/15 by the Governance Committee will take place on the 14 September 2015.
- (iii) Notes that there is a revision to the statement on the Minimum Revenue Provision Policy as set out in paragraphs 12 to 15.

## REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the CFO signs the Financial Statements by 30 June 2015 and certifies that they present '*a true and fair position of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year*'. It should be noted that this has been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31<sup>st</sup> May. This has been made possible by significant effort from the Finance Team and due to sound financial management procedures being in place. The draft statements have been brought to the June committee in order to give members further opportunity and time to scrutinise them before final approval. It is envisaged that the September report will detail any non-trivial amendments made as a result of the audit along with an amended set of statements.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the CFO no later than 30 June.

## **DETAIL**

### **CONSULTATION**

3. Not applicable.

### **FINANCIAL STATEMENTS**

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

### **ACCOUNTING ISSUES AND DEVELOPMENTS**

5. The main accounting issues and developments are:
  - Pension Fund Deficit;
  - Universal Credit;
  - Limited Liability Partnership;
  - Minimum Revenue Provision.

#### **Pension Fund Deficit**

6. The deficit on the Pension Fund, as at 31 March 2015, has increased from £331.4M to £390.7M. Further details are included in paragraphs 30 – 32.

#### **Universal Credit**

7. Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. 2016 will now see the phased introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue and Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities.
8. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2014/15 amounted to approximately £40.8M.

#### **Limited Liability Partnership**

9. Southampton City Council on 15 September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.
10.
  - Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
  - To undertake specific regeneration opportunities by entering into land

transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;

- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes through true partnership working incorporating the insourcing principle which optimises the use of Council staff or the Council's Strategic Service Partner – Capita Property and infrastructure where it is practical and prior to the appointment of any third party.

11. There were no material transactions in the financial year ended 31 March 2015.

#### **Minimum Revenue Provision (MRP)**

12. As set out in Appendix 4 of the Review of Prudential Limits and Treasury Management Outturn 2014/15 report, elsewhere on this agenda, there has been a proposed change to the MRP policy for 2014/15.
13. Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 states that capital receipts maybe used to repay the principal element of any amount borrowed by Local Authorities to fund capital expenditure.
14. Applying capital receipts to redeem borrowing will reduce the level of MRP which the council needs to set aside from revenue as a prudent provision i.e. MRP which would have otherwise been put aside to repay borrowing will be reduced by the amounts which have instead been repaid from Capital Receipts.
15. SCC have applied this policy in 2014/15 and have reflected this in the final accounts of the authority. A total of £11.5M of loan repayments have been made in 2014/15, of which a sum of £6.2M (the equivalent calculated value of MRP for 2014/15 under the authority's current MRP policy) has been funded by the set aside of Capital Receipts. This sum fully reduces the need to make a MRP contribution, funded from revenue, in 2014/15.

#### **GENERAL FUND REVENUE EXPENDITURE AND INCOME**

16. The Financial Statements present the Income and Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 7 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total draw from reserves of £16.7M.

17. However, further changes have been made to the revised budgets 2014/15 that were reported to Council in February 2015. Compared to this working budget the Council's actual expenditure for the year is £13.9M under budget and this is made up as follows:

	<b>(Under) / Over Spend £M</b>
<b>Portfolio Total</b>	<b>(3.94)</b>
Levies & Contributions	(0.20)
Capital Asset Management	(8.80)
Other Expenditure & Income	(0.95)
<b>NET GF SPENDING</b>	<b>(13.9)</b>

18. Against this are requests to carry forward budget of £0.29M. Full details of these carry forwards will be included in the General Fund Revenue Outturn Report 2014/15 that will go to Council on 15 July 2015.

#### **GENERAL FUND BALANCES AND RESERVES**

19. The General Fund balance stands at £19.9M. This is a net reduction of £33.5M compared to a balance of £53.4M at the end of 2013/14. This include a transfer of £34.0M to earmarked (usable) reserves, which now total £62.8M.
20. The General Fund Balance consists of the following allocations:

	£M
Amount Required to support 2015/16 budget	7.1
Minimum Balance as per Risk Assessment	5.5
Amount over and above minimum balance	7.3
<b>Total</b>	<b>19.9</b>

The amount over and above the minimum balance could be utilised to support the revenue budget going forward, however this will need to be considered after a review of the minimum level of balances required as per Appendix 12 of the budget report agreed by Council on 11 February 2015.

21. It should be noted that new reserves have been created, namely a Medium Term Financial Risk Reserve and Taxation Reserve, to assist the Council in meeting the risks that have been identified within the Council's Medium Term Financial Strategy and as per the Reserves Prioritisation Schema set out in Appendix 10 of the aforementioned budget report.



## HOUSING REVENUE ACCOUNT (HRA)

22. The Table on page 9 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows a budget and an actual deficit of £0.3M. However, there were some significant offsetting variances made up as follows:

	<b>£M</b>
Increase in Repairs	4.3
Savings on Supervision & Management	(1.0)
Reduction in Capital Financing Charges	(1.1)
Other Variances	(0.2)
<b>Variation on day to day services</b>	<b>2.0</b>
Reduction in Capital Funding from Direct Revenue Financing and Depreciation	(2.0)
<b>Total Variation</b>	<b>0</b>

## CAPITAL EXPENDITURE

23. In 2014/15 the Council spent £79.3M on capital projects. This was £14.4M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2015/16. Of this expenditure £49.1M related to the General Fund and £30.2M to the HRA.
24. The General Fund Capital Outturn 2014/15 and the Housing Revenue Account Revenue and Capital Outturn 2014/15 will be reported to Council in July. These reports contain further details, including setting out how the expenditure has been financed.

## THE COLLECTION FUND

25. There is an overall surplus on the Collection Fund of £9.1M to be carried forward into 2015/16. The following table shows how the surplus has been derived:

	<b>£M</b>
NDR Surplus for Year	(23.6)
Council Tax Surplus for Year	(2.6)
<b>Total Surplus on Collection Fund 2014/15</b>	<b>(26.2)</b>
Collection Fund Deficit B/Fwd 2013/14	17.1
<b>Collection Fund Surplus to C/Fwd 2015/16</b>	<b>(9.1)</b>

## Council Tax

26. The Council Tax element of the Collection Fund had a surplus for the year of £2.6M. There was a surplus brought forward from 2013/14 of just over £0.6M, to give a surplus to be carried forward of just over £3.2M.

27. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be a surplus of £3.7M to be carried forward. This estimated surplus was taken into account in setting the 2015/16 Council Tax and was shared by the City Council, the Police and Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2014/15. This leaves a deficit of £472,500 that will be carried forward to 2015/16 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when setting the Council Tax for 2016/17.

### **NNDR**

28. The NNDR element of the Collection Fund had a surplus for the year of £23.6M. There was deficit brought forward from 2013/14 of £17.8M, to give a surplus carried forward of £5.8M.
29. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be an NDR surplus of £4.8M to be carried forward (the Council's share of this surplus of £2.4M was taken into account in setting the 2015/16 Council). This additional a surplus of £1M, that will be carried forward to 2016/17, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%).

### **PENSIONS**

30. In 2014/15 the Council paid an employer's contribution of £21.3M into Hampshire County Council's Pension Fund. The employer's rate set for 2014/15 was 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and was equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.
31. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2015 was £618.6M, compared to its estimated liabilities of £1,009.3M, giving an estimated deficit on the Fund of £390.7M (£331.4M in 2013/14). This was due to an actuarial loss following a change to their financial assumptions.
32. The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

### **ACCOUNTING AND OTHER POLICIES**

33. The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2011.

34. The Accounting Policies are described in detail on pages 23 to 35 of the Financial Statements and cover such items as:

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

The main changes to the Accounting Policies in 2014/15 were the removal of non-material accounting policies.

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

36. There has also been an amendment to the MRP policy as outlined in Review of Prudential Limits and Treasury Management Outturn 2014/15 report elsewhere on this Agenda.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

37. The capital and revenue implications are considered as part of the General Fund Capital Outturn report and the General Fund Revenue Outturn report that will be presented to Council in July.

### **Property/Other**

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

## **LEGAL IMPLICATIONS**

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

39. Accounts and Audit Regulations 2011.

### **Other Legal Implications:**

40. None.

## **POLICY FRAMEWORK IMPLICATIONS**

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

**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
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## SUPPORTING DOCUMENTATION

### Appendices

1.	None
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### Documents In Members' Rooms

1.	Internet link - <a href="http://www.southampton.gov.uk/council-democracy/council-data/statement-accounts.aspx">http://www.southampton.gov.uk/council-democracy/council-data/statement-accounts.aspx</a>
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### Equality Impact Assessment

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

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

Title of Background Paper(s)

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

1.	None	
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# Agenda Item 8

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE COUNCIL		
<b>SUBJECT:</b>	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2014/15		
<b>DATE OF DECISION:</b>	15 JUNE 2015 15 JULY 2015		
<b>REPORT OF:</b>	CHIEF FINANCIAL OFFICER		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Mel Creighton	<b>Tel:</b> 023 8083 4897
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## 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 2014/15 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 11 February 2015.
- ii. Investment returns during 2014/15 continued to remain low as a result of low interest rates, returning £0.94M, but were higher than that returned for 2013/14 (£0.65M) this is due to the switching investments from fixed term deposits into the bond market and the Local Authority's Property Fund.
- iii. The Council's strategy was to minimise borrowing to below its Capital Financing Requirement (CFR), the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.34%, is lower than that budgeted for but slightly higher than last year (3.32%) as we currently hold no short term debt which lowers the overall rate. No new loans were taken during the year due to slippage in the capital programme and higher than expected balances. The predicted 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 Public

Works Loan Board (PWLB) 25 year fixed rate maturity loan is currently around 3.55%.

