

Governance Committee

Monday, 14th November,
2016 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 Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Parnell
Councillor Keogh (Vice-Chair)

Contacts

Service Director, Legal and Governance
Richard Ivory
Tel. 023 8083 2394
Email: richard.ivory@southampton.gov.uk

Senior Democratic Support Officer
Claire Heather
Tel. 023 8083 2412
Email: claire.heather@southampton.gov.uk

PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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

Public Representations

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

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.

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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 2016/17

2016	2017
6 June	13 February
25 July	24 April
14 November	
12 December	

CONDUCT OF MEETING

Terms of Reference

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

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

Rules of Procedure

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

Business to be discussed

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

Quorum

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

DISCLOSURE OF INTERESTS

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

DISCLOSABLE PECUNIARY INTERESTS

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

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

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

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

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 25th July 2016 and to deal with any matters arising, attached.

5 **ANNUAL REPORT ON THE MEMBERS CODE OF CONDUCT** (Pages 3 - 8)

Report of the Service Director Legal and Governance detailing the Annual Report on the Members Code of Conduct, attached.

6 **REVISION TO THE CONSTITUTION - QUESTIONS AT COUNCIL** (Pages 9 - 14)

Report of the Leader of the Council reviewing the current process and criteria for submitting Questions by Members at full Council, attached.

7 **REVISION TO THE CONSTITUTION - PARTNERSHIPS CODE** (Pages 15 - 24)

Report of the Service Director, Legal and Governance reviewing and updating the Partnerships Code in the Council's Constitution, attached.

8 **SOUTHAMPTON CITY COUNCIL COMPLAINTS REPORT 2015/16** (Pages 25 - 44)

Report of the Service Director Legal and Governance regarding the complaints from 2015/16, attached.

9 **TREASURY MANAGEMENT STRATEGY AND REVIEW OF PRUDENTIAL LIMITS MID YEAR REPORT 2016/17** (Pages 45 - 74)

Report of the Service Director Finance and Commercialisation detailing the Treasury Management activities and performance for 2016/17 against the approved Prudential Indicators for external debt and Treasury Management and to approve any changes as a result of activity to date and updates to the Capital Programme, attached.

10 LOCAL APPOINTMENT OF EXTERNAL AUDITORS (Pages 75 - 88)

Report of the Service Director Finance and Commercialisation summarising changes to the arrangements for appointing External Auditors at conclusion of the 2017/18 audits, attached.

11 ANNUAL GOVERNANCE STATEMENT 2015-16 : STATUS REPORT
(Pages 89 - 96)

Report of the Service Director of Finance and Commercialisation detailing the status of the agreed actions to address the 'significant governance issues' identified in the 2015-16 Annual Governance Statement, attached.

12 INTERNAL AUDIT - PROGRESS REPORT (Pages 97 - 122)

Report of Chief Internal Auditor providing an update of progress against the 2016/17 internal audit plan and the status of 'live' reports, attached.

13 EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2015/16 (Pages 123 - 148)

Report of Chief Internal Auditor detailing the 2015/16 annual audit letter and communicating the key issues arising from the work of the external auditor to Members, external stakeholders including members of the public, attached.

14 PARIS SYSTEM UPDATE

To receive a presentation from the Service Director Finance and Commercialisation providing an update on the PARIS system and associated issues.

Friday, 4 November 2016

Service Director, Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 25 JULY 2016

Present: Councillors Barnes-Andrews (Chair), Inglis, Jordan, Noon, O'Neill (Minutes 53 and 54) and Parnell

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

RESOLVED: that the minutes of the Committee meeting held on 6th June 2016 be approved and signed as a correct record.

51. **FINANCIAL STATEMENTS FOR 2015/16**

The Committee considered the report of the Section 151 Officer detailing the Financial Statements for 2015/16. In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2015/16 were signed by the Section 151 Officer on 13th May 2016 which was earlier than the statutory requirement to have the statements signed by the 30th June.

The Committee acknowledged and congratulated the Finance Team on their hard work to complete the sign off of the Financial Statements six weeks ahead of schedule.

RESOLVED

- (i) That the changes to the Financial Statements 2015/16 as a result of the annual audit as detailed in paragraphs 6 to 9 of the report and the appendix to the report be noted; and
- (ii) That the audited Financial Statements 2015/16 be approved.

52. **ANNUAL GOVERNANCE STATEMENT 2015-16**

The Committee received and noted the report of the Chief Financial Officer detailing the Annual Governance Statement for 2015/16. In accordance with the Accounts and Audit Regulations the Council was required to develop and publish an Annual Governance Statement which was 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 were required.

53. **EXTERNAL AUDIT - AUDIT RESULTS REPORT**

The Committee considered the report of the Section 151 Officer detailing the External Audit – Audit Results Report. The Audit Commission’s Code of Audit Practice required the Council’s External Auditor to report to “those charged with Governance” on the work carried out to discharge their statutory audit responsibilities together with any governance issues identified.

RESOLVED

- (i) That the External Auditor’s “Audit Results Report” as detailed in Appendix 1 of the report be noted; and

- (ii) That the Management Representation Letter as detailed in Annex E of Appendix 1 of the report be approved.

54. **EXTERNAL AUDIT - AUDIT FEE LETTER 2016-17**

The Committee received and noted the report of the Chief Internal Auditor detailing the External Audit – Audit Fee Letter. The letter attached as Appendix 1 of the report confirmed the audit work and associated fee proposed by external audit for 2016/17. The fee was set by Public Sector Audit Appointments Ltd and had been agreed with the Service Director of Finance and Commercialisation.

Agenda Item 5

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		ANNUAL REPORT ON THE MEMBERS' CODE OF CONDUCT	
DATE OF DECISION:		14 TH NOVEMBER 2016	
REPORT OF:		SERVICE DIRECTOR: LEGAL & GOVERNANCE	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Suki Sitaram	Tel: 023 8083 2060
	E-mail:	Suki.sitaram@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None.			
BRIEF SUMMARY			
At the time of the adoption of current code of conduct for members in 2012 the Council requested the Head of Legal and Democratic Services (now Service Director: Legal and Governance) to produce an annual report outlining the impact of the new code, a summary of the complaints received and any action taken.			
RECOMMENDATIONS:			
	(i)	The Committee is asked to note this annual report for the year 2015/16.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	Unless there are any changes required to be made to either the Code or the procedures for investigation, this report is only for noting.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None.		
DETAIL (Including consultation carried out)			
3.	The Governance Committee has the following terms of reference in relation to corporate governance and Code of Conduct issues:		
	•	To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council, both for Councillors and employees. The Committee's powers shall include responding to consultation documents and the promulgation of Codes of Conduct but the adoption and revisions to the local Members Code of Conduct shall be reserved to the Council.	
	•	To promote a culture of openness, ready accountability and probity in order to ensure the highest standards of conduct of Councillors and employees.	

	<ul style="list-style-type: none"> To lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct.
	<ul style="list-style-type: none"> To oversee and manage programmes of guidance, advice and training on ethics, standards and probity for Councillors and employees and on the Members Code of Conduct.
	<ul style="list-style-type: none"> To be responsible for the Council's register of Members' interests and to receive reports from the Monitoring Officer and Service Director: Legal and Governance on the operation of the register from time to time.
	<ul style="list-style-type: none"> To be responsible for written guidance and advice on the operation of the system of declarations of Members' Interests and to receive reports form the Monitoring Officer on the operation of the system of declarations from time to time.
	<ul style="list-style-type: none"> To establish, monitor, approve and issue advice and guidance to Councillors on a system of dispensations to speak on, or participate in, matters in which they have interests and give dispensation in appropriate cases.
	<ul style="list-style-type: none"> To exercise the functions of the Council in relation to the ethical framework, corporate governance and standards of conduct of Joint Committees and other bodies.
	<ul style="list-style-type: none"> To establish a Standards Sub-Committee to investigate and determine appropriate action in respect of alleged breaches of the Members Code of Conduct.
	<ul style="list-style-type: none"> To support the Monitoring Officer and Chief Financial Officer in their statutory roles and the issuing of guidance on them from time to time.
	<ul style="list-style-type: none"> To receive regular reports on the performance of the Corporate Complaints process, Local Government Ombudsman referrals, Annual Governance Statement and Code of Corporate Governance and to recommend revisions to related policies and procedures as appropriate.
4.	The Council has a responsibility for making arrangements to receive and consider complaints against Councillors in Southampton. Stage 1 is receipt and initial consideration by the Monitoring Officer. Where warranted, at Stage 2 the Governance Committee will determine the complaint following a detailed investigation by the Monitoring Officer.
5.	Since the adoption of the current Members Code of Conduct it has not had cause to meet to consider any allegations of breach of the Members code of conduct.

COMPLAINTS RECEIVED

6.	The Council adopted a revised Members' Code of Conduct consistent with the requirements of the Localism Act 2011 on 11 th July 2012.
7.	In summary, the regime remains fairly low key. All members have completed their Register of Interests, are reminded annually of the need to keep it updated (the Register is publicly accessible and viewable online) and a few minor complaints have been received. All issues/complaints have been resolved by the Monitoring Officer or rejected and advice given to the complainant at Stage 1 of the complaints procedure meaning that there have been no determinations or findings of a failure to comply with the relevant Code of Conduct by the committee.
8.	The Monitoring Officer (Service Director: Legal & Governance) received four complaints about Councillors in 2015/6 which required some preliminary investigation. There are no trends in terms of the subjects specified in complaints.
9.	All complaints are taken seriously and investigated as appropriate. In order to be considered under the formal complaints process complaints must be submitted in writing, must provide substantiated information, and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members' Code of Conduct it is treated as a 'general enquiry'. This means that the Monitoring Officer responds to the complainant in writing explaining why the matters complained of do not constitute a potential breach of the Members' Code of Conduct.
10.	When a written complaint is submitted which provides the relevant information, the Monitoring Officer will consider and make a decision as to whether it will be treated as a valid complaint or not. Where it is considered valid the Monitoring Officer may deal with the matter under delegated powers unless, after consultation with the Designated Independent Person, it is considered that the breach is potentially serious enough to merit putting before the Standards Sub Committee for determination.
11.	The complaints submitted about Southampton City Councillors in 2015/6 relate to the following matters:

Behaviour alleged		Outcome & reasons	Source of complaint	No of complaints
Behaviour		No breach found	resident	1
Breach of confidentiality		No breach found/inadequate evidence	Councillor/officer	3
Behaviour		Ongoing	privileged	privileged

<u>DESIGNATED INDEPENDENT PERSON</u>	
12.	The Designated Independent Person appointed under the Act has been consulted on emerging issues and complaints as appropriate and meets regularly with the Service Director: Legal & Governance to talk through issues arising. Training has been provided to him as necessary.
<u>APPLICATIONS FOR DISPENSATION</u>	
13.	If a Member wishes to apply for a dispensation to allow them to take part in a meeting with a disclosable pecuniary interest they must submit a written application to the Monitoring Officer. Applications are then decided by him or by the Governance Committee.
14.	The Localism Act 2011 substantially changed the rules on interests. Regrettably it was incomplete in order to permit members to carry out their full duties in relation to being able to vote on the budget. Annually before Full Council in February 2016 all Members are granted a "standard" dispensation by the Monitoring Officer to allow them to take part in the decision to approve the Council's budget.
15.	No other dispensations have been applied for.
<u>SUPPORTING MEMBERS OF THE COUNCIL</u>	
16.	Training has been provided to newly elected members, new Cabinet Members and those members who sit on regulatory bodies such as Licensing Committee and the Planning and Rights of Way Panel.
17.	Importantly, the adopted Member Learning and Development Strategy has been implemented and member training via external partners has increased.
<u>GIFTS AND HOSPITALITY REGISTER</u>	
18.	The requirement for members to register any gifts or hospitality received in their capacity as an elected member is currently set at a minimum of £50. minimal notifications have been made which probably reflects the limited quantity and value of any received. This does, however, exclude anything relevant to the elected members who are the Mayor or Sherriff when acting in those capacities.
<u>RESOURCE IMPLICATIONS</u>	
<u>Capital/Revenue</u>	
19.	None.
<u>Property/Other</u>	
20.	None.
<u>LEGAL IMPLICATIONS</u>	
<u>Statutory power to undertake proposals in the report:</u>	
21.	Chapter 7 Localism Act 2011.
<u>Other Legal Implications:</u>	
22.	None.