- 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 2015/16 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 the possibility of increasing interest rates, mainly through the use of call accounts and money market funds (MMF).
- v. Net loan debt decreased during 2014/15 from £283M to £243M as detailed in paragraph 14.
- vi. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 11 February 2015.
- vii. In order to generate revenue savings in 2014/15, the authority has revised the MRP policy as detailed in paragraphs 45 to 48.

## **RECOMMENDATIONS:**

### **GOVERNANCE COMMITTEE**

#### **It is recommended that Governance Committee:**

- i) Notes the Treasury Management (TM) activities for 2014/15 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) Note the revised MRP Policy as set out in Appendix 4.
- iv) Endorses the recommendation to Council to approve the revised MRP policy and delegates authority to the Chief Financial Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

## **COUNCIL**

### **It is recommended that Council:**

- i) Notes the Treasury Management (TM) activities for 2014/15 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) Approves the revised MRP policy as detailed in Appendix 4 and delegates authority to the Chief Financial Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

### **REASONS FOR REPORT RECOMMENDATIONS**

1. The reporting of the outturn position for 2014/15 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. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
7. The Authority's Treasury Management Strategy for 2014/15 was approved by full Authority on 12 February 2014 which can be accessed as Item 100 on the Council Meetings Agenda found via the following web link:  
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4>

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2014 on 11 February 2015, item 87.

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4>

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. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
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 2014/15, 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 2014/15.

#### **BORROWING REQUIREMENT AND DEBT MANAGEMENT**

11. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.
12. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2018/19. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.
13. The forecast movement in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown in the tables below together with activity in the year.



14.

	31-Mar-14 Actual £M	31-Mar-15 Actual £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M
<b>External Borrowing:</b>					
Fixed Rate – PWLB Maturity	139	139	189	203	218
Fixed Rate – PWLB EIP	81	69	58	46	35
Variable Rate – PWLB	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9
<b>Long Term Borrowing</b>	<b>264</b>	<b>252</b>	<b>291</b>	<b>293</b>	<b>297</b>
<b>Short Term Borrowing</b>					
Fixed Rate – Market	10	0	30	30	30
<b>Other Long Term Liabilities</b>					
PFI / Finance leases	62	67	65	62	60
Deferred Debt Charges	16	16	15	14	14
<b>Total Gross External Debt</b>	<b>352</b>	<b>335</b>	<b>401</b>	<b>399</b>	<b>401</b>
<b>Investments:</b>					
<b>Managed In-House</b>					
Deposits and monies on call and Money Market Funds	(66)	(55)	(25)	(25)	(25)
Financial Instruments	(3)	(32)	(40)	(40)	(40)
<b>Managed Externally</b>					
Pooled Funds		(5)	(7)	(7)	(7)
<b>Total Investments</b>	<b>(69)</b>	<b>(92)</b>	<b>(72)</b>	<b>(72)</b>	<b>(72)</b>
<b>Net Borrowing Position</b>	<b>283</b>	<b>243</b>	<b>329</b>	<b>327</b>	<b>329</b>

15.

	Balance on 01/04/2014 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/3/2015 £M	Increase/ (Decrease) in Borrowing £M
Short Term Borrowing	10	(10)	0	0	(10)
Long Term Borrowing	264	(12)	0	252	(12)
<b>Total Borrowing</b>	<b>274</b>	<b>(22)</b>	<b>0</b>	<b>252</b>	<b>(22)</b>

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

16. The Council's underlying need to borrow as measured by the CFR. As at 31/3/2015 this was estimated at £423.3M in February 2015 when the strategy was last updated, (see Table 1, Appendix 3). The Council's actual CFR at the end of the year was £427.6M. This increase was mainly due to the decision to use capital receipts to meet the principal element of debt repayments and to use unsupported borrowing to finance capital. This is in line with a revised MRP policy as detailed in Appendix 4.
17. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
18. 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 has continued to use internal resources to finance the capital programme. This will be kept under review during 2015/16 as the cost of carry is reducing.

### **Loans at Variable Rates**

19. Included within the debt portfolio is £35M of PWLB variable rate loans which are currently averaging a rate of 0.64% which mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's investments are deemed to be variable rate investments due to their short-term nature). This strategic exposure to variable interest rates will be regularly reviewed and, if appropriate, reduced by switching into fixed rate loans.

### **Internal Borrowing**

20. 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.
21. As at the 31 March 2015 the Council used £92M 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 2015, the Council is expected to borrow up to £77M between 2015/16 and 2017/18. Of this £54M relates to new capital spend (£3M GF and £51M HRA) 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.
22. However as short-term interest rates have remained low, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.
23. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise providing that balances can support it. Our advisors assists the Authority with this 'cost of carry' and breakeven analysis.

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

24. The Authority holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced by a PWLB loan.

### **Debt Rescheduling**

25. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

### **Abolition of the PWLB**

26. In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The authority intends to use the PWLB's replacement as a potential source of borrowing if required.

### **INVESTMENT ACTIVITY**

27. Both the CIPFA and DCLG's Investment Guidance requires the authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.
28. The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Authority's investment balances have ranged between £66M and £125M.
29. The table below summarises activity during the year:

	Balance on 01/04/2014	Investments Repaid	New Investments	Balance as at 31/3/2015	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	18	(33)	15	0	(18)		
Money Market Funds & Call Accounts	48	(438)	444	54	6	1 Day	0.50
Bonds	3	0	30	33	30	2.75 Years	2.89
Local Authority Property Fund	0	0	5	5	5	Unspecified	4.86
<b>Total Investments</b>	<b>69</b>	<b>(471)</b>	<b>494</b>	<b>92</b>	<b>23</b>		

30. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.
31. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
32. The table below summarises the nominal value of the Council's investment portfolio at 31 March 2015 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Credit Rating	Long Term		Short Term	
	2014	2015	2014	2015
	£000	£000	£000	£000
AAA	3,447	14,298	36	2,271
AA+		3,246		138
AA			50	5,932
AA-			24,315	25,380
A+			10,656	17,443
A			21,055	5,545
A-			10,325	12,549
Unrated pooled funds		5,295		
<b>Total Investments</b>	<b>3,447</b>	<b>22,839</b>	<b>66,437</b>	<b>69,258</b>

### Credit Developments and Credit Risk Management

33. The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.
34. S&P also revised the Outlook for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.
35. The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.
36. The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities, large corporate and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.
37. In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.
38. The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by

approximately €25bn (£20bn) in total – none of the failed banks featured on the Authority's lending list.

39. In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, and our advisors, Arlingclose, advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously reduced. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.
40. The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

### **Liquidity Management**

41. In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the Council's debt at 31 March 2015 can be seen in table 5 of Appendix 3.

### **Externally Managed Funds**

42. On the 30 April 2014 the Council invested £5M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. This investment has returned an average of £22K per month, at a published yield of 4.86%. The net asset value of the fund at 31st March was £5.3M a notional "gain" of £0.3M against initial investment. An additional £2M was invested in May 2015, this will increase our risk as the value of the fund can also go down but will be monitored very closely and appropriate steps taken.

### **COMPLIANCE WITH PRUDENTIAL INDICATORS**

43. The Council can confirm that it has complied with its Prudential Indicators for 2014/15, approved by Full Council on 12 February 2014. The 2014/15 Treasury Strategy can be found as Item 100 on the Council Meetings Agenda found via the following web link:  
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4>

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2014 on 11 February 2015, item 87.

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4>

44. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2014/15. 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. The table below summarises the Key Indicators full details can be found in Appendix 3.

<b>Indicator</b>	<b>Limit</b>	<b>Actual at 31 March 2015</b>
Authorised Limit for external debt £M	£704M	£335M
Operational Limit for external debt £M	£523M	£335M
Maximum external borrowing in year		£274.2M
Limit of fixed interest debt %	100%	82.6%
Limit of variable interest debt %	50%	17.4%
Limit for Non-specified investments £M	£50M	£14M

## **OTHER ITEMS**

### **Minimum Revenue Provision (MRP)**

45. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP, the Council's strategy was approved as part of the 2014/15 and 2015/16 reports. However following a review of the guidance the Council has revised this (as detailed in Appendix 4) in order to achieve revenue savings.
46. Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 states that capital receipts maybe used to repay the principal element of any amount borrowed by Local Authorities to fund capital expenditure.
47. Applying capital receipts to redeem borrowing will reduce the level of MRP which the council needs to set aside from revenue as a prudent provision i.e. MRP which would have otherwise been put aside to repay borrowing will be reduced by the amounts which have instead been repaid from Capital Receipts.
48. SCC have applied this policy in 2014/15 and have reflected this in the final accounts of the authority. A total of £11.5M of loan repayments have been made in 2014/15, of which a sum of £6.2M (the equivalent calculated value of MRP for 2014/15 under the authority's current MRP policy) has been funded by the set aside of Capital Receipts. This sum fully reduces the need to make a MRP contribution, funded from revenue, in 2014/15.

### **Local Capital Finance Company**

49. It should also be noted that as an alternative to the PWLB, A Local Capital Finance Company was established in 2014 by the Local Government Association. The purpose of the company is to issue bonds on the capital markets and lend the proceeds to local authorities. In order to be able to have access to this borrowing source, it is necessary for SCC to contribute to the capital structure of the company. As a result, Council gave approval on 11 February 2015 for a contribution of £20K to be made for this purpose in 2015/16 to be met from within the capital financing charges budget. The benefit of this is that it will give an additional alternative borrowing source to the PWLB and should offer more favourable borrowing rates that compete with the rates offered by the PWLB.

### **Investment Training**

50. The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2014/15 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA
51. In January 2015 a training session was held by our advisors and made available to all Members to provide an insight into the current issues affecting TM and the basis of the TM strategy being presented.

## **RESOURCE IMPLICATIONS**

### **Capital / Revenue**

52. The report is a requirement of the TM Strategy, which was approved at Council on 12 February 2014 and further revised on 11 February 2015.
53. 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 £9.3M in 2014/15 compared with an approved estimate of £11.2M, a saving of £1.9M. This is mainly due to variable interest rates being lower than those estimated and the deferment of any new borrowing.
54. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2014/15 £0.93M was earned against a budget of £0.3M, an increase of £0.63M 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 investment in bonds and LAPF as detailed in paragraphs 27 - 43 above.
55. 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 £0.12M in 2014/15 compared to an estimate of £0.15M. This decrease was mainly due a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing to 2015/16 resulting in a saving on commission paid in year.

### **Property/Other**

56. None

## LEGAL IMPLICATIONS

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

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

### Other Legal Implications:

58. None

## POLICY FRAMEWORK IMPLICATIONS

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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## SUPPORTING DOCUMENTATION

### Appendices

1.	2014/15 Economic Background
2.	Summary of Interest Rates Movement During 2014/15
3.	Compliance with Prudential Indicators During 2014/15
4.	Revised MRP Policy
5.	Glossary of Treasury Terms

### Documents In Members' Rooms

1.	None
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### Equality Impact Assessment

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

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

Title of Background Paper(s)

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

1.	<a href="#"><u>TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 to 2016/17 – Council 12 February 2014</u></a>
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## 2014/15 ECONOMIC BACKGROUND

**Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

**Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

**UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US

dollar, in March 2015 the Fed removed the word “patient” from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

**Market reaction:** From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

## SUMMARY OF INTEREST RATES MOVEMENT DURING 2014

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
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.50	0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014	0.50	0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014	0.50	0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014	0.50	0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015	0.50	0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015	0.50	0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015	0.50	0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
<b>Average</b>	<b>0.50</b>	<b>0.39</b>	<b>0.44</b>	<b>0.43</b>	<b>0.50</b>	<b>0.67</b>	<b>0.95</b>	<b>1.09</b>	<b>1.38</b>	<b>1.79</b>
<b>Maximum</b>	<b>0.50</b>	<b>0.50</b>	<b>0.62</b>	<b>0.43</b>	<b>0.51</b>	<b>0.81</b>	<b>1.00</b>	<b>1.38</b>	<b>1.77</b>	<b>2.26</b>
<b>Minimum</b>	<b>0.50</b>	<b>0.24</b>	<b>0.36</b>	<b>0.42</b>	<b>0.46</b>	<b>0.56</b>	<b>0.84</b>	<b>0.80</b>	<b>0.96</b>	<b>1.18</b>
<b>Spread</b>	<b>--</b>	<b>0.26</b>	<b>0.26</b>	<b>0.01</b>	<b>0.05</b>	<b>0.25</b>	<b>0.16</b>	<b>0.58</b>	<b>0.81</b>	<b>1.08</b>

**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
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	<b>Low</b>	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	<b>Average</b>	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	<b>High</b>	1.69	3.07	3.86	4.42	4.52	4.49	4.48

**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	<b>Low</b>	1.58	1.94	2.40	2.72	2.95	3.06
	<b>Average</b>	1.99	2.61	3.31	3.66	3.85	3.94
	<b>High</b>	2.39	3.13	3.89	4.26	4.43	4.50

**Table 4: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate	
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR	
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47	
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47	
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48	
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57	
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59	
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62	
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65	
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58	
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59	
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56	
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55	
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56	
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56	
	<b>Low</b>	0.55	0.56	0.57	1.45	1.46	1.47
	<b>Average</b>	0.59	0.61	0.66	1.49	1.51	1.56
	<b>High</b>	0.64	0.68	0.76	1.54	1.58	1.66

## COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2014/15

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

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

### 1. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The CFO reports that the Authority had no difficulty meeting this requirement in 2014/15, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below details our expected debt position and the year-on-year change to the CFR:

	2014/15 Approved	2014/15 Actual	2015/16 Current Estimate	2016/17 Current Estimate	2017/18 Current Estimate
	£M	£M	£M	£M	£M
Borrowing	183.4	191.6	187.8	177.6	171.1
Finance leases and Private Finance Initiative	66.8	66.9	64.8	62.3	60.4
Transferred debt	15.6	15.6	15.0	14.4	13.8
<b>Total General Fund Debt</b>	<b>265.8</b>	<b>274.1</b>	<b>267.6</b>	<b>254.3</b>	<b>245.3</b>
HRA	157.5	153.5	182.6	191.4	188.5
<b>Total</b>	<b>423.3</b>	<b>427.6</b>	<b>450.2</b>	<b>445.7</b>	<b>433.8</b>

Capital Financing Requirement	2013/14 Approved £M	2013/14 Actual £M	2014/15 Current Estimate £M	2015/16 Current Estimate £M	2016/17 Current Estimate £M
<b>Balance B/F</b>	<b>433.2</b>	<b>433.2</b>	<b>425.0</b>	<b>444.6</b>	<b>438.9</b>
Capital expenditure financed from borrowing (inc PFI)					
<i>General Fund (GF)</i>	11.7	10.9	11.7	3.8	1.1
<i>HRA</i>	8.9	0.0	26.2	5.7	10.2
GF Temporary Funding (Repayment)	(5.9)	(5.9)	(3.6)	0.0	0.0
HRA Voluntary Repayment of Debt	(5.6)	(5.6)	(5.3)	(5.3)	(5.3)
GF Revenue provision for debt Redemption.	(9.0)	(4.5)	(6.9)	(7.1)	(7.4)
Movement in Other Long Term Liabilities	(3.1)	(3.1)	(2.5)	(2.8)	(3.3)
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>430.2</b>	<b>425.0</b>	<b>444.6</b>	<b>438.9</b>	<b>434.2</b>

## 2. Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2014/15; borrowing at its peak was £335M.

## 3. 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 2014/15 (%)	Maximum during 2014/15 (%)
Upper Limit for Fixed Rate Exposure	100	83
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	17
Compliance with Limits:	Yes	Yes



#### 4. 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 2014/15 the actual principal sum invested for periods longer than 364 days peaked at £14M, (compared to £25M in 2013/14). This was lower than the previous year due to the suspension of the rolling yearly programme of investments following advice from our advisors and introduction into the bond markets.

#### 5. 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.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/3/2015	Average Fixed Rate as at 31/3/2015	% of Fixed Rate as at 31/3/2015	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	9.38	2.44	4	Yes
12 months and within 24 months	0	45	0.00	0.00	0	Yes
24 months and within 5 years	0	50	0.00	0.00	0	Yes
5 years and within 10 years	0	75	34.86	2.02	14	Yes
10 years and within 15 years	0	75	69.61	3.01	28	Yes
15 years and within 20 years	0	75	0.00	0.00	0	Yes
20 years and within 25 years	0	75	10.00	4.68	4	Yes
25 years and within 30 years	0	75	5.00	4.60	2	Yes
30 years and within 35 years	0	75	0.00	0.00	0	Yes
35 years and within 40 years	0	75	42.00	3.99	17	Yes
40 years and within 45 years	0	75	50.60	3.62	20	Yes
45 years and within 50 years	0	75	31.25	3.56	12	Yes
50 years and above	0	100		0.00	0	Yes
			<b>252.7</b>	<b>3.20</b>	<b>100</b>	

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.

#### 6. 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 has been and will be financed or funded as follows:

Capital Expenditure and Financing	2014/15 Approved £M	2014/15 Actual £M	2015/16 Approved £M	2016/17 Approved £M	2017/18 Approved M
General Fund	49.0	49.1	46.8	5.6	0.6
HRA	34.9	30.2	65.5	46.6	42.0
<b>Total Expenditure</b>	<b>83.9</b>	<b>79.3</b>	<b>112.3</b>	<b>52.2</b>	<b>42.6</b>
Capital receipts	11.8	6.2	14.0	6.2	3.2
Government Grants	32.3	26.8	28.0	4.3	0.0
Contributions	4.2	4.3	4.1	0.2	1.4
Major Repairs Allowance	17.9	18.9	19.0	19.4	19.7
Revenue	12.3	6.6	12.0	10.9	16.1
<b>Total Financing</b>	<b>78.5</b>	<b>62.8</b>	<b>77.1</b>	<b>41.0</b>	<b>40.4</b>
Temporary Financing	0.0	0.0	(1.0)	(2.7)	0.0
Unsupported borrowing	5.4	16.5	36.2	13.9	2.2
<b>Total Funding</b>	<b>5.4</b>	<b>16.5</b>	<b>35.2</b>	<b>11.2</b>	<b>2.2</b>
<b>Total Financing &amp; Funding</b>	<b>83.9</b>	<b>79.3</b>	<b>112.3</b>	<b>52.2</b>	<b>42.6</b>

## 7. 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. 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.

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. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Actual %	2015/16 Approved %	2016/17 Approved %	2017/18 Approved %
General Fund	6.96%	5.76%	6.83%	7.57%	8.40%
HRA	16.33%	14.61%	14.93%	15.55%	15.33%
<b>Total</b>	<b>10.39%</b>	<b>9.07%</b>	<b>10.17%</b>	<b>11.27%</b>	<b>11.62%</b>

## 8. Adoption of the CIPFA Treasury Management Code

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

<p>The Authority adopted the Chartered Institute of Public Finance and Accountancy's <i>Treasury Management Code</i> on 19 February 2003 and has subsequently agreed further updates.</p>
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## 9. 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	2014/15 Approved £M	2014/15 Actual £M	2015/16 Approved £M	2016/17 Approved £M	2017/18 Approved £M
Brought Forward	158.6	158.6	157.5	186.8	195.8
Maturing Debt	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)
New borrowing	4.0	0.0	34.4	14.1	2.4
<b>Carried forward</b>	<b>157.5</b>	<b>153.5</b>	<b>186.8</b>	<b>195.8</b>	<b>193.1</b>
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
<b>Headroom</b>	<b>42.1</b>	<b>46.1</b>	<b>12.8</b>	<b>3.8</b>	<b>6.5</b>

## 10. Summary

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

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### Revised Minimum Revenue Provision Policy for 2014/15

#### 1. Introduction

- 1.1. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.
- 1.2. Until 2007/08, the basis of calculation for the MRP was specified in legislation. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.
- 1.3. The statutory guidance recommends that local authorities draw up a statement of their policy on the MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.
- 1.4. This document revises and replaces the original MRP policy for 2014/15 which was approved by Full Council in February 2014.