POLICY FRAMEWORK IMPLICATIONS		
23.	N/A	
KEY DECISION?	n/a	
WARDS/COMMUNITIES AFFECTED:	none	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	None	
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
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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.	Members Code of Conduct and associated guidance as detailed on the Council's website	

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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	MEMBERS QUESTIONS AT COUNCIL		
DATE OF DECISION:	14 th NOVEMBER 2016 16 th NOVEMBER 2016		
REPORT OF:	LEADER OR THE COUNCIL		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 80832794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Suki Sitaram	Tel: 023 80
	E-mail:	Suki.sitaram@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
In view of the consistently high number of formally tabled Questions at Council and the significant reduction in officer resource to administer and answer them, at the request of the Leader of the Council, a review has been undertaken to seek options on streamlining/reducing the process.			
RECOMMENDATIONS:			
	(i)	That Governance Committee consider the review options and recommend to Council accordingly	
	(ii)	That Council resolves to revise the Council Procedure Rules (paragraph 11) in the Constitution as appropriate	
REASONS FOR REPORT RECOMMENDATIONS			
1.	As detailed in the Brief Summary above the Leader of the Council has requested a review in light of the volume of Questions regularly tabled.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	To leave the Constitution as it currently stands.		
DETAIL (Including consultation carried out)			
3.	<p>The principle of permitting questions at Council by members is a long established one going back to the Widdicombe Report in 1986. Four detailed principles emerged:-</p> <ul style="list-style-type: none"> * there should be a reasonable time limit; 30 minutes was suggested * questions should be addressed to the Leader, Cabinet Member or Chairman * a reply should be given unless there is good reason to the contrary 		

* a right to at least one supplementary question

Currently the Constitution states as follows:-

QUESTIONS BY MEMBERS

11.1 On reports of the business of the Executive

Subject to Rule 11.4, a Member of the Council may ask the Leader or Cabinet Member any question on notice during the Report of the Executive when that item of business is under consideration by the Council.

11.2 Questions to the Mayor or Chairs

Subject to Rule 11.4, a Member of the Council may ask:

i. the Mayor;

ii. the Chair of any committee or sub-committee

a question on any matter related to their role, responsibilities and/or office.

11.3 Questions on notice at committees and sub-committees

Subject to Rule 11.4, a Member of a committee or sub-committee may ask the Chair of it a question on any matter in relation to which the Council has powers or duties or which affect the area and which falls within the terms of reference of that committee or sub-committee.

11.4 Notice of questions

A Member may only ask a question under Rule 11.1, 11.2 or 11.3 if:

a. the question is given in writing to the Service Director: Legal & Governance by 12:00 noon on the Thursday of the week preceding the Council meeting (of if the Council meeting is held on a day other than a Wednesday, by 12:00 noon three Clear Days before the meeting). The Service Director: Legal & Governance will acknowledge receipt of such questions; or

b. if the question relates to urgent matters, they have the consent of the Mayor and the content of the question is given to the Service Director: Legal & Governance prior to the commencement of the meeting

The Council Procedure Rules as above currently permit a very wide range of Questions from Members at Council as below. There is no maximum that can be asked and little consistent criteria to adhere to. In relation to Cabinet Members, Members can ask “any” question as currently defined. As a result the position is unclear as to the parameters given that Council’s role is about the governance of the city and whether it is reasonable for the Council to debate such matters if they are not directly related to the city. Interpretation is currently required by the Mayor and Service Director: Legal and Governances to ensure that those tabled are related to the city, its residents, interests etc.

In relation to questions to the Mayor or Committee Chairmen the Constitution is clearer in that questions must be about their role, responsibility or office. It is suggested that wording be added to the Cabinet Member CPR 11.1 to ensure clarity and consistency.

In the past 6 cycles, excluding the AGM and budget setting meetings, a total of 126 Questions have been tabled at Council, split as follows:-

Sept 2016 – 16

July - 28

March - 24

November 2015 - 17

September - 19

July – 22

As can be seen there are an average of 21 formally tabled Questions from Members at each Council meeting. The necessary administration to ensure each question is dealt with and an answer given after agreement with the Cabinet Member is significant and within a very concerted timescale. Much of this falls to Democratic Services but other senior officers and Business Support teams across the organisation are inevitably involved in compiling what can be quite complex answers at very short notice given the lead in times. Accordingly, in the run up to Council there is realistically only limited time that can be given over to this specific task given the sheer volume.

The Leader of the Council has requested a review due to this high number, the subject matters of the questions tabled and the ability to manage the process properly given the significant reduction in resources, not only in Democratic Services which has been reduced by 50% since March, but across the Council.

What do other peer authorities do?

At the outset it needs to be said that there is nothing wrong in the way the Council deals with Questions. However, it is clear that the volume of questions tabled is peculiar to Southampton. Peer unitaries have been canvassed and whilst their rules and criteria are generally no more prescriptive than ours, save in many cases members are limited to submitting one question each per meeting generally it is the case that far fewer tend to be tabled at each Council meeting. Additionally, common practice is that written answers are given, handed out to members at the end of the meeting, no time is given over to further debate as part of the agenda, supplementary questions are rare and answers are not recorded.

What are the resources involved?

It is not possible to compile a detailed calculation across all officers that contribute each cycle but it is fair to say that with 21 diverse questions being administered taking, say, an hour and a half for each one from start to finish including liaison with the Cabinet Member at a mean rate of £75 per hour

equates to £2360 per meeting or £9440/126 hours per year. This is probably on the low side.

As members will be aware Democratic Services administer the initial process and finalise responses. Business Support and senior officers in the discrete teams compile the answers. All teams have been significantly reduced and therefore there is difficulty in coping with such volumes in a very tight lead in time to the meeting.

What can we do differently if Members wish?

Members obviously have a legitimate and fundamental right and expectation to hold the Administration to account. This is achieved through numerous formal ways, the scrutiny function being the most obvious. Tabled Questions at Council are an important aspect and cover a wide range of matters, both significant in policy terms, delivery of key projects by the Administration down to operational or single issue or ward items. However, some questions tabled have already been answered by officers, could easily be answered by officers as business as usual or are relatively minor matters.

Possible revised criteria

Currently, the Constitution is open to interpretation. There are few limits on what can be tabled. In order to better manage the process and ensure that Council is used to focus on significant matters such as Council policy and strategy, budgets, major projects and city wide issues the following possibilities are worthy of consideration.

- (i) A limit on the number of Questions tabled at each meeting
- (ii) A limit of the number of Questions tabled by any political group or individual member
- (iii) That no single ward or minor issues should be raised unless they are major projects or of significant policy concern
- (iv) That no question can be tabled which has previously been asked and answered by officers
- (v) That no question (or similar question) can be tabled that has been asked at Council in the last 6 months
- (vi) That no service or operational matters are raised which can easily be answered outside of this process by officers or Cabinet Members
- (vii) Lengthen the "cut off" period before Council for submission of Questions to allow more officer time to respond

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None, save for logistical and opportunity costs stated elsewhere in this report.
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	Local Government Acts 1972 and 2000
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	none
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
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
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

Agenda Item 7

DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL	
SUBJECT:		REVISION TO THE CONSTITUTION: PARTNERSHIP CODE	
DATE OF DECISION:		14 NOVEMBER 2016 16 NOVEMBER 2016	
REPORT OF:		SERVICE DIRECTOR: LEGAL AND GOVERNANCE	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Felicity Ridgway Service Lead: Policy, Partnerships and Strategic Planning	Tel: 023 8083 3310
	E-mail:	Felicity.ridgway@southampton.gov.uk	
Director	Name:	Richard Ivory Service Director: Legal and Governance	Tel: 023 8083 2308
	E-mail:	richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
The current Partnership Code has not been reviewed in a number of years. Since the Code was last agreed relationships with key partners have evolved and changed. As a result it is considered appropriate to revise the Code to ensure it remains fit for purpose and of value.			
RECOMMENDATIONS:			
Governance Committee			
	(i)	To consider and recommend the revised Partnership Code, attached at Appendix A, to Council for adoption.	
Council			
	(i)	To agree the changes to the Constitution relating to the Partnership Code, as set out in this report;	
	(ii)	To authorise the Service Director: Legal & Governance to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision of Council.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is appropriate, as a core tenet of good governance, for the Council to keep its Constitution under regular review and to amend it to reflect experience and		

	changing circumstances.
2.	The Partnership Code was not reviewed with other sections of the Constitution in May 2016, but has now been identified as requiring updating.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	An alternative option is to not update the Partnership Code. This option is not recommended as the existing Code is out of date and no longer fit for purpose.
DETAIL (Including consultation carried out)	
4.	The Partnership Code sets out processes and expectations with regards to the Council's partnerships – both partnerships set up and by the Council, and partnerships which representative of the Council (Members or officers) sit on.
5.	The purpose of the Code is to ensure that Members and Council officers involved in establishing, managing or contributing to a partnership are able to: <ul style="list-style-type: none"> • Demonstrate a clear rationale for the partnership and the Council's involvement • Obtain appropriate approval for setting up or being involved in a new partnership • Understand the Council's role, and their role, in a partnership • Apply clear standards for partnership working • Ensure time and resources invested in the partnership contributes to the Council's priority outcomes and is (and will continue to be) worthwhile in terms of adding value.
6.	The updated document provides a clear process for officers and Members to follow with regards to setting up, reviewing or dissolving a partnership, as well as setting out standards and expectations for officers or Members representing the Council on a Partnership.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
7.	None
<u>Property/Other</u>	
8.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
9.	The Executive Arrangements and Constitution are required under the Local Government Act 2000 (as amended) and the Localism Act 2011. Whilst the Partnership Code is not a core requirement best practice dictates that it includes relevant documents, codes and protocols that are central to the Council's decision making and policy documents
<u>Other Legal Implications:</u>	
10.	None

POLICY FRAMEWORK IMPLICATIONS		
11.	None	
KEY DECISION?	N/A	
WARDS/COMMUNITIES AFFECTED:	None	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Partnership Code (updated)	
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
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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.	Existing Partnership Code: https://www.southampton.gov.uk/policies/18-Policies/18-Partnership-Code_tcm63-363593.pdf	

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PARTNERSHIP CODE

INTRODUCTION

1. Partnership working can bring significant benefits, including improved outcomes and more efficient and integrated services for people who live, work and visit the city. However, partnerships need to be properly established and well managed if they are to deliver benefits and value for money.
2. This Partnership Working Code outlines the minimum requirements for establishing, managing and reviewing partnerships, as well as expected conduct of Council officers and Councillors who are a member of a partnership. The Code should be read in conjunction with other Council documents including the Council's Constitution [Members' Code of Conduct](#), [Officer Code of Conduct](#) and [Code for dealing with Joint Arrangements with Third Parties](#).