#### 2 Details of DCLG Guidance on MRP

- 2.1. The statutory guidance issued by DCLG sets out the broad aims of a prudent MRP policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.
- 2.2. The four MRP options available are:
  - Option 1: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.
  - Option 2: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the

draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

- Option 3: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years
- Option 4: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

- 2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing, and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.
- 2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.
- 2.5 The guidance also allows authorities to take a MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.
- 3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003**
- 3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.
- 3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

- 3.3. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

#### **4. Revised 2014/15 MRP Policy**

For 2014/15 it is recommended the Council adopt the following MRP policy:

1. MRP will be charged utilising option 1 and 2 for pre 2008 General Fund debt
2. MRP will be charged utilising option 3 for assets which have been funded from prudential borrowing.
3. MRP will only be charged in the year following the asset becoming operational.
4. If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
5. Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Chief Financial Officer
6. For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
7. The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
8. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.
9. Guidance relating to option 1 allows for debt transferred from Hampshire County Council relating to the Council activities prior to becoming a unitary authority in 1997 to be excluded from the MRP calculation as this is being repaid to the HCC.
10. Any major revisions to this policy will be presented to Full Council for approval.

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## GLOSSARY OF TREASURY TERMS

<p><b>Amortised Cost Accounting:</b></p> <p>Values the asset at its purchase price, and then subtracts the premium/adds back the discount linearly over the life of the asset. The asset will be valued at par at its maturity.</p>
<p><b>Authorised Limit (Also known as the Affordable Limit):</b></p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p><b>Balances and Reserves:</b></p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p><b>Bail - in Risk:</b></p> <p>The Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p><b>Bank Rate:</b></p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p><b>Basis Point:</b></p> <p>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 <b>interest rates</b> and <b>bond yields</b>. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.</p>
<p><b>Bond:</b></p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which</p>

may vary during its life.
<b>Capital Expenditure:</b> Expenditure on the acquisition, creation or enhancement of capital assets.
<b>Capital Financing Requirement (CFR):</b> The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
<b>Certainty Rate:</b> The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
<b>CD's:</b> Certificates of Deposits with banks and building societies
<b>Capital Receipts:</b> Money obtained on the sale of a capital asset.
<b>Comprehensive Spending Review (CSR):</b> Comprehensive Spending Review is a governmental process in the United Kingdom carried out by <b>HM Treasury</b> 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).
<b>Constant Net Asset Value (CNAV)</b> These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.
<b>Corporate Bonds:</b> 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.
<b>Cost of Carry:</b> 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%.
<b>Counterparty List:</b> List of approved financial institutions with which the Council can place investments with.
<b>Covered Bond:</b> Covered bonds are debt securities backed by cash flows from mortgages or public sector

<p>loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."</p>
<p><b>CPI :</b> Consumer Price Index – the UK's main measure of inflation.</p>
<p><b>Credit Rating:</b> Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.</p>
<p><b>Department for Communities and Local Government (DCLG) :</b> 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.</p>
<p><b>Debt Management Office (DMO):</b> 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 <b>DMADF</b>. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.</p>
<p><b>Diversification /diversified exposure:</b> The spreading of investments among different types of assets or between markets in order to reduce risk.</p>
<p><b>European Investment Bank (EIB):</b> The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.</p>
<p><b>Federal Reserve:</b> The US central bank. (Often referred to as "the Fed").</p>
<p><b>Floating rate notes (FRNs) :</b> Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.</p>
<p><b>FTSE 100 Index:</b> 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.</p>

<p><b>General Fund:</b></p> <p>This includes most of the day-to-day spending and income.</p>
<p><b>Gilts:</b></p> <p>Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.</p>
<p><b>Gross Domestic Product (GDP):</b></p> <p>Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.</p>
<p><b>The G7:</b></p> <p>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.</p>
<p><b>IFRS:</b></p> <p>International Financial Reporting Standards.</p>
<p><b>International Labour Organisation (ILO):</b></p> <p>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.</p>
<p><b>LIBID:</b></p> <p>The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.</p>
<p><b>LIBOR:</b></p> <p>The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.</p>
<p><b>LOBO:</b></p> <p>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</p>

<p>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.</p>
<p><b>Maturity:</b> The date when an investment or borrowing is repaid.</p>
<p><b>Maturity Structure / Profile:</b> 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.</p>
<p><b>Minimum Revenue Provision (MRP):</b> 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.</p>
<p><b>Money Market Funds (MMF):</b> An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:</p> <ul style="list-style-type: none"> <li>• <b>Constant net asset value (CNAV)</b> refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.</li> <li>• <b>Variable net asset value (VNAV)</b> refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.</li> </ul> <p>This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.</p>
<p><b>Multilateral Development Banks:</b> See Supranational Bonds below.</p>
<p><b>Municipal Bonds Agency</b> An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.</p>

<p><b>Non Specified Investment:</b></p> <p>Investments which fall outside the CLG Guidance for <b>Specified investments</b> (below).</p>
<p><b>Operational Boundary:</b></p> <p>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.</p>
<p><b>Premiums and Discounts:</b></p> <p>In the context of local authority borrowing,</p> <ul style="list-style-type: none"> <li>(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and</li> <li>(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.</li> </ul> <p>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.</p> <p><i>*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.</i></p>
<p><b>Property:</b></p> <p>Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.</p>
<p><b>Prudential Code:</b></p> <p>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.</p>
<p><b>Prudential Indicators:</b></p> <p>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</p>
<p><b>Public Works Loans Board (PWLB):</b></p> <p>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.</p>
<p><b>Quantitative Easing (QE):</b></p>

<p>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 <i>“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”</i>. Source: Bank of England.</p>
<p><b>Repo Rate:</b></p> <p>The interest rate at which the central bank in a country repurchases government securities (such as Treasury securities) from commercial banks. The central bank raises the repo rate when it wishes to reduce the money supply in the short term, while it lowers the rate when it wishes to increase the money supply and stimulate growth.</p>
<p><b>Revenue Expenditure:</b></p> <p>Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.</p>
<p><b>RPI:</b></p> <p>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 updated using the RPI index.</p>
<p><b>(Short) Term Deposits:</b></p> <p>Deposits of cash with terms attached relating to maturity and rate of return (Interest).</p>
<p><b>Specified Investments:</b></p> <p>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.</p>
<p><b>Supported Borrowing:</b></p> <p>Borrowing for which the costs are supported by the government or third party.</p>
<p><b>Supranational Bonds:</b></p> <p>Instruments issued by supranational organisations created by governments through international treaties (often called <b>multilateral development banks</b>). 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.</p>
<p><b>Treasury (T) -Bills:</b></p> <p>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.</p>
<p><b>Temporary Borrowing:</b></p> <p>Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>

<p><b>Treasury Management Code:</b></p> <p>CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p><b>Treasury Management Practices (TMP):</b></p> <p>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.</p>
<p><b>Unsupported Borrowing:</b></p> <p>Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p><b>Variable Net Asset Value (VNAV):</b></p> <p>Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.</p>
<p><b>Yield:</b></p> <p>The measure of the return on an investment instrument.</p>



# Agenda Item 9

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	ANNUAL GOVERNANCE STATEMENT		
<b>DATE OF DECISION:</b>	15 JUNE 2015		
<b>REPORT OF:</b>	CHIEF FINANCIAL OFFICER		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Peter Rogers</b>	<b>Tel:</b> 023 8083 2835
	<b>E-mail:</b>	peter.rogers@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	<b>Andy Lowe</b>	<b>Tel:</b> 023 8083 2049
	<b>E-mail:</b>	andrew.lowe@southampton.gov.uk	

## STATEMENT OF CONFIDENTIALITY

Not applicable

## BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement (AGS). The AGS is intended to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any significant gaps or areas where improvements may be required.

CIPFA recommends that Audit [Governance] Committees are provided with sight of an early draft of the AGS noting that the final version will not be signed until September as part of the statement of accounts.

## RECOMMENDATIONS:

The Governance Committee is asked to:

- (i) Review the draft 2014-15 AGS (Appendix 1).
- (ii) Note the status of the 2013-14 AGS Action Plan (Appendix 2).

## REASONS FOR REPORT RECOMMENDATIONS

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

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

## DETAIL (Including consultation carried out)

4. Regulation 6 of the Accounts and Audit (England) Regulations 2015 requires that a relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.

5. The AGS must be approved and signed off by 30<sup>th</sup> September however, CIPFA recommends that “the AGS is first reviewed by members of the Audit [Governance] Committee at an early stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the Audit [Governance] Committee should review it again in September 2015.
6. The draft 2014-15 AGS has been developed by and shared with the Council’s Controls Assurance Management Group. This group comprises the Section 151 Officer (Chief Financial Officer), Monitoring Officer, Chief Internal Auditor, Assistant Chief Executive and the previous Chair of Governance Committee.
7. The AGS is produced following a review of the systems and processes that comprise the Council’s governance arrangements. This review, based on CIPFA/SOLACE guidance, is informed by an ‘assurance gathering process’. The key components of this process are completion of an ‘Assurance Framework’ document together with ‘Self-Assessment Statements’ completed by each Director. Both documents cover the key processes and systems that comprise the Council’s governance arrangements and are intended to identify any areas where improvement or further development is required.
8. The draft has also been reviewed by the Council’s Management Team on 26<sup>th</sup> May 2015.
9. The AGS must be current at the time it is published so the final version of the 2014-15 AGS will be presented to the Governance Committee at the meeting on 14<sup>th</sup> September 2015 for approval prior to being signed by the Leader of the Council and the Chief Executive respectively.

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

10. None.

**Property/Other**

11. None.

**LEGAL IMPLICATIONS**

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

12. The Accounts and Audit (England) Regulations 2015 require the Council to adopt good governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

**Other Legal Implications:**

13. None.

**POLICY FRAMEWORK IMPLICATIONS**

14. None.

<b>KEY DECISION?</b>	No.
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable.

<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Draft Annual Governance Statement 2014-15
2.	AGS 2013-14 : Status Report
<b>Documents In Members' Rooms</b>	
1.	None
<b>Equality Impact Assessment</b>	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
<b>Other Background Documents</b>	
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	N/A

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### ANNUAL GOVERNANCE STATEMENT

#### SCOPE OF RESPONSIBILITY

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

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

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the code is on our website at:

<http://www.southampton.gov.uk/policies/Code%20of%20Corporate%20Governance.pdf> or can be obtained from the:

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

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Part 6, which requires all relevant bodies to prepare an annual governance statement.

#### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the council for the year ended 31st March 2015 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE STATEMENT

## THE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

Key strategic partners have come together (as part of Southampton Connect) to agree a 10 year vision – 'city of opportunity where everyone thrives' with the goal of achieving prosperity for all. The new Southampton City Strategy for 2015-2025 builds upon progress made by the previous priority projects and has been developed through focusing on the challenges facing Southampton, regional aspirations and feedback from residents via the City Survey (conducted in early 2014). The priorities identified within the Southampton City Strategy are:

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

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

- Fostering city pride and community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

The council approved a new Southampton City Council Strategy 2014-17 ("Council Strategy") which is a key strategic document, setting out what the council will do, how the council will work and how it will contribute to the Southampton City Strategy (2015 – 2025). It sets out the council's priorities for the next three years and will influence all other strategies and policies developed during this period, as well as spending decisions; directorates and services will also use it to plan service delivery. The key priorities identified within the Council Strategy are aligned with the Southampton City Strategy.

# ANNUAL GOVERNANCE STATEMENT

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

The Council Strategy 2014-17 was approved by Council in July 2014 and replaces the former 2013-16 Council Plan. The Council Strategy has been refreshed in light of feedback from residents (through a pre-budget consultation survey and the City Survey conducted early 2014) and to reflect the changing local and national context.

The Council Strategy defines the council's priorities and outcomes however it is recognised that with reducing funding and demand management challenges, the council needs to establish realistic performance outcomes for these priorities. The Cabinet, the Council's Management Team and Heads of Service have developed performance outcomes for the council's priorities as part of the new operating model design.

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

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

The Council Strategy sets the direction of travel and priorities for the council and will influence all other strategies and policies developed during this period, as well as spending decisions. It sets out how the council will work, both in terms of internal processes and procedures and interactions and relationships with partners in health, private and voluntary sectors, in respect of delivering services effectively. The Council Strategy identifies the following key priorities:

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

The Cabinet provided clear guidance to ensure that the views of residents were reflected. Each priority has associated outcomes or 'success measures'. The council actively monitors and publishes performance against the key indicators in the Council Strategy on a quarterly basis.

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

The Council Strategy identifies the key priorities, expected outcomes and success measures. The targets and progress are monitored and reported to both the Council's Management Team and Cabinet, and are published quarterly on the council's website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

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

# ANNUAL GOVERNANCE STATEMENT

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

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

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

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behavior and standards to be adhered to. In addition, a 'Code of Conduct and Disciplinary Rules' are in place for employees. The Code of Conduct sets out the expected standards of behaviour for all employees and the Disciplinary Rules set out examples of behaviour which are considered to be a breach of the Code of Conduct or a breach of the employee's contract of employment.

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

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Head of Legal and Democratic Services conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

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

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

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

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

The council is committed to safeguarding public funds and has in place an anti-fraud and anti-corruption policy statement and strategy. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity. The strategy applies equally to all organisations with which the Council has joint working relations.



# ANNUAL GOVERNANCE STATEMENT

The council also has in place an Anti-Money Laundering policy and a Bribery Policy which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. These policies and strategies are subject to periodic review.

## **j) Ensuring effective management of change and transformation**

The council has in place a Transformation Programme which is led by a Transformation Implementation Director who, in turn, reports to the council's Transformation and Improvement Board which is chaired by the Cabinet Member for Transformation and supported by the Council's Management Team.

In July 2014 the Council approved a range of actions associated with the next phase of its Transformation Programme. This recognised that, in order to become a sustainable council that is more customer-focused, commercially minded and able to deliver the required budget savings, a systematic redesign of how services are delivered and managed was necessary. The outcome of this exercise, undertaken with external partners, was the development of a New Operating Model which was subsequently approved by Cabinet and Full Council in February 2015.

The new operating model for the Council is to be fully implemented by 2017 and is aligned with and focused on delivering the outcomes and priorities of Council Strategy 2014-17. The new operating model is intended to create a sustainable council that is:

- **more self-reliant** – over time becoming less dependent on central government funding and increasing income generation.
- **focused on outcome-based services** - regularly commissioning the services needed based on outcomes for residents, and making evidence based decisions on those services that need to be stopped or changed.
- **quicker to respond** – more able to adapt to changing circumstances and residents' needs including improving the digital offer to our customers.
- **equipped to work in new ways** – implement new ways of working for council staff, seeking new ways of reducing procurement spend and better use of assets.
- **providing a mixed economy of service providers** – taking different approaches to delivering services, taking ideas from all sectors as well as the public sector.

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

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2010)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

## ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet. The Chief Executive together with the Council Management Team is responsible for the leadership and direction of the council including the co-ordination and commissioning of council-wide activity and programme management.

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

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

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

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

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

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

The council has in place 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

There is a Corporate Complaints policy and procedure in place which is published on the council's website and sets out how a complaint will be dealt with. In accordance with legislation there are separate procedures in place in respect of Adults' and Children's Social Care. Complaints about Members are dealt with under the Members' Code of Conduct.

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

A Member Development Strategy is in place which sets out how Member Learning and Development will be identified, delivered and managed. The Strategy, which was approved the Governance Committee in April 2014, refers to the following key values:

- Development will be available to all Members;
- Development will be based on the identified and agreed needs of the individual Member;
- All Members will contribute to identifying and agreeing their development needs
- Development will be delivered through a variety of methods and times to ensure equality of access; and
- An acknowledgement that Members may have transferable skills that can be used to help them perform or develop their Council role.

Senior Officer development needs form part of the annual performance appraisal process with a requirement that learning and development priorities are linked to key objectives and service plan priorities. The training needs of senior officers forms part of the "Annual Statement of Training Requirement" which reflects training needs across council. This is separated into three sections as follows:

- **Corporate / whole council**– training that is generically needed to meet wider council requirements; policy / procedure / council standards. It will often include SCC management development training, customer service and health and safety training needs.
- **Core training**– relates to the core / key knowledge and skills training needed by staff to competently and confidently deliver the specific council business e.g. residential care training / waste removal training / social work training / housing training etc.
- **Specialist**– any specialist part of the "core business". For example a smaller number of people who undertake a specialist function within the division e.g. adoption and fostering.

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

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought.

The council's website includes a 'Have your say' section which set out how residents and other

# ANNUAL GOVERNANCE STATEMENT

stakeholders can voice their opinions and shape service delivery. It includes information on:

- Consultation
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the 2014-15 Pre Budget consultation process helped shape the final 2015-16 budget report. Information was made available in an easy-to-understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The council is also establishing a 'People's Panel'. This Panel comprises a group of residents who are interested in taking part in consultations and other opportunities to express their views on council services, health services and living in the city, the results of which will be used to inform future decisions and services. The council will also track residents' views over time to see how changes in the city affect their opinions and experience of the city. Members of the People's Panel may also be asked to take part in various forms of activity including surveys, quick polls, interviews and workshops.

A 'Southampton Youth Forum' has also been established. This is a mechanism for ensuring that the views of young people in the city are heard and acted upon by the council. It involves a termly meeting to discuss topics and share ideas, alongside the termly meeting online surveys will be used to gather feedback from young people.

This is in addition to the Southampton City Residents Survey which took place in 2014 and will be repeated every other year for the next five years. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and further education bodies, is an important step in building a better understanding of our residents.

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

Performance in respect of the key priorities and success measures identified in the 'Council Strategy' is monitored by the Council Management Team and reported to Cabinet. Quarterly performance reports, which include success measures, key indicators and a direction of travel, are published on the council's website.