PURPOSE

3. The purpose of this Code is to ensure that Members and Council officers involved in establishing, managing or contributing to a partnership are able to:
 - Demonstrate a clear rationale for the partnership and the Council's involvement
 - Obtain appropriate approval for setting up or being involved in a new partnership
 - Understand the Council's role, and their role, in a partnership
 - Apply clear standards for partnership working
 - Ensure time and resources invested in the partnership contributes to the Council's priority outcomes and is (and will continue to be) worthwhile in terms of adding value.

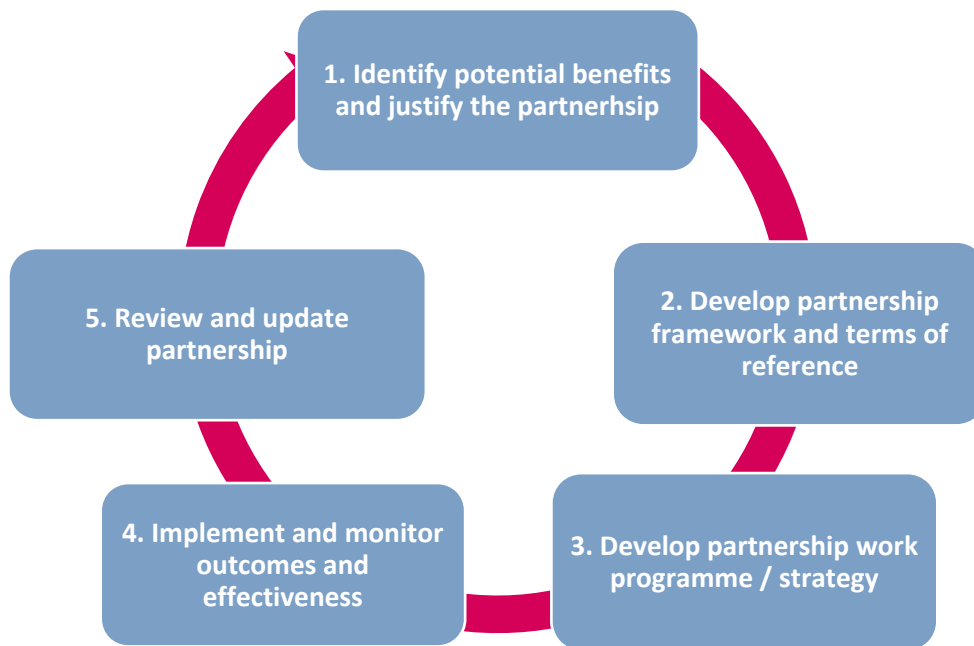
WHAT IS A PARTNERSHIP?

4. In its broadest sense, a partnership can be defined as: '*an agreement between two or more independent bodies to work collaboratively to achieve an objective*'. The key characteristic is that the partners aim to achieve something they could not do alone, by pooling skills and other resources. For the purpose of this Code, these are two main types of partnerships. They are:

Formal or strategic partnerships	Informal or non-strategic partnerships
The partnership meets one or more of the following: <ul style="list-style-type: none"> • It is critical to the delivery of key Council objectives or level 1 strategies • It meets or delivers one of the Council's statutory obligations e.g. Crime and Disorder Act 1998 • The Council's reputation could be damaged if the partnership fails to deliver 	The partnership meets one or more of the following: <ul style="list-style-type: none"> • It supports the delivery of an operational strategy or objective • It is established around a specific issue which will benefit from a range of partners being involved

IF THE COUNCIL IS ESTABLISHING OR LEADING A PARTNERSHIP

5. If you are establishing or leading a partnership on behalf of the Council you will need to give consideration and resources to its development, delivery and review and follow the **Partnership Cycle** obtaining appropriate approvals at each stage. The below sections provide detail as to the actions you will need to take.



STEP 1: Identify potential benefits and justify the partnership

6. You should contact the Intelligence, Insight and Communications team as early as possible for an initial discussion about the proposals to establish a partnership. This will focus on identifying the need for the partnership, and the resources, timeline and approval route to establish and continue a partnership that is effective and value for money.
7. It is critical that partnership, whether formal or informal, provides value for money, and has clear outcomes that meet the strategic aims of the Council, as outlined in the priorities and outcomes in the [Southampton City Council Strategy 2016-2020](#). A formal or significant partnership should only be established if it is critical to the delivery of a key Council outcome or statutory obligation.
8. The Intelligence, Insight and Communications team will support you to:
 - Review the requirement for a new partnership
 - Identify whether the partnership is formal/strategic or informal/non-strategic
 - Agree appropriate governance routes to obtain approval to proceed with establishing the partnership
9. The proposal to develop a new partnership must be agreed with the Intelligence Insight and Communications team, and approved by the CMT sponsor and lead Councillor before you can proceed with establishing the partnership and developing the terms of reference for both formal and informal partnerships.

STEP 2: Develop the partnership framework and Terms of Reference

10. Partnership arrangements can be complicated and could become overly bureaucratic. It is important to achieve a balance between having sufficient clarity about the purpose, benefits and role of the partnership, and ensuring any resources input into its development and monitoring are appropriate.
11. You will need to consider and document the following issues in the partnership's 'terms of reference':
 - Aims and objectives
 - Membership
 - Proportionate and effective governance arrangements

- Protocol for dealing with conflicts.
12. You should also refer to the Council's constitution for the '[Code for Dealing with Joint Arrangements with Third Parties](#)'. This provides recommended procedures to avoid conflicts of interest for the Council, its employees and consultants engaged in any joint arrangements involving public funds, or transfer of public assets.
 13. You must also consider if establishing the partnership has any equality implications against the Equalities Act 2010 and ensure that the partnership considers and promotes its statutory Equality Duty. [The Equalities guidance and Equality and Safety Impact Assessments](#) provide a framework to ensure the decisions, strategies and policies of the partnership comply with their duties and ensure any potential negative impacts are mitigated and followed up as appropriate.
 14. You should also consider whether the lifetime of the partnership is expected to be long-term or temporary. Some informal/non-strategic partnerships established to support a particular project or in response to a particular issue may only be required for a fixed period of time.
 15. Arrangements for the partnership should then be documented in a formal written agreement or Terms of Reference, and this should be published on the Council's website. The Intelligence, Insight and Communications team can provide example Terms of Reference.
 16. The draft Terms of Reference must be submitted to the Intelligence, Insight and Communications team and distributed to key stakeholders for review. As a minimum, this should include the partnership's CMT sponsor, Cabinet portfolio holder or lead Councillor for an informal partnership. Once a final draft is agreed, approval of the Terms of Reference should be sought from CMT and Cabinet for a formal / strategic partnership.

STEP 3: Develop the Partnership Work Programme

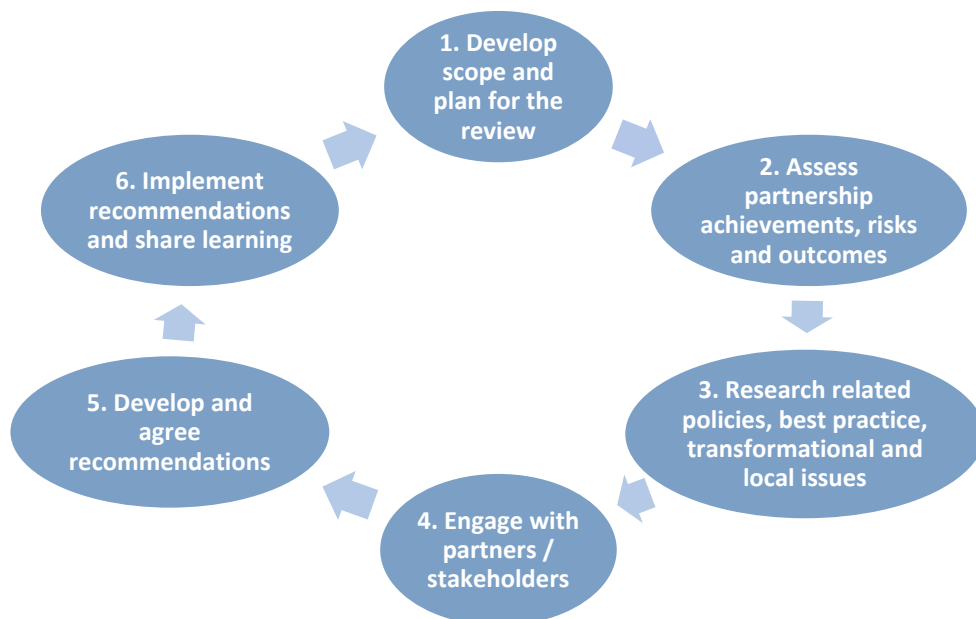
17. Once the partnership's Terms of Reference are approved, the objectives and aims of the partnership will need to be translated into an agreed work programme. This will outline how the partnership will achieve its objectives and set out the actions and outcomes that the partnership's success will be measured against.
18. Southampton City Council has an agreed Strategy and Policy Framework, which forms a key part of our 'one council' approach to strategy and policy development. If a new strategy requirement is identified as part of the development of the partnership work programme, you must contact the Intelligence, Insight and Communications team and follow the agreed strategy development process.

STEP 4: Implement and monitor the partnership

19. The owner of the partnership will oversee and be responsible for implementing and monitoring the success, risks and outcomes of the partnership, and will need to ensure that the following issues are agreed and addressed on an ongoing basis:
 - Agree resources to deliver objectives
 - Agree clear accountability, monitoring and reporting processes
 - Establish communication mechanisms
 - Undertake risk assessments
 - Reporting outcomes and performance – reports should be shared and discussed regularly with the CMT sponsor and lead Member
 - Establish ongoing governance arrangements, including any sub groups.

STEP 5: Review and update the partnership

20. During their lifetime, partnerships need to adapt to changing circumstances. As a minimum, an annual review should be undertaken of the outcomes achieved, including targets, performance, risk management, financial controls, value of the partnership (in terms of the partnership's and Council's objectives) and whether it is still fit for purpose and providing value for money. The review should be sufficiently robust and challenging, whilst remaining proportionate and appropriate to the working arrangements of the partnership.
21. The review of the partnership may be led by the partnership, however, independent input should be sought through the involvement of the Intelligence, Insight and Communications team.
22. The following steps should form part of the review:



23. At the end of the review, a report must be produced including recommendations. This should be cleared by the Intelligence, Insight and Communications team to ensure there are no significant implications for other partnerships, and that best practice opportunities, gaps and duplications have been identified. It should also be cleared by the partnership chair, and must be approved by the CMT sponsor and lead Member, as well as the partnership itself.

DISSOLVING THE PARTNERSHIP

24. If you are considering dissolving the partnership, you should contact the Intelligence, Insight and Communications team as early as possible for advice on the process to follow.
25. You will need to prepare a briefing paper, with the Chair of the partnership, for approval by the CMT sponsor and lead Councillor for both formal/strategic and informal partnerships. This paper should clearly set out the following issues, in relation to dissolving the partnership:
 - The rationale for dissolving the partnership
 - Implications for the Council's priorities or statutory duties
 - Any unmet need of the Council and partners
 - Continued risks to the Council if the partnership no longer exists
 - Costs or funding implications
 - Proposals for resolving any outstanding issues
 - Overall learning and outcomes of the partnership

- Views of the partnership members
- Timeline and process for dissolving the partnership.