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

# ANNUAL GOVERNANCE STATEMENT

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

A Partnership Code forms part of the council's Constitution and identifies the key considerations when developing a partnership including 'is there clarity of purpose and is it compelling' and 'how will decisions be made and acted upon'.

An Internal Audit review on 'Partnership Arrangements' was undertaken in 2014 which focussed on the adequacy and coverage of partnership guidance to address key risk exposure to the organisation. The overall opinion was that 'adequate assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives'. The report did however include a number of observations mainly around updating and enhancing the 'Partnership Code' to emphasise resourcing, governance, accountability, performance and alignment to strategic aims when entering into partnership arrangements

Following the Internal Audit review a Chairs' Group has been established comprising chairs of the key strategic partnerships (Southampton Connect, Health and Wellbeing Board, Safe City Partnership, Employment, Skills and Learning Partnership and Future Southampton). The Chairs of the Local Safeguarding Children Board and Southampton Safeguarding Adults Board have also been invited to join this group.

In addition, support for key partnerships has been bought together into the council's new Strategy Unit. A review of key partnership performance and achievement is to be reported to the Chairs' Group, CMT and Cabinet in September 2015. The proposal is for the Strategy Unit to produce an annual report which will be an internal, council focused document to provide an assessment on requirements being met and getting value for money/effort.

## **REVIEW OF EFFECTIVENESS**

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

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

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

# ANNUAL GOVERNANCE STATEMENT

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

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

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Governance Issue	Planned Action
1.	The published Corporate Procurement Strategy refers to the period 2009-12	The slippage is mainly due to the implementation of the 2015 Public Contract Regulations in February 2015 and the time it has taken to understand the new regulations, whilst also briefing the organisation what it needs to do to comply with the new regulations. As a result CPR's need to be completely revised to take account of both the new regulations and the fact that Capita Procurement now manage all of the councils' procurements.
	<b>Responsible Officer:</b> Chief Financial Officer	<b>Target for completion:</b> September 15
2.	Business continuity plans need to be reviewed and updated to reflect the high level of organisational change that has taken place and is ongoing.	A new Business Continuity Policy and associated templates have been drafted and are to be presented to the Council's Management Team in June 15 for approval. The new Business Continuity Plan template will then rolled out across the service areas (Dec 15).
	<b>Responsible Officer:</b> Director of Place	<b>Target for completion:</b> December 15
3.	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.	(i) Review and implement appropriate arrangements to provide adequate organisational resources in each Directorate to enable compliance and oversight of information

## ANNUAL GOVERNANCE STATEMENT

		<p>governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented.</p> <p>(ii) To compile and submit the annual Information Governance NHS Toolkit to ensure data sharing can continue.</p>
	<p><b>Responsible Officer (i):</b> Head of Legal &amp; Democratic Services <b>Target for completion:</b> July 15</p> <p><b>Responsible Officer (ii):</b> Director of People <b>Target for completion:</b> TBC</p>	
4.	<p>The level of employee understanding and awareness in respect of their responsibilities for the management of information is potentially inconsistent.</p> <p>Not all staff have completed the mandatory Information Governance e-learning (including Data Protection, Freedom Of Information Act and Protecting Information). There are concerns regarding the accuracy and robustness of the training database that captures training which is being urgently investigated.</p>	<p>Completion of the mandatory training needs to be rigorously enforced with a sanction in the event of continued non-compliance.</p> <p>A revised database package consolidating the components is being investigated as is a different and more appropriate style of roll out to those colleagues who do not ordinarily access IT.</p>
	<p><b>Responsible Officer:</b> Head of Legal &amp; Democratic Services <b>Target for completion:</b> Sept 15</p> <p>(Note: the date refers to the roll of training to colleagues who do not ordinarily access IT. The development and delivery of a consolidated training package is under discussion but is subject to competing IT priorities).</p>	
5.	<p>The skill and competencies of employees will need to be aligned with, and reflect, the organisational needs going forward.</p>	<p>Development and delivery of a standard Corporate Induction Programme for new employees.</p> <p>Development of a management template identifying the standard required competencies and skills required. To incorporate ongoing learning requirements in respect of awareness of key policies and processes.</p> <p>Assessment of chief officer graded employees and leadership development plans put in place</p>
	<p><b>Responsible Officer:</b> Head of Strategic HR <b>Target for completion:</b> Dec 15</p>	
6.	<p>Some of the documents, policies and strategies referred to in the published Code of Corporate Governance have since been updated.</p>	<p>Review and update document to ensure that it refers to current documents, policies and strategies</p>
	<p><b>Responsible Officer:</b> Head of Legal &amp; Democratic Services <b>Target for completion:</b> Sept 15</p>	

## ANNUAL GOVERNANCE STATEMENT

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

### Signed

.....  
**Dawn Baxendale**  
(Chief Executive)  
on behalf of Southampton City Council

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

DRAFT



## ANNUAL GOVERNANCE STATEMENT 2013-14: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2013-14 as at 31<sup>st</sup> March 2015:

	Governance Issue	Agreed Action	Target Date	Responsible Officer	Status	Comments
1.	The Council's Anti Money Laundering Policy has not been updated since Feb 2009.	Policy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated policy.	July 2014	Director of Corporate Services	<b>COMPLETED (July 2014)</b>	Updated document published on the intranet in July 2014 (next review date 2017).
2.	The Corporate Procurement Strategy refers to the period 09-12	Contract Procedure Rules to be reviewed and updated by end of 2014 with the revised and updated Strategy by early 2015.	March 2015 (revised to <b>June 2015</b> )	Director of Corporate Services	<b>IN PROGRESS</b> (Carried forward to 14-15 AGS)	The slippage is mainly due to the implementation of the 2015 Public Contract Regulations in February 2015 and the time it has taken to understand the new regulations, whilst also briefing the organisation what it needs to do to comply with the new regulations. As a result CPR's need to be completely revised to take account of both the new regulations and the fact that Capita Procurement now manage all of the councils' procurements.
3.	Transparency information published on the internet includes a Members' 'Gifts & Hospitality Register' however the last entry on the document is dated April 2012.	The requirement to make such declarations was dropped when the new code, under the Localism Act, came into being in July 2012. It is however considered appropriate, in terms of transparency, to review the current approach to the publication of Members 'Gifts and Hospitality'. A report to be taken to Governance Committee in Sept	Sept 2014	Director of Corporate Services	<b>COMPLETED (Nov 2014)</b>	Proposal approved and adopted as per the minutes of the Governance Committee meeting of 15 <sup>th</sup> September 2014 and the minutes of the Full Council meeting on 19 <sup>th</sup> November 2014.

		14 with both an updated draft Code and proposed addition in relation to members gifts and hospitality with a de minimus level of £50 for registration.				
4.	The 'Children's Services & Learning Complaints and Representation Procedure' published on the internet is dated September 2006.	Review and update the 'Children's Services & Learning Complaints and Representation Procedure' to ensure that it remains aligned with statutory procedures with a commitment for future periodic reviews.	<b>July 2014</b>	Director of Corporate Services	<b>COMPLETED (July 2014)</b>	Updated document published on council's website in July 2014.
5.	Understanding of and compliance with Information Governance policies and procedures.	Information Governance e-learning (including Data Protection, Freedom Of Information Act and Protecting Information) to be mandatory for all staff and new starters.	<b>Ongoing</b>	Director of Corporate Services	<b>See 14-15 AGS</b>	There is now a set of online training modules covering Information Governance through the Learning and Development Portal. These are mandatory for all staff to complete (and pass). Quarterly reports are considered by CMT
6.	Business continuity plans need to reflect the high level of organisational change that has taken place and is ongoing.	Business continuity plans to be reviewed, tested and evaluated to ensure that they reflect the new organisational structure.	<b>May 2015</b>	Director, Place	<b>IN PROGRESS</b> (Carried forward to 14-15 AGS)	On track for May target date. New Business Continuity policy and templates have been drafted.
7.	Understanding of and compliance with the council's 'Corporate Standards'	Learning and communication exercise to be rolled out to relevant officers in respect of the legal decision making process.	<b>Commence Autumn 14</b>	Director of Corporate Services	<b>NOT COMPLETED</b> (see 2014-15 AGS)	This was not able to actioned due to competing priorities and reduction in resources within the service. The required action has however been reviewed and is featured on the 2014-15 AGS.

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2014-15		
<b>DATE OF DECISION:</b>	15 JUNE 2015		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Neil Pitman	<b>Tel:</b> 01962 845137
	<b>E-mail:</b>	Neil.pitman@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	Andrew Lowe	<b>Tel:</b> 023 8032049
	<b>E-mail:</b>	Andrew.lowe@southampton.gov.uk	

<b>STATEMENT OF CONFIDENTIALITY</b>
N/A

## **BRIEF SUMMARY**

In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.

The attached report (Appendix 1) provides the Chief Internal Auditor's opinion and summarises audit work from which that opinion has been derived for the year ending 31 March 2015.

The report concludes that Southampton City Council's framework of governance, risk management and 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 2014-15.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None.

## **DETAIL (Including consultation carried out)**

3. In accordance with proper internal audit practices, the Chief Internal Auditor's required to provide an annual report and opinion on the Council's framework of risk management, internal control and governance and to assist in producing the Annual Governance Statement.