COMMITTING RESOURCES TO A PARTNERSHIP WHERE THE COUNCIL IS NOT THE LEAD AUTHORITY

26. Where the Council is not leading a partnership, but there is a clear benefit in contributing or attending it, there will still be resource and reputational implications to be considered. It is important that the Council understands the potential benefit and outcomes that the partnership can offer to support the Council's objectives and priorities.
27. If you are proposing to commit Council resources to a partnership, contact the Intelligence, Insight and Communications team to have an initial discussion about the partnership aims and objectives, to ensure the potential benefits of the partnership fit with the Council's priorities and strategies, and do not duplicate other partnerships.
28. The relevant CMT member and lead Councillor should be briefed on the aims and objectives of the partnership, the expected input and commitment from the Council and potential impact on the Council's priorities.

IF YOU ARE A MEMBER OF A PARTNERSHIP

29. It is important that members of a partnership understand their own role and responsibilities. When committing Council resources (including employee time and money) to a partnership, your first and foremost duty is to the Council. As a Councillor or Council officer, you must adhere to the '[Code of Conduct for Members](#)' and '[Officer Code of Conduct](#)' in the Council's Constitution.
30. As a member of a partnership, you should consider if the partnership is following good practice, that it is contributing to the Council's values and priority outcomes and that it adds value, by actively engaging in any review of the partnership and ensuring that all the appropriate frameworks are in place.
31. Individually, as a representative of the Council on a partnership you should:
 - Represent the Council's views within the partnership
 - Act as the key link back to the Council to promote success of the partnership and inform / engage others in the decisions and activity of the partnership through effective communication
 - Be an active participant in meetings, develop issues for consideration by the partnership and execute additional activity in relation to delivering the partnership's objectives
 - Provide professional advice and expertise as appropriate to the partnership
 - Behave with honesty and integrity at all times, act in good faith and not take advantage, misrepresent or conceal anything pertinent to the partnership
 - Avoid and work to resolve conflicts
 - Highlight any personal interests, if they arise.
32. If you are concerned about anything to do with the partnership activity, contact the Intelligence, Insight and Communications team in the first instance who will offer support and advice on the matter, including whether it is appropriate to escalate the concern to the partnership chair, CMT sponsor or lead Councillor.

Contact:

Intelligence, Insight and Communications team: strategy.unit@southampton.gov.uk

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Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	SOUTHAMPTON CITY COUNCIL COMPLAINTS 2015/16		
DATE OF DECISION:	14 NOVEMBER 2016		
REPORT OF:	SERVICE DIRECTOR; LEGAL AND GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Customer Relations Manager	Tel: 023 8083 3258
	E-mail:	Mark.naylor@southampton.gov.uk	
Director	Name:	Richard Ivory, Service Director	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
This report summarises the type and number of complaints received in 2015/6.			
The Customer Relations Team administers complaints from all directorates within Southampton City Council that the service area has been unable to resolve at point of contact, and are based in Legal & Governance.			
RECOMMENDATIONS:			
	(i)	That the report be noted.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	To update members of this Committee on performance trends and any learning points arising out of complaints made by the public via the Council's Complaint's Procedures during 2015/16. Identifying these issues assists the Council in understanding where things have "gone wrong" in the past year in order to improve service delivery.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None.		
DETAIL (Including consultation carried out)			
3.	This report is presented to Governance Committee for information purposes.		
4.	The effective and responsive management of complaints is a vital part of the Council's overall approach to customer care. In addition, the customer feedback that valid complaints provide can be used to improve service delivery, facilitate council wide learning and demonstrate continuous improvement.		
5.	At the conclusion of a complaints investigation, the complainant is advised that if they are not satisfied with the outcome, they may pursue their complaint to the Local Government Ombudsman (LGO) or the Housing Ombudsman (HO). This provides the customer with an entirely independent source of redress if they remain aggrieved. The Council works closely with the LGO or HO to resolve outstanding complaints where appropriate.		

Corporate Complaints (1st April 2015 and 31 March 2016)					
6.	From 1 st April 2015 to 31 st March 2016 the council recorded 355 corporate complaints. This represents a 67% decrease on the 1104 complaints recorded in 2014/15.				
7.	The significant drop in corporate complaints recorded has been investigated, as it is unusual in size. Enquiries show that there is significant proportion of under recording in the service areas onto the complaints system, Lagan. Some service areas have maintained their recording level and some are recording few, if any.				
8.	No issues have been discovered where complaints have not been responded to, but there are a number of issues that have not been recorded. This has been discovered when matters are referred to stage two of the process and the Customer relations Team have failed to find a computer record of the complaint in order to update it.				
9.	Further enquiry suggests that the change of business support provision from April 2015 has played a significant part in the drop of recorded figures. When the Business support model changed from business support officers recording complaints to investigating managers recording complaints onto the Lagan system some service areas who retained their business support (in the form of PAs generally) continue to record at a level which shows no significant movement in terms of average recording figures. This is also true of areas of service provided by Capita, Balfour Beatty and SSE who were unaffected by the Business Support model change.				
10.	However, those areas who lost direct control of their Business Support Officers, have seen a drop in recorded complaint figures, in some cases to Nil.				
11.	Having identified this issue, efforts are now being made through the problem solving process provided by the Council's Service Excellence programme to rectify recording matters for the future.				
12.	In previous years, following the adoption of an "immediate service recovery" ethos, customer facing areas have been able to decrease the number of complaints recorded by taking immediate effective action on receipt of an issue from a member of the public. Where immediate action was not possible or the issue is identified as a continuing failure within the service area, matters are recorded as complaints and enter the complaints procedure and therefore recorded as such. By adopting this approach, members of the public are receiving an immediate resolution to the issue, which is generally what is required.				
13.	Table 1 below lists the five areas with the highest proportion of complaints for 2015/16 and compares this with figures for 2014/15 and 2013/14				
TABLE 1					
Rank of 5 Areas with the highest proportion of complaints					
2015/16		2014/15		2013/14	
Housing Services	39%	Housing Services	21%	Capita Services	10%
City Services (waste management)	24%	City Services (waste management)	12%	Local Taxation	6%
Local Taxation	16%	Local Taxation	8%	Housing Repairs	6%

Capita Delivered	12%	Capita Delivered	6%	Waste Management	5%
Planning	1%	Planning	3%	Housing Services	4%

Complaints are recorded into one of a number of categories. The table below indicates the percentage of complaints within each category and compares this with figures for the previous two years.

TABLE 2

Category	2015/16	2014/15	2013/14
Discrimination	0.5%	0%	0%
Misinformation	4.2%	2%	2%
Charges	6.2%	2%	4%
Speed	3.3%	1%	2%
Behaviour	16.3%	8%	11%
Performance	53.2%	29%	21%
Other	1.4%	27%	21%
Avoidable Contact	0.2%	1%	0%
Disagree with Decision	7.6%	12%	12%

In June 2015 the “other” category was removed from the recording system, as it was felt that “other” was an easy option for investigators and did not provide accurate or appropriate feedback for service improvement. “Other” was therefore only available for 2 months of the reporting year. The removal of this category has seen an increase in the percentage of all but one of the other categories, as would be expected.

4 complaints remained outstanding at time of production of figures and together with rounded percentages the % figure as a total does not equal 100%.

14. Table 3 below provides a breakdown of this Council’s performance in relation to complaints compared to statistical neighbours (as used for formal audit purposes). This helps the Council compare like for like in terms of type of authority, geographical area within the country and broadly similar population sizes and make-up. The Corporate Complaints policy is not a statutory requirement. The systems and processes that individual councils have in place are based on LGO/HO guidance and are tailored to individual council structures. Comparison is therefore difficult, as other Council’s may operate variations in their complaints regimes. The following table sets out the overall figures for the number of complaints received.

TABLE 3					
Authority	Corporate Complaints received 2015/16	Corporate Complaints received 2014/15	Corporate Complaints received 2013/14	Adult Population 2011	Complaints per head of adult population 2015/16
Southampton	355	1104	743	236,900	0.0015
Portsmouth	465	474	438	207,100	0.0022
Brighton		1701	1786	273,400	
Plymouth	1865		1329	207,877	0.0089
Bristol	5504	2201	2331	432,500	0.0127

15.	<p>Table 4 below shows the number of complaints responded to at each stage of the procedure. Those complaints that cannot be responded to within the target period are frequently those that are more complex, and can involve investigating actions across more than one service area. Where this situation occurs the complainant will be contacted and a revised completion date agreed.</p>
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TABLE 4						
	Working days to close 2015/16		Working days to close 2014/15		Working days to close 2013/14	
Stage	< 20 days	> 20 days	< 20 days	> 20 days	< 20 days	> 20 days
1	75%	25%	86%	14%	90%	10%
	< 20 days	> 20 days	< 20 days	> 20 days	< 20 days	> 20 days
2	92%	8%	92%	8%	81%	19%

Children and Families (Social Care) Complaints	
16.	<p>Children and Families complaints are classified according to the following definitions:</p> <ul style="list-style-type: none"> ▪ Social care complaints are those investigated under the Children’s Social Care Complaints Policy (which reflects statutory regulations); ▪ All other Children and Families complaints are investigated using the Council’s Corporate Complaints Policy; ▪ Referrals are requests for help which are passed to the relevant council directorate and partner services;
17.	<p>During the financial year 2015/16 there were 168 (157 Statutory and 11 Corporate) Stage 1 complaints made about Children’s Social Care. This compared to 253 in 2014/15 and shows a 33% decrease in complaints received.</p>
18.	<p>The majority of complaints continue to be resolved at the first stage of the</p>

	<p>procedure through work by managers and staff in the service. Where resolution is not possible at stage 1 (statutory), the Council commissions an Independent Investigator (external to the Council who is responsible for investigating the complaint) and an Independent Person (whose role is to oversee the investigation to ensure fairness and that the child(ren) involved in the process are represented), to look into complaints at Stage 2 of our procedure.</p>																																
19.	Only 5 Stage 1 complaints (2.97%) required independent investigation.																																
20.	<p>Table 5 sets out the number of complaints which progressed to Stage 2, and compares to the previous two years.</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="3">TABLE 5</th> </tr> <tr> <th colspan="3">External Investigation of Complaints (Stage 2)</th> </tr> <tr> <th>Year</th> <th>No of Stage 1 Complaints</th> <th>Percentage (number progressing to Stage 2)</th> </tr> </thead> <tbody> <tr> <td>2015/16</td> <td>168</td> <td>2.9% (5)</td> </tr> <tr> <td>2014/15</td> <td>235</td> <td>1.97% (5)</td> </tr> <tr> <td>2013/14</td> <td>154</td> <td>1.81% (4)</td> </tr> </tbody> </table>	TABLE 5			External Investigation of Complaints (Stage 2)			Year	No of Stage 1 Complaints	Percentage (number progressing to Stage 2)	2015/16	168	2.9% (5)	2014/15	235	1.97% (5)	2013/14	154	1.81% (4)														
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21.	Complaints unresolved after Stage 2 can be referred to the LGO.																																
22.	<p>Table 6 shows a comparison in the total number of contacts (complaints, representations, comments and compliments) received over the last three years.</p> <p>This is unlikely to be a true reflection of the number of compliments received by staff but recording is historically an issue. All staff are encouraged to send copies of compliments they receive to the Customer Relations Team in order that they can be recorded and reported to the relevant Service Director so that good service can be recognised.</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="4">TABLE 6</th> </tr> <tr> <th></th> <th>2015/16</th> <th>2014/15</th> <th>2013/14</th> </tr> </thead> <tbody> <tr> <td>Record Type</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Complaints</td> <td>168</td> <td>235</td> <td>154</td> </tr> <tr> <td>Comments</td> <td>0</td> <td>7</td> <td>10</td> </tr> <tr> <td>Referrals</td> <td>2</td> <td>0</td> <td>7</td> </tr> <tr> <td>Compliments</td> <td>15</td> <td>8</td> <td>63</td> </tr> <tr> <td>Total</td> <td>185</td> <td>250</td> <td>234</td> </tr> </tbody> </table>	TABLE 6					2015/16	2014/15	2013/14	Record Type				Complaints	168	235	154	Comments	0	7	10	Referrals	2	0	7	Compliments	15	8	63	Total	185	250	234
TABLE 6																																	
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Referrals	2	0	7																														
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23.	Table 7 provides a breakdown of complaints by complaint issue and type. As most complaints relate to more than one issue, this approach to breaking them down allows us to maximise our learning from them. The majority of complaints relate to either service provision, individual staff or poor communication. The high staff turnover in this service area may be a contributing factor.																																