4. In accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards the annual report must include as a minimum:
  - The opinion;
  - A summary of the work that support the opinion; and
  - A statement of conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
5. The Governance Committee's attention is drawn to the following points:
  - Internal audit was compliant with the Public Sector Internal Audit Standards during 2014-15;
  - The revised internal audit plan for 2014-15 has been substantially delivered;
  - The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice;
  - Significant issues identified where 'no assurance' could be placed on the control environment reviewed (Depot – Housing Stock and Housing Office Security); and

Where internal audit 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.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

6. None

### **Property/Other**

7. None

## **LEGAL IMPLICATIONS**

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

8. The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

### **Other Legal Implications:**

9. None

## **POLICY FRAMEWORK IMPLICATIONS**

10. None

**KEY DECISION?** No

**WARDS/COMMUNITIES AFFECTED:** N/A

## SUPPORTING DOCUMENTATION

### **Appendices**

1. Chief Internal Auditor's Annual Report and Opinion 2014-15

### **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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# Southern Internal Audit Partnership

## Annual Internal Audit Report & Opinion

2014 - 15

Southampton City Council



Assurance through excellence  
and innovation

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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

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

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

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

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

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

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

## 2. Internal Audit Approach

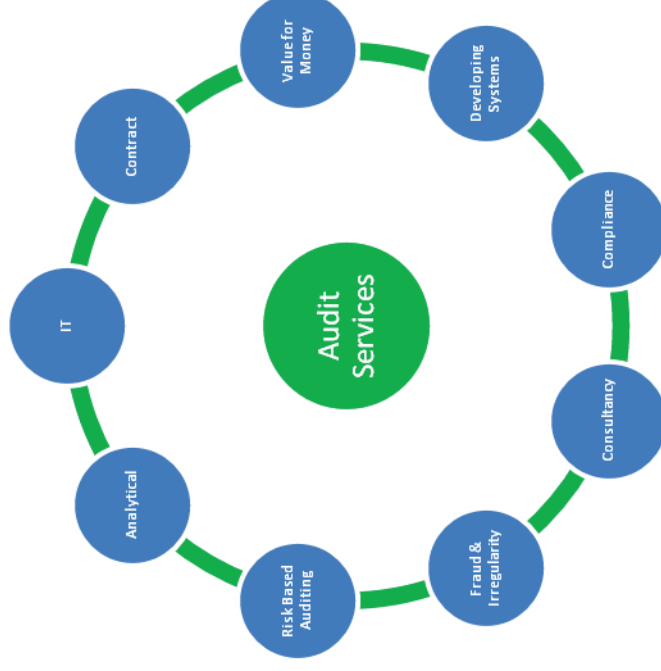
To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

In giving this opinion, 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 (assurance & consultancy);
- 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 Standards; and
- the proportion of Southampton City Council’s audit need that has been covered within the period

#### Audit Opinion

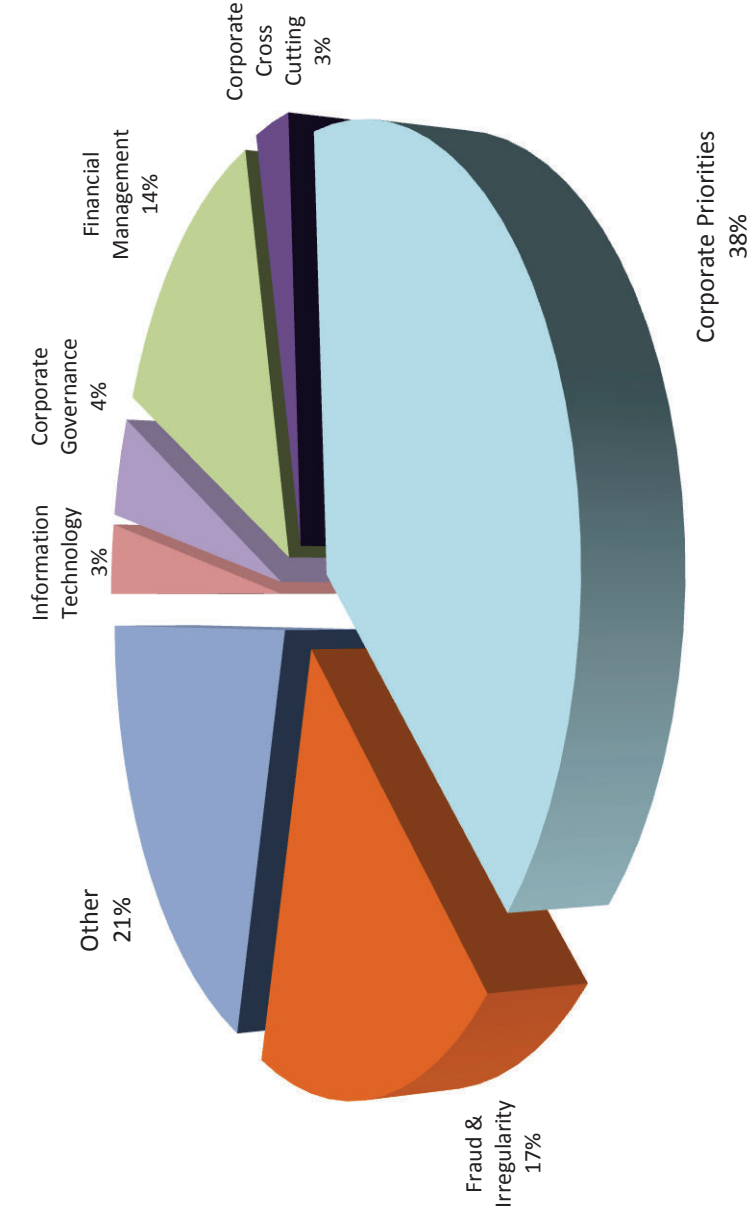
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council’s internal control environment.

In my opinion, Southampton City Council’s framework of governance, risk management and management control is ‘Adequate’ and audit testing has demonstrated controls to be 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.

**4. Internal Audit Coverage and Output**

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



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2014-15 Internal audit plan, approved by the Governance Committee, 28 April 2014, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

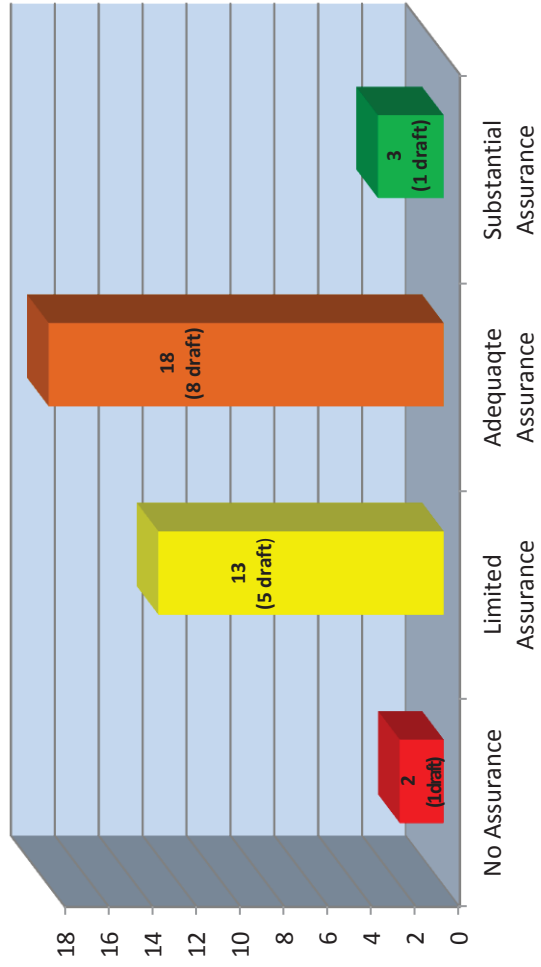
The Southern Internal Audit Partnership delivered 1007 days across 58 review areas over the course of the year ending 31 March 2015.

The revised 2014-15 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 15 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 5 reviews (Financial Management, Treasury Management, IT Development Days, Integrated Commissioning Unit and Public Health)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:

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



\*17 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

## 5. Significant Issues Arising

### ***Depot – Housing Stock Control (Draft)***

The Head of Housing requested internal audit assistance in conducting a review over stock control at the Shirley Depot in light of concerns highlighted during prior irregularity investigations, the recent implementation of 'Total Mobile' and to compliment the work being undertaken by Savills (external consultants).

The control of housing stock has been subject to a significant and prolonged change programme in a move to an automated and mobile repair management system 'Total Mobile', which went live in November 2014. It was the intention that the 'Total Mobile' system would be used to control all stock movements both from the various stores located across the city and those retained within the tradesmen's vans. The audit was timed to monitor the issues arising from the introduction of 'Total Mobile' and help address any resulting gaps.

Due to inadequacies in the initial reporting system, resulting in a lack of management information attainable from the 'Total Mobile' system, and limited subsidiary controls / documentation in place we were unable to place reliance on the effective and transparent movement of goods and materials.

Our review was also asked to examine controls in place for deriving income from scrap materials, particularly value items such as metal. Review found there to be no system in place enabling potential scrap to be identified from jobs undertaken and therefore no checks could be applied to ensure materials were being returned and income from scrap maximised. Furthermore, reliance is placed on the dealers to whom the scrap metals are sold, to provide accurate 'weigh tickets' with no means of independently confirming their validity.

A detailed action plan is being developed to address issues raised from internal audit observations.

### ***Housing Office – Security***

There were a number of weaknesses observed in respect of buildings security within the housing offices visited. Additionally incomplete inventories of keys holders increased the risk of loss and reduced accountability as a result of ineffective record keeping. Insurance limits for the cash held in safes were regularly exceeded and half of the offices kept safe keys on site overnight which could invalidate any insurance claim in the event of loss.