TABLE 7	
Complaint Issue	Number
Communication/Information	19
Unhappy with social worker	76
Unhappy with service provided/received	56
Policy/Procedure	1
Financial Issues	8
Eligibility Criteria	0
School Admissions	3
Bullying/Exclusions	0
Environment Housing	0
TOTAL	163

24. Table 8 shows an overall decrease in response rates (within policy timescales) to complaints in Children and Families in 2015/16.

TABLE 8						
Overall Performance Report - 01/04/2013 to 31/03/2016						
Record Type	Acknowledgement (< 3 days)			Full Response (< 10 days)		
	2013/14	2014/15	2015/16	2013/14	2014/15	2015/16
Safeguarding: Social Care						
Stage 1 complaint	98.65%	99.5%	100%	84.16%	73.5%	48.4%
Learning Services						
Corporate Stage 1 complaint	84.16%	92.9%	100%	75%	75%	76.9%
Complaint Outcomes 2015/16						
Stage 1	Upheld	Partially Upheld	Not Upheld	Stopped / Withdrawn		
Stage 1 (Statutory)	28	51	68	1		
Stage 1 (Corporate)	3	0	7	1		
Stage 2 (Statutory)	0	0	2	1		
Stage 2 (Corporate)	0	0	0	0		
Stage 3 (Statutory)	0	0	0	0		
Total	31	51	77	3		

Remedies used	
Type	Number
Apology	30
Explanation	70
Apology + Explanation	33
Review process / policy	1
Training needs	1
Reimbursement of Expenses / Funding agreed	4
Meeting offered	3
School place offered	2
In court process / arena	6
Gone to Appeal	1

25. **Adults Services (Social Care) Complaints**

For 2015/16, there were 77 complaints made about Adult Social Care compared to 113 in 2014/15. This represents a 32% decrease.

The majority of complaints continue to be resolved at the early stages of the procedure as a result of work by the team manager or senior manager. However, where resolution is not possible in this way stage two investigations are undertaken by the Customer Relations Team.

TABLE 5

Investigation of Complaints (Stage 2)

Year	No of Stage 1 Complaints	No of Stage 2 Complaints	Percentage (number progressing to Stage 2)
2015/16	77	4	0.052%
2014/15	113	3	0.089%
2013/14	154	0	0.00%

26. Table 6 sets out the number of complaints by age. The highest number of

complaints (38 (49.4%)) is from the 76+ age group, which should be expected in part because this age group is the largest in the service population served by Adult Social Care.

TABLE 6

Adults Complaints by Age

Age	Number	Percentage
16-19	1	1.3%
20-24	2	2.6%
25-59	19	24.7%
60-64	7	9.1%
65-75	8	10.4%
76+	38	49.4%
Not known	2	2.6%
TOTAL	77	100.0%

27.

Table 7 provides a breakdown of complaints by complaint issue and highlights some of the major themes contained with the complaints received. The issues raised can be classified in ten specific ways.

NB. Some complaints cross over one or more categories which explains why the total number of complaints received differs from the total in the below table.

TABLE 7

Reason / Issue for complaint	No of Issues
Disabled Parking Badge	11
Eligibility Criteria	0
Finance	24
Information/ Communication	5
Miscellaneous:	
Housing	0
Environment	0
Policy and Procedure	1
Unhappy with Care Manager	8
Provider Services	6
Unhappy with service	33
TOTAL	88

28.

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

TABLE 8																					
ASC AND CORPORATE COMPLAINTS BY SERVICE AREA (2015/16)																					
Specific Service Area																					
Safeguarding	0																				
Single Point Access (SPA)	2																				
Disabled Parking Badges	8																				
Hospital Discharge Team	3																				
Long Term Team One	17																				
Long Term Team Two	13																				
Day Care Services	2																				
External Provider – Domiciliary Care	5																				
External Provider – Residential Care	2																				
Internal Provider – Domiciliary	2																				
Internal Respite Care	1																				
Mental Health Services	0																				
Finance: Benefits (Assessment)	3																				
Debtors Team	9																				
Direct Payments / Personal Budget	3																				
Sensory Services	1																				
29.	Complaint Outcomes 2015/16 <table border="1" style="width: 100%; margin-top: 5px;"> <thead> <tr> <th colspan="2" style="background-color: black; color: white; text-align: center;">TABLE 9</th> </tr> <tr> <th style="text-align: left;">Outcome</th> <th style="text-align: center;">Number</th> </tr> </thead> <tbody> <tr> <td>Complaint withdrawn / stopped</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Not Upheld</td> <td style="text-align: center;">24</td> </tr> <tr> <td>Partially Upheld</td> <td style="text-align: center;">11</td> </tr> <tr> <td>Upheld</td> <td style="text-align: center;">27</td> </tr> <tr> <td>Safeguarding investigation</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Ongoing</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Not known</td> <td style="text-align: center;">9</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: center;">77</td> </tr> </tbody> </table>	TABLE 9		Outcome	Number	Complaint withdrawn / stopped	3	Not Upheld	24	Partially Upheld	11	Upheld	27	Safeguarding investigation	0	Ongoing	3	Not known	9	TOTAL	77
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Ongoing	3																				
Not known	9																				
TOTAL	77																				
30.	<p>Adult Social care complaints are assessed by risk level. Complaints are classified as low, medium and high risk as follows:</p> <ul style="list-style-type: none"> ▪ <i>Low risk</i> - an unsatisfactory service or experience not directly related to care and which has no or minimal impact or risk to provision of care. 																				

- *Medium risk* - Service or experience below reasonable expectations in several ways, but not causing lasting problems. Has potential to impact on service provision. Some potential for litigation.
- *High risk* - Significant issues regarding standards, quality of care and safeguarding or denial of rights. Complaints with clear quality assurance or risk management issues that may cause lasting problems for the organisation and so require investigation. Possibility of litigation and adverse local publicity. Alternatively, serious issues that may cause long-term damage, such as grossly substandard care, professional misconduct or death. Will require immediate and in –depth investigation. May involve serious safety issues. A high probability of litigation and strong possibility of adverse national publicity.

31. These risk levels will affect the pathway and timescale of how we deal with these complaints. (See Table 10).

32. Under the combined adult social care/ corporate complaints procedure, the council aims to send complainants a full reply within 20 working days if possible, or if the matter is more complicated, this can be extended and the complainant informed. For extremely complex cases, which may require independent investigation, a target of up to 60 working days may be necessary depending on risk category or number of people to be interviewed.

TABLE 10

OVERALL PERFORMANCE REPORT

Complaint Type	Acknowledgement within timescale		Full response within timescale		
	Adult Statutory Complaint	2013/14	98.8%	LOW	2013/14
2014/15		100%	2014/15		N/A
2015/16		100%	2015/16		N/A
			MEDIUM	2013/14	46.75% (72)
				2014/15	60.0% (57)
				2015/16	42.9%
			HIGH	2013/14	33.3% (1)
				2014/15	55.6%
				2015/16	100% (1)

TABLE 11

Remedies used at Stage One	
Type	Number
Amend Charges	2
Apology	14
Apology + Explanation	20
Change of Service Provider	6
Explanation	13
Further assessment to be undertaken	3
Reimburse / Credit Charges	4
Review Decision made	3
Review of Care Package	4
Review Process / Policy	1
Review Systems used prior to invoicing run	1
Staff Training	1
Complaint Stopped / Withdrawn	2
Waive Charges	3
TOTAL	77
33.	<p>CONCLUSIONS</p> <p>Overall the total number of complaints recorded by the council in 2015/16 decreased by 60.2%.</p> <p>Corporate Recorded complaints decreased by 67.9 % Stage 1 response within target time (20 days) has dropped to 75% compliance rate. Stage 2 response within target time (20 days) has remained static at 92% compliance.</p> <p>Childrens (incl learning Services) Complaints decreased by 33% Stage 1 response within target time saw significant decrease Stage 2 response (independent investigation) remained static.</p> <p>Adults Complaints decreased by 32% Stage 1 response within target time saw a decrease in performance Stage 2 response within target time remained static</p>
34.	<p>Learning from Complaints</p> <p>Each complaint when finalised Page 105</p>
	Each complaint when finalised to the Customer Relations Team with a

feedback/lessons learned document completed by the Investigating Manager

Whilst many issues are unique to that particular complaint, some highlight deficiencies in policy and process. They also highlight good or poor practice within individual departments or services.

These forms are returned with an Action Plan. This plan gives time scales for issues to be rectified. The return rate of completed forms varies. Management teams are impressing upon Service Managers the value of feedback.

The Customer Relations Team monitor these sheets to

- 1) ensure that the action plan is completed
- 2) identify issues forming patterns or trends
- 3) identify learning for individuals, teams or services as a whole.

Individual “lesson learned” continue to be recorded and improvements to services are made on those individual basis.

Examples of this are;

Complaint details are being used in the updates of the Council website

Communication pathways available to service users in respect of both Adult and Childrens Social care namely the roll out and availability of mobile devices to Social Care staff.

This also applies to other council areas namely Environmental Health Officers

The Customer Relations Team provides feedback and statistics monthly to the Council’s senior management via the CMT dashboard.

Action plans are then endorsed by senior managers and used to improve performance and direct change.

This allows continuous improvement, but in small manageable pieces, identifying trends early and providing solutions quickly.

During 2015, all Council policies in relation to complaints have been reviewed and updated. The updates have reflected the change in council structure and process and also reflect findings by the LGO and HO in respect of both Southampton related complaints referred to them and also generic national learning as a result of cases from other areas of the country.

After a pilot run by the CRT in 2015, a training course is being run by the team across the council during Autumn 2016 in order to update existing managers and provide guidance for new managers in the area of complaints.

The most significant issue recorded as cause for complaint continues to be communication, especially with individuals but also with individual departments.

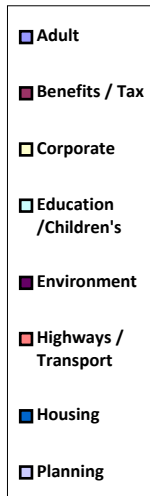
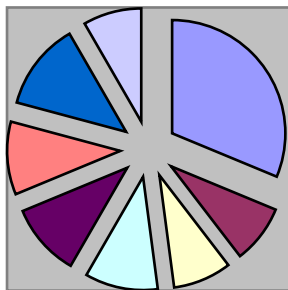
This is more noticeable in Children’s and Adult Services.

	<p>Whilst the pressure on Corporate Teams is lessened by the availability of online forms and electronic contact processes, Social Care clients rely and require either face to face contact or telephone contact with staff who carry their own workload. This coupled with the fact that most social care staff spend a considerable amount of time out of the office, leads to frustration and complaint on behalf of the customer.</p> <p>Whilst clients are able to contact teams within the Social Care arena, it is, ordinarily, the length of time for staff to re contact the customer that causes the frustration.</p> <p>It is envisaged that the commencement of the roll out of mobile devices mentioned earlier will assist Social Care to provide a better service in terms of communications in the future.</p> <p>As with the Corporate Teams, a “service recovery” ethos has been adopted in Social Care where encouragement is given to try to deal with issues quickly without leading to formal complaint procedure.</p>			
35.	<p>Local Government Ombudsman (LGO) Complaints</p>			
	<p>Local Government Ombudsman complaints, the final ‘independent’ stage for all complaints processes, are dealt with by the Service Lead: Legal Services Partnership on behalf of the Council. The LGO (the Commission for Local Administration in England) is appointed by HM the Queen and operates under Act of Parliament to provide an independent review of all complaints falling within their jurisdiction.</p> <p>In an effort to simplify outcomes for complainants the LGO has recently moved from findings of ‘Maladministration’ and ‘Injustice’ to a more commonly understood term ‘fault’. If ‘Fault’ is found a complaint is recorded as upheld, even if the Council has already taken steps to remedy that fault and the LGO is satisfied with the remedy offered by the Council.</p> <p>All findings are now reported on the LGO website within 3 months of the decision being published.</p> <p>Statutory reports still remain the highest ‘fault’ finding the LGO can make. These require the Council’s Monitoring Officer to prepare a report for consideration at full Council following a period of statutory publication of the findings. Council’s that fail to co-operate with the LGO or any of their findings may be subject to Judicial Review.</p>			
		2013/14	2014/15	2015/16
	Complaints received	48	69	67

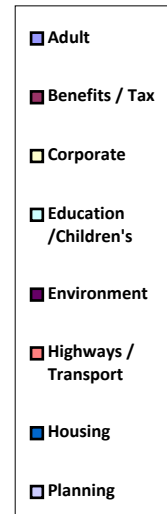
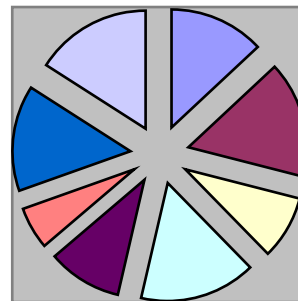
Decisions made	45	70	65
Statutory Reports	0	0	0
Upheld	8	7	7
Not Upheld	10	8	5
Closed / Invalid etc.	14	25	19
Premature referrals	13	30	34

36. **Complaints received by Area**

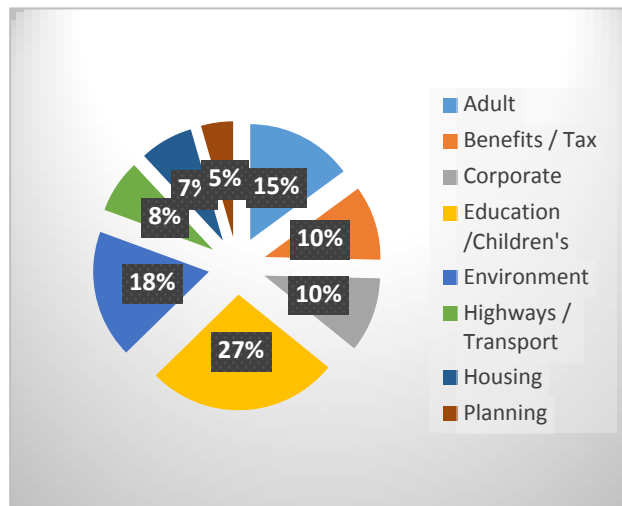
2013/14



2014/15



2015/16



37. **Details of Complaints Upheld**

Of the complaints upheld by the LGO last year, 3 related to Adult Care matters (increased from 1), 2 Corporate services and 1 Children's / Education.

1 complaint relating to Housing was found to amount to 'fault' but the Ombudsman decision noted that the complaint had been fully resolved and remedied by the Council prior to reference to the Ombudsman. The complaint related to a failure by the Council to give effect to the findings of a tenants panel to offer a property to a tenant when it became available on an over 55 housing development (because of a disconnect between the service area and Homebid team). That was remedied by offering the next available property and carrying out replacement works to the bathroom as promised before the tenant moved in but which were not complete on time together with a payment of £250 to the tenant in recognition of their time and trouble in pursuing the complaint.

The Adult complaints related to:

- Failures to carry out assessments of disabled related expenses that should have been discounted when calculating client contributions to care. The assessment was subsequently carried out following a process agreed with the complainants advocate and a payment of £1100 made in relation to contributions that should have been deducted and time and trouble.
- Failure to manage the activities of a care agency acting on behalf of the Council and issues with agency staff recording of health data, meal plans etc. An apology was provided to the complainant and her mother and additional training provided to care staff in relation to their duties. Unfortunately, in this case the complaint was closed before the remedy could be fully completed with the family as the elderly care recipient passed away. The Council has nonetheless reviewed its procedures in relation to contract monitoring in response to the lessons learned from this complaint.
- Failure to properly record safeguarding concerns and decisions as to why action was taken around financial abuse of an elderly resident, taking inappropriate and un-evidenced action following receipt of reports in a dispute between family members without fully investigating first (including writing to the DWP resulting in the suspension of welfare payments without good cause). Failure to identify an appropriate remedy at stage 2 of the complaints procedure and failure to keep proper records within the service area of its actions with regard the matter. A remedy of £800 to reflect any financial loss or hardship suffered by the complainant was agreed with the Ombudsman but before it could be paid, the complainant unexpectedly passed away. The Ombudsman indicated it would be inappropriate to approach the complainant's personal representatives / estate to pay the remedy in the circumstances as the remedy was personal to the individual concerned.

The Corporate Services complaints related to:

- In one case the Council sold a very small piece of open land (a small ransom strip between properties) to a third party as part of a right to buy without consulting the neighbour who had a license to occupy that small parcel of the original title land (as at the time the Council did not have a record of the license on its title information). While the Council was entitled to terminate the license to proceed with the sale, and would have done so if proper procedure was followed, this did not take place prior to

sale. The existence of the licence was not discovered until many years later when considering a planning application to build an extension that required the boundary fence to be moved in line with the registered title boundary by the new occupant of that land. In that case, the land having been sold and registered previously in good faith, the Council had no redress to re-acquire the land from the person it was sold to (the outcome the complainant wanted) and a remedy was offered in relation to the funding of a new boundary treatment and planting to enhance the remainder of the complainant's garden. The total cost of the remedy provided amounted to approximately £8,880 for fencing and planting and £750 for the time, trouble and inconvenience caused as a result of the Council's mistake and his long upkeep of the land.

- A community asset transfer application was made in respect of a building that was excluded from the CAT process by Council policy. The application was accordingly rejected. The property was later leased to a third party to provide youth services by a different area of the Council. The original applicant was not advised the transfer had taken place. While the Ombudsman was satisfied that the Council had the right to transfer the property to a third party outside of the CAT process, it found fault in the Council not having notified the complainant this was taking place given it knew the complainant had an interest in the property and had asked to be kept updated in that regard. An apology was deemed to be a suitable remedy.

The Children's complaint related to a complicated SEN case. The complainant has two sons receiving services from the Council and was a voluminous correspondent. The complainant's own actions contributed to confusion in dealing with complainants relating to both children's SEN provision and confusion and significant resource pressure within the service area. As a result the correct annual review process was not followed for dealing with the elder child's education transition at age 16 (which also corresponded with a change in the law around Post 16 provision which further confused matters as to the appropriate route to follow). While the Ombudsman was highly critical of the complainant's own confusing behaviour and the challenge to resources and cooperation presented to the Council it nevertheless found that the Council had failed to properly record annual reviews or effectively communicate the outcome of these to the complainant or to progress a transition plan in a timely manner or to agree appropriate continuing education provision for the child's post 16 education. It was recommended and agreed that the Council would amend its annual review letters and processes to make the outcome more transparent and clear for families and to prioritise the transition plan for completion (subject to the complainant's cooperation with that process).

The Council remains in the top quartile nationally for speed and efficacy of its responses to and co-operation with the LGO in line with previous years and compares favourably with its regional comparators in terms of number of complaints and percentage upheld.

The LGO's *Annual Review of Local Government Complaints* continues to suggest that many councils are dealing with increasing numbers of complaints and have less resource available to manage them due to resources being cut in service areas and complaint handling teams and that this is having an impact on

both numbers of complaints and learning from complaints.

Nationally in 2014/15 the LGO registered 19,702 complaints (up from 18,211 complaints last year), and upheld 51% of them (again, rising from 46% last year). Within this the largest are of increase in complaints was Children’s at 13% (not currently reflected in Southampton where the picture more readily compares with the increase in Adults complaints last year). The national picture shows a decrease in housing complaints of around 13% which is also reflected in Southampton where this was traditionally a high area but it should be noted that the Housing Ombudsman service operates separate from the LGO dealing with tenant complaints and there is currently a reported 9 month backlog of complaints with that service. The Southampton Link Officer therefore believes, based on current cases open and known to Southampton that there are a number of housing complaints yet to be determined by the Housing Ombudsman that may have an impact on these figures as and when they make their way through the system.

38. So how does Southampton compare?

The table below shows how Southampton performs against key local and unitary comparators. This is an edited snapshot of total number of complaints and % upheld and is not intended to give more than a brief overview of comparative pressures / performance. More detail, and statistics for all other Councils, is included in the LGO Annual Report referred to above.