The four offices which do not undertake their banking directly take income to the remaining two housing offices for banking however the amounts transferred are not signed over as agreed or kept in tamper proof bags, weakening the management trail and increasing the vulnerability of those staff involved in cash transfers.

### 6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council’s approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015 (as detailed below). Work will be carried out during 2015-16 to review identified ‘recommended matches’ for fraudulent activity.

Dataset	Recommended Matches
Housing Benefit	551
Payroll	69
Housing Tenants	26
Right to Buy	17
Blue Badge	146
Concessionary Travel	535
Residential Parking	9
Insurance	2
Personal Budgets	164
Creditors	342
VAT	61
Total	1922

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014		01.04.14 – 31.03.15
Part 2 Requirements - Fraud		
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used		Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud		2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists		3 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud		140 days*
Total number of fraud cases investigated		5**

\*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

\*\*the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*



### **Fraud Grant Funding**

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During 2014 local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

### **7. Quality Assurance and Improvement**

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance.

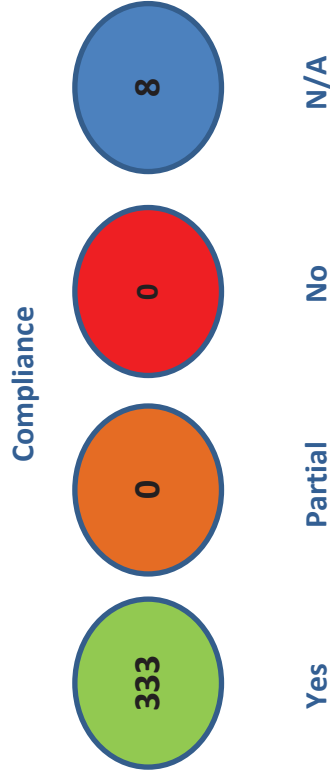
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015. In accordance with the Internal Audit Charter, outcomes of the external assessment will be reported to Governance Committee (December 2015).



**8. Disclosure of Non-Conformance**

‘It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state ‘that all instances of non-conformance and progress against improvement plans must be reported in the annual report’. The QAIP Action Plan is provided at Appendix 1.




**9. Quality control**

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2014-15 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

**10. Internal Audit Performance**

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

Annual performance indicators		
Aspect of service	2013-14 Actual (%)	2014-15 Actual (%)
Revised plan delivered (including 2013/14 c/f)	98	92* 
Positive customer responses to quality appraisal questionnaire	96	96 
Compliant with the Public Sector Internal Audit Standards	Yes	Yes 

\*attributable to management requests for reviews to be conducted within the later part of quarter 4

### **11. Acknowledgement**

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  
Head of Southern Internal Audit Partnership  
June 2015

## Appendix 1 – Quality Assessment & Improvement Action Plan

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**Compliance against the Public Sector Internal Audit Standards / Local Government Application Note  
Public Sector Internal Auditing Standards  
Action Plan – Not Applicable**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<b>3.2 - Independence and Objectivity</b>					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	N/A	Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001)	To continue to follow existing Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor	-	-
Have any instances been discovered where an internal auditor has used information obtained during the course of their duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
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If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<b>4.1 - Managing the Internal Audit Activity</b>					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
<b>4.5 - Communicating Results</b>					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

**Opportunities for Improvement - Section briefing– 3 March 2014**

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p><b>Communication</b></p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p>	<p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local)</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
<p><b>MKI</b></p> <p>ag co of</p> <p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p>	<p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and facility to track management actions.</p>	<p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p>	<p>Complete</p> <p>Complete</p> <p>AO's now automated and MKI being utilised to track management action. Automated audit reports currently under review</p>



Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Staff to be reminded on the level of scanning needed. We don't need every single document scanned.</p> <p>Should the scanner in room 241 be out of action, an alternative device is available in room 321.</p>	All staff	Complete
<p><b>Travel</b></p> <p>Clarity required with regard travel entitlements in light of the expansion of the Partnership</p>	To introduce a travel policy for the partnership	Head of Southern Internal Audit Partnership	Outstanding – to be actioned by December 2015
<p><b>Manager review</b></p> <p>Quality standards require manager and senior manager sign off of all reports with Limited and No assurance reports created by the Head of Partnership. Does this remain practicable in light of the extension of the partnership.</p>	Quality standards will not be compromised. To review the current reporting protocol and timescales for practicalities.	Senior Management Team	Complete
<p><b>Planning</b></p> <ul style="list-style-type: none"> <li>○ Need more scope / background reasons for inclusion in the plan</li> <li>○ Need more involvement of staff in the annual planning process</li> </ul>	This has been rectified in the 2014/15 plans.	Audit Services Management Team / Senior Management Team	Complete
<p><b>Allocation of audit</b></p> <p>Is the allocation of audit assignments effective. Are we maximising individuals knowledge an experience.</p>	Matrix working is in place across the partnership to ensure that we maintain flexibility to apportion relevant experience at all times.		

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Not looking to develop “experts” with the notable exceptions of IT, Fraud and Procurement / Contract Management.</p> <p>Any training needs to be raised with relevant managers</p> <p>Head of Southern Internal Audit Partnership to liaise with relevant S151 to effect a long term solution.</p>	<p>All staff</p> <p>Head of Southern Internal Audit Partnership</p>	<p>on-going</p> <p>Complete</p>
<p><b>IT</b> –connectivity at one satellite site remains restrictive.</p> <p><b>Auditees</b></p> <p>There are increasing incidences where the duration of audit assignments are prolonged due to client availability both in terms of fieldwork and report clearance. Significant delays in issuing reports can impact on relevance and reflect poorly on the audit service.</p>	<p>Head of Southern Internal Audit Partnership to raise with CMT’s as a general discussion about the impact of delays etc.</p> <p>Formalise an escalation policy.</p> <p>Need to ensure any delays are escalated to the relevant Audit Manager / SMT member promptly.</p> <p>Report template to include timeline</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Senior Management Team</p> <p>All staff / ASMT</p> <p>To align with automated reports from MKI</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>
<p><b>Information extraction</b></p> <p>The addition of new partners coupled with the matrix management approach introduces challenges in maintaining a working knowledge of all applications and systems across the partnership.</p>	<p>Look at system training needs across the section and determine who needs what training. (in- house or provided elsewhere.)</p>	<p>ASMT</p>	<p>Complete</p>

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>Working in silos</p> <p>Look for opportunities for team building – socials, group work etc.</p>	<p>Identify staff with specific knowledge as contacts for key systems to provide internal training</p> <p>For sites with restricted access to systems consider including a more specific list of required reports etc. in the AO</p>	<p>Head of Southern Internal Audit Partnership</p> <p>AMS</p>	<p>Outstanding - A knowledge database is being created detailing qualifications and experience to better effect assignment of audits</p> <p>Outstanding – require a greater emphasis on requesting desired information / reports as part of the AO</p>
	<p>To ensure section briefings include more opportunities for group work.</p> <p>To arrange regular social events outside of work.</p>	<p>Deputy Head of Southern Internal Audit Partnership</p> <p>NJ</p>	<p>Complete</p> <p>on-going</p>

**Opportunities for Improvement – Staff Away Day (Celebrating Success) - Branding – September 2014**

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire a SIAP email addresses to replace the existing hants.gov.uk and prevent confusion / ambiguity with partners and sold service clients regarding who we are.	To seek advice from IT to determine if a SIAP email address is a possibility and if so the costs, impacts etc. of pursuing such an option.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015
To explore the potential of branded stationery / lanyards to present a sense of professionalism and identity when out on site.	Seek the cost of branded stationery and lanyards. Considered more appropriate and cost effective to acquire folders rather than branded working papers / pens etc.	Head of Southern Internal Audit Partnership	Complete
To provide a consistency in answering the telephone so partners and sold service clients are clear who they are speaking to and to reinforce the partnership brand.	All to answer to phone... <i>'good morning southern internal audit partnership x speaking'</i>	Head of Southern Internal Audit Partnership	Complete
Staff to receive regular updates highlighting partnership issues	To retain quarterly staff briefings supplemented by the Head of Southern Internal Audit Partnership issuing newsletters in between briefings should significant issues arise.	Head of Southern Internal Audit Partnership	Complete
For staff to hold and issue as necessary business cards to prospective clients or for a point of contact for existing partners / clients	The cost of producing business cards for all members of the team was considered disproportionate to the potential benefits to be gained. We will however, look to consider producing an in-house template for local printing and issue should the need arise.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015

**Opportunities for Improvement – Internal Audit Surveys – March 2015**

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>To acquire and enhance to use of CAATs across the partnership.</p>	<p>Whilst Excel spread sheets are used extensively across the partnership for the purposes of review, analysis, sampling, filtering, producing formula for test checking etc. there are no other specific CAAT's used. The successful bid for Central Government grant funding has enabled us to explore CAATs further and we will be procuring a data analytical software package to support the delivery of outcomes of that initiative and also to benefit the wider partnership through mainstream audit use. It is intended that we will acquire the 'idea' software</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>Outstanding to be actioned by September 2015</p>
<p>To enhance our cultural awareness of two of our existing key stakeholder partners</p>	<p>For the Strategic Lead for the key stakeholder partners to attend future cultural development workshops</p>	<p>Group Audit Manager</p>	<p>Complete</p>
<p>To better disseminate examples of good practice when undertaking audit assignments from experiences witnessed across the wider partnership.</p>	<p>To incorporate an 'added value' section to the standard report template to prompt managers for the relevant portfolios to think of like services provided across the wider partnership cohort and highlight any examples of exemplar practice that may benefit the audit client.</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>Outstanding to be actioned by December 2015</p>

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