	2014/15 Complaints	% Upheld	2015/16 Complaints	% Upheld
Bournemouth	76	40%	66	50%
Bristol	131	55.9%	183	64%
Brighton & Hove	138	51.5%	123	39%
Hampshire	107	53.6%	119	71%
Plymouth	90	40%	102	61%
Portsmouth	45	60%	52	40%
Southampton	69	46.7%	67	58%

Southampton continues to perform reasonably well compared to the national and local picture but still faces many of the same challenges including reducing staff and other resources both within service areas and the corporate complaints team this year. Full details of both the Council’s annual performance letter and the LGO Annual Review can be viewed on www.LGO.org.uk

39. Learning from Complaints

Communications

	<ul style="list-style-type: none"> • Feedback used to form consultation and implementation of the Web Refresh project • Changes made to voice recognition switchboard system <p><u>Highways & Parking</u> Enforcement Policy and letters sent to residents regarding dropped kerb requirements reviewed after customer complaints highlighted issues which appeared out of step with other similar council policy</p> <ul style="list-style-type: none"> • As a result of large number of major road projects outside the city boundary (which effected residents within the city due to the diversion etc., information distributed to alert residents to the complaint contact details for the respective companies and agencies for direct complaint management, rather than be referred after being received by SCC <p><u>Local Taxation</u></p> <ul style="list-style-type: none"> • Wording of standard letters reviewed due to complaints about apparent abruptness of the letters.
	<p><u>Children's Services</u> Learning from complaints can be put into three categories, Individual learning, Team/Service Learning and Organisational learning. During the past year complaints have resulted in the following actions to improve future services. These include:</p> <ul style="list-style-type: none"> • Review of the SEND application and process systems • Review of Police Disclosure information requests to speed up system and get offenders to court quickly thereby safeguarding child victims in a timely manner. Internal telephone system refined so that duty officers can intercept office calls and all social workers instructed to give out direct office and mobile telephone numbers to aid direct contact with service users. <p><u>Health & Adult Social Care</u></p> <ul style="list-style-type: none"> • Charges waived or refunded • Time and trouble payment reimbursement of legal fees • Review of and changes to Care Package / Care Manager • Mental Health assessment and process forms reviewed. Communications forms an on-going part of service area accessibility.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
40.	None.
<u>Property/Other</u>	
41.	None.
LEGAL IMPLICATIONS	

Statutory power to undertake proposals in the report:	
42.	Not applicable.
Other Legal Implications:	
43.	None.
POLICY FRAMEWORK IMPLICATIONS	
44.	Not applicable.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None.
Documents In Members' Rooms	
1.	None.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	Yes/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/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)
None	

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Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MIDYEAR REVIEW 2016		
DATE OF DECISION:	14 NOVEMBER 2016 16 NOVEMBER 2016		
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 80 4153
	E-mail:	Sue.Poynter@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 4897
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2016/17 against the approved Prudential Indicators for External Debt and Treasury Management and to approve any changes as a result of activity to date and updates to the capital programme.

The core elements of the 2016/17 strategy are :

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

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow **Page 45** to finance capital programmes, and to

cover daily operational needs is an integral part of daily cash and investment portfolio management.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

	i)	Note the current and forecast position with regards to these indicators and endorse any changes;
	ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	iii)	Endorse the increase in the investment limit for both unspecified investments and for counterparties as detailed in paragraph 30.

COUNCIL

It is recommended that Council:

	i)	Note the current and forecast position with regards to these indicators and approve any changes;
	ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	iii)	Continue to delegate authority to the Chief Financial Officer, Finance following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example increase the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to this strategy;
	iv)	Approve the increase in the investment limit for both unspecified investments and for counterparties as detailed in paragraph 30.

REASONS FOR REPORT RECOMMENDATIONS

1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to 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.
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	No alternative options are relevant to this report
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DETAIL (Including consultation carried out)

	CONSULTATION
3.	Not applicable
	BACKGROUND
4.	The Local Government Act 2003 introduced a system for borrowing based

	largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
6.	The Authority's Treasury Management Strategy for 2016/17 was approved by full Council on 10 February 2016 which can be accessed as Item 6 on the Council Meetings Agenda found via the following web link: Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19
7.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
8.	This report: <ul style="list-style-type: none"> 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 treasury management transactions in 2016/17 to date together with outturn forecast; and e) confirms compliance with treasury limits and Prudential Indicators.
9.	Appendix 1 summarises the Authority's financial adviser's (Arlingclose) assessment of the economic outlook and events in the context of which the Council operated its treasury function.
	BORROWING REQUIREMENT AND DEBT MANAGEMENT
10.	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. This was estimated at £523M as at the 10/02/2016 when the TM strategy was approved and has been increased to £529M following a revision of the capital programme and adjusting for 2015/16 actual position, as detailed in Table 3 of Appendix 3.
11.	At 30/9/2016 the Authority held £235M of loans, a decrease of £6M on 31/3/2016, as part of its strategy for funding previous years' capital programmes, however the Authority expects to have to borrow up to £107M in 2016/17 to finance the current capital programme, which includes the £40M which has been allocated for the purchase of property for income generation (£59M General Fund and £47M for HRA) and to replace maturing debt, which will increase long term borrowing by £113M as shown in tables 1 and 2 below.
	Table 1

Movement on Estimated Long Term Borrowing Requirement	2016/17 Forecast GF £M	2016/17 Forecast HRA £M	2016/17 Forecast Total £M
Capital Programme	59.2	47.4	106.6
Maturing Debt	5.9	5.6	11.5
Movement in Internal Borrowing	5.0	0.0	5.0
Less Repayment of Debt Principal	(4.7)	(5.6)	(10.3)
Total Debt	65.4	47.4	112.8

Table 2

Long Term Borrowing	
	£M
Balance brought forward 1st April 2016	240.8
New debt raised in year	112.8
Maturing debt	(11.5)
Estimated debt at 31 March 2017	342.1

12. The Authority's chief objective when borrowing continues to be striking an appropriately prudent 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.
13. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. Post referendum, the fall in yields and PWLB rates was more pronounced as evidenced in Tables 2 and 3 in Appendix 1. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources where funds permit and to borrow short-term loans instead.
14. Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, has remained affordable and attractive. Although we had no requirement for the period of this report, we have since borrowed £30M of such loans at an average rate of 0.40% and an average life of 12 months which includes the replacement of maturing loans and to provide financing for the capital programme.
15. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our advisors, Arlingclose, assists the Authority with this 'cost of carry' and breakeven analysis.
16. 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 and is shown in tables 3 and 4 below together with activity in the year.

	31-Mar-16 Actual £M	31-Mar-17 Approved £M	Current Portfolio £M	31-Mar-17 Current Forecast £M	31-Mar-18 Current Forecast £M	31-Mar-19 Current Forecast £M
External Borrowing:						
Fixed Rate – PWLB Maturity	139	290	139	251	278	285
Fixed Rate – PWLB EIP	58	47	52	47	35	24
Variable Rate – PWLB	35	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9
Long Term Borrowing	241	381	235	342	357	353
Short Term Borrowing						
Fixed Rate – Market	8	30	0	40	40	40
Other Long Term Liabilities						
PFI / Finance leases	65	62	63	62	60	58
Deferred Debt Charges	15	15	15	15	15	15
Total Gross External Debt	329	488	313	459	472	466
Investments:						
Managed In-House						
Deposits and monies on call and Money Market Funds	(40)	(25)	(22)	(25)	(25)	(25)
Financial Instruments	(42)	(57)	(34)	(20)	(20)	(20)
Managed Externally						
Pooled Funds	(7)	(7)	(7)	(7)	(7)	(7)
Total Investments	(89)	(89)	(63)	(52)	(52)	(52)
Net Borrowing Position	240	399	250	407	420	414

Table 4

	Balance on 01/04/2016	Debt Maturing or Repaid	New Borrowing	Balance as at 30/9/2016	Increase/ (Decrease) in Borrowing	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Borrowing	8	(17)	9	0	(8)		
Long Term Borrowing	241	(6)	0	235	(6)	23 Years	3.33
Total Borrowing	249	(23)	9	235	(14)		

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

PWLB Certainty Rate

17. The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2015. In April the Authority submitted its application to Department of the Environment along with the 2016/17 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2016.

Loans at Variable Rates

18. Included within the debt portfolio is £35M of PWLB variable rate loans which are currently averaging a rate of 0.70% which mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's cash 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.
	<u>Lender's Option Borrower's Option Loans (LOBOs)</u>
19.	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 have options during the half year, none of which were exercised by the lender, but if they were to be called during the remainder of this financial year it is likely that they would be repaid and replaced by alternative borrowing.
	<u>Internal Borrowing</u>
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 2016 the Council used £106M 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. The current Capital Programme indicates that the Council is expected to borrow up to £167M between 2016/17 and 2018/19. Of this £149M relates to new capital spend and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rate rises.
22.	However as short-term interest rates have remained lower than long-term rates, and are likely to remain so for the foreseeable future, the Authority has determined it is more cost effective in the short-term to continue the use of internal resources and to make use of short term debt.
	<u>Debt Rescheduling</u>
23.	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.
	<u>INVESTMENT ACTIVITY</u>
24.	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.
25.	The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2016/17 the Authority's investment balances have ranged between £62M and £106M and are currently £62M. Projected balances indicate that on present levels of spend we should have lower balances to last year, but this will be dependent on any borrowing decisions taken.
26.	Table 5 below summarises activity during the year:
	Table 5

	Balance on 01/04/2016	Investments Repaid	New Investments	Balance as at 30/9/2016	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	0	0	0	0	0		
Money Market Funds & Call Accounts	34	(216)	199	17	(17)	1 Day	0.36
Notice Accounts	5		0	5	0	180 Day	0.90
Bonds	40	(14)	7	33	(7)	1.37 years	1.46
Local Authority Property Fund	7	0	0	7	0	Unspecified	5.12
Total Investments	86	(230)	206	62	(24)		1.46

27. 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 TM Strategy Statement for 2016/17. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Further details can be seen in Appendix 4.

	Target	Actual
Portfolio average credit rating	A-	AA

28. Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

29. Given the increasing risk and continued low returns from short-term unsecured bank investments, and having estimated that £40M is available for longer-term investment, the Authority continued its investments in more secure and/or higher yielding asset classes such as covered bonds (which are secured on the financial institutions' assets) and pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments coupled with professional fund management.

30. Counterparty limits were set as part of the TM strategy at no more than £10M per management group and with the following limits, however as part of the authority's income generation remit, it is proposed to increase this limit in respect of externally managed funds (see paragraph 40 below) to £30M which will have an corresponding impact for both long-term investments and investments without credit ratings, to enable us to make an additional investment in the CCLA and other similar funds.

Table 6 – Non Specified Investment Limits 2016/17

	Strategy Cash Limit	Revised Cash Limit
Total long-term investments	£55M	£80M
Total investments without credit ratings or rated below A-	£10M	£30M
Total investments in foreign countries rated below AA+	£5M	£5M
Total non-specified investments	£70M	£115M

31. Tables 7 and 8 below summarises the Council's investment portfolio at 30 September 2016 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Table 7

Credit Rating	Long Term	Short Term	Total
	£M	£M	£M
AAA	10.8	12.6	23.4
AA+	3.2	0.0	3.2
AA		0.1	0.1
AA-		4.1	4.1
A+		9.6	9.6
A		8.0	8.0
A-		7.0	7.0
Unrated pooled funds		7.0	7.0
Total Investments	14.0	48.4	62.4

Table 8

	Current Investment £M	Average Yield/ Rate %	Forecast Return £M
<u>Specified Investments</u>			
Cash	21.8	0.48	0.13
Corporate Bonds (not subject to Bail in)	10.0	0.99	0.10
Other Bonds	1.1	0.93	0.02
	32.9		0.25
<u>Unspecified Investments</u>			
Long term Bonds (not subject to Bail in)	13.9	2.17	0.29
Other Bonds (previously long term)	8.6	0.65	0.04
CCLA	7.0	5.00	0.35
	29.5		0.68
<u>Total Investment</u>	62.4	1.72	0.93
<u>Total Investment excluding CCLA</u>	55.4	1.23	0.58

Full details of our investments (excluding CCLA) can be seen in Appendix 2

Credit Developments and Credit Risk Management

32. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.
33. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long term ratings of the local authorities to which it

	assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.
34.	Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.
35.	There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.
36.	The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.
37.	Fitch upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.
38.	Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authority's, this shows that on average we have a higher credit rating and have less exposure to Bail- in which reflects our change in strategy during 2015. Details can be seen in Appendix 4.
	Liquidity Management
39.	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.
	Externally Managed Funds
40.	The Council currently has £7M 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. As at the 30 September the sell price of our total investments were valued at £7.2M a notional "gain" of £0.2M against investments, this is lower than that

	<p>previously reported as following 'Brexit' CCLA have prudently adjusted the fund value downwards by approximately 4% for the end of September price, based on their valuer's advice. This is in line with the 4 or 5% adjustments being made by other property funds at this time. Our advisers Arlingclose have issued the following statement, 'We believe this is a prudent step taken by CCLA to protect continuing investors in the fund from anyone attempting to sell at "off-market" pre-referendum prices. After all, Brexit is a significant event with wide but largely unknown implications. We advise clients to invest in this fund with a rolling five year investment horizon, with the aim of collecting steady income and to see through price volatility. Our advice therefore continues to be that clients should not sell strategic investments at this time, and we are confident that income distribution will remain significantly higher than cash over the coming years'.</p> <p>The current quoted dividend yield on the fund is currently 4.89% (equates to 5% on our original investment) and is expected to return £0.34M for the year (based on the average return of the last 12 months 4.8%)</p>
	BUDGETED INCOME AND EXPENDITURE
	<u>Investments</u>
41.	The Council does not expect any losses from non-performance in relation to its investments by any of its counterparties. The UK Bank Rate had been maintained at 0.5% since March 2009 and until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative, as a consequence short-term money market rates have fallen and are expected to fall further following 'Brexit'. Investments in Money Market Funds and call accounts currently generated an average rate of 0.48%. Investments in bonds have performed better returning an average of 1.42% for the year to date. The average cash balances during the period was £90.5M (range between £108.5M to £61.7M); these are expected to fall as the incidence of government grant income and council tax income is skewed towards the earlier part of the year.
42.	As reported previously the Authority continues to review investments in suitable longer term financial instruments which will generate a better return, as it is envisaged that there be sufficient cash balances over the medium term.
	<u>Expenditure</u>
43.	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 in 2016/17 of financing the Authority's loan debt is estimated to be £14.5M As a result of variable interest rates being lower than those estimated, no new long term borrowing being taken the last two years, deferring any new borrowing to later in the year and a fall in long term interest rates following BREXIT and subsequent reduction in base rate it is expected that the cost of borrowing will be less than the estimated cost.
	COMPLIANCE WITH PRUDENTIAL INDICATORS
44.	The Council can confirm that it has complied with its Prudential Indicators for 2016/17, approved by Full Council on 10 February 2016, item 6. Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19

45.	<p>In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2016/17 to date. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Table 9 below summarises the Key Indicators and performance to date further details can be found in Appendix 4.</p> <p>Table 9</p> <table border="1" data-bbox="328 398 1422 808"> <thead> <tr> <th data-bbox="328 398 963 488">Indicator</th> <th data-bbox="963 398 1161 488">Limit</th> <th data-bbox="1161 398 1422 488">Actual at 30 September 2016</th> </tr> </thead> <tbody> <tr> <td data-bbox="328 488 963 539">Authorised Limit for external debt £M</td> <td data-bbox="963 488 1161 539">£863M</td> <td data-bbox="1161 488 1422 539">£335M</td> </tr> <tr> <td data-bbox="328 539 963 591">Operational Limit for external debt £M</td> <td data-bbox="963 539 1161 591">£700M</td> <td data-bbox="1161 539 1422 591">£335M</td> </tr> <tr> <td data-bbox="328 591 963 642">Maximum external borrowing in year</td> <td data-bbox="963 591 1161 642"></td> <td data-bbox="1161 591 1422 642">£249M</td> </tr> <tr> <td data-bbox="328 642 963 694">Limit of fixed interest debt %</td> <td data-bbox="963 642 1161 694">100%</td> <td data-bbox="1161 642 1422 694">81%</td> </tr> <tr> <td data-bbox="328 694 963 745">Limit of variable interest debt %</td> <td data-bbox="963 694 1161 745">50%</td> <td data-bbox="1161 694 1422 745">19%</td> </tr> <tr> <td data-bbox="328 745 963 808">Limit for Non-specified investments £M</td> <td data-bbox="963 745 1161 808">£50M</td> <td data-bbox="1161 745 1422 808">£30M</td> </tr> </tbody> </table>	Indicator	Limit	Actual at 30 September 2016	Authorised Limit for external debt £M	£863M	£335M	Operational Limit for external debt £M	£700M	£335M	Maximum external borrowing in year		£249M	Limit of fixed interest debt %	100%	81%	Limit of variable interest debt %	50%	19%	Limit for Non-specified investments £M	£50M	£30M
Indicator	Limit	Actual at 30 September 2016																				
Authorised Limit for external debt £M	£863M	£335M																				
Operational Limit for external debt £M	£700M	£335M																				
Maximum external borrowing in year		£249M																				
Limit of fixed interest debt %	100%	81%																				
Limit of variable interest debt %	50%	19%																				
Limit for Non-specified investments £M	£50M	£30M																				
<u>Investment Training</u>																						
46.	<p>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. Staff have attended a number of training courses provided by our advisors (Arlingclose).</p>																					
RESOURCE IMPLICATIONS																						
<u>Capital/Revenue</u>																						
47.	<p>The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.</p>																					
<u>Property/Other</u>																						
48.	None																					
LEGAL IMPLICATIONS																						
<u>Statutory power to undertake proposals in the report:</u>																						
49.	<p>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.</p>																					
<u>Other Legal Implications:</u>																						
50.	None																					

POLICY FRAMEWORK IMPLICATIONS

51.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.
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KEY DECISION?

Yes/No

WARDS/COMMUNITIES AFFECTED:**SUPPORTING DOCUMENTATION****Appendices**

- | | |
|----|--|
| 1. | Economic Background and Interest Rates |
| 2. | Current Investments |
| 3. | Compliance with Prudential Indicators |
| 4. | Southampton Benchmarking 30 th September 2016 |
| 5. | Glossary of Treasury Terms |

Documents In Members' Rooms

1.

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.

No

Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.

No

Other Background Documents**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.

[Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19](#)

1. External Economic Performance Q1 and Q2

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Our advisors Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at

the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 2.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

Outlook for Q3 and Q4

Our advisors, Arlingclose, expectation is that the economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook as been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

Agenda Item 9

Appendix 2

Summary of investments as at 30 September 2016

The Authority manages internal investments amounting to £55.4M, with an average rate of return of 1.45% as detailed below:

Investments	At 30 September 2016 £000	Date of Maturity	Yield %	Rating
Cash				
Barclays Bank PLC	3,000	Call	0.30	A
Santander UK Plc	5,000	180 Day Notice	0.90	A
Aberdeen MMF	7,000	MMF	0.38	A+
Blackrock MMF	62	MMF	0.32	AA-
Deutsche MMF	62	MMF	0.32	AA-
Federated Prime MMF	3,900	MMF	0.37	AA-
Goldman Sachs MMF	41	MMF	0.30	AA
Insight MMF	40	MMF	0.30	A+
Invesco MMF	60	MMF	0.36	AA-
J P Morgan MMF	21	MMF	0.33	AA-
Standard Life MMF	2,600	MMF	0.37	A+
Total Cash	21,786		0.48	
Corporate Bonds				
Places for People Capital Markets	3,863	27/12/2016	1.32	A-
National Grid Gas plc	3,154	07/06/2017	0.87	A-
Total Corporate Bonds	7,017		1.11	
Other Short Term Bonds				

Bank of Scotland PLC Covered Bond	4,176	08/11/2016	0.74	AAA
Laneskreditbank Baden-Wuert	2,018	15/12/2016	0.72	AAA
Lloyds Bank Covered Bond	2,002	16/01/2017	0.60	AAA
Abbey National Treasury plc Covered Bond	3,001	20/01/2017	0.74	AAA
Nationwide Building Society Covered Bond	1,483	17/07/2017	0.62	AAA
Total Other Bonds	12,680		0.69	
Long Term Bonds				
Leeds Building Society Covered Bond	2,001	09/02/2018	0.62	AAA
Barclays Bank Covered Bond	1,001	12/02/2018	0.53	AAA
Yorkshire Building Society Covered Bond	3,156	12/08/2018	1.94	AA+
Nationwide Building Society Covered Bond	1,601	25/04/2019	0.98	AAA
Leeds Building Society Covered Bond	3,003	01/10/2019	0.89	AAA
European Investment Bank - Bond	1,069	15/04/2025	5.27	AAA
European Investment Bank - Bond	1,054	07/06/2025	5.16	AAA
European Investment Bank - Bond	1,039	07/06/2025	5.49	AAA
Total Long Term Bonds	13,924		2.15	
Total Bonds	33,621		1.45	
Total Internal Investments	55,407		1.45	

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COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2016/17 Appendix 3

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. 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. The Authority's planned capital expenditure and financing is summarised below. Further detail is provided in the Capital update which is being submitted to council on 16th November 2016.

Table 1

Capital Expenditure and Financing	Actual 2015/16 £M	Estimate 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
General Fund	37.1	111.2	98.5	50.3	1.5
HRA	38.8	58.9	81.8	38.9	25.4
Total Expenditure	75.9	170.1	180.3	89.2	26.9
Capital receipts	5.2	3.4	4.4	3.5	2.8
Capital Grants	23.7	31.2	29.3	11.8	0.0
Contributions	3.6	3.8	5.8	2.1	1.4
Council Resources	7.9	11.6	14.3	10.0	5.2
Major Repairs Allowance	19.8	19.9	19.9	20.3	16.2
Total Financing	60.2	69.9	73.7	47.7	25.6
Council Resources - borrowing	15.7	100.2	106.6	41.5	1.3
Total Funding	15.7	100.2	106.6	41.5	1.3
Total Financing & Funding	75.9	170.1	180.3	89.2	26.9

2. 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 year 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:

Table 2

	Actual 2015/16 £M	Approved 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
Borrowing	93.8	197.7	185.3	200.3	201.4
Finance leases and Private Finance Initiative	64.8	61.7	62.3	60.4	58.3
Transferred debt	15.3	14.9	14.9	14.6	14.2
Total General Fund Debt	173.9	274.3	262.5	275.3	273.9
HRA	155.0	168.3	196.7	197.4	191.8
Total	328.9	442.6	459.2	472.7	465.7

Table 3

Capital Financing Requirement	Actual 2015/16 £M	Approved 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
General Fund	274.1	280.7	280.7	332.1	360.5
HRA	153.5	155.0	155.0	197.0	197.4
Balance Brought forward	427.6	435.7	435.7	529.1	557.9
Capital expenditure financed from borrowing (inc PFI)					
<i>General Fund (GF)</i>	9.7	75.7	59.2	35.2	1.3
<i>HRA</i>	6.0	24.5	47.4	6.3	0.0
HRA Voluntary Repayment of Debt	(5.2)	(5.2)	(5.6)	(5.6)	(5.6)
GF Revenue Provision for Repayment of Debt	0.0	(4.9)	(4.7)	(4.9)	(5.1)
Movement in Other Long term Liabilities	(2.4)	(2.8)	(2.9)	(2.2)	(2.4)
Capital Financing Requirement Carried Forward	435.7	523.0	529.1	557.9	546.1

3. 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. Maturity date is based on final payment date and not adjusted for equal instalment payments made in year.

Table 4

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 30/09/2016 £M	Average Fixed Rate as at 30/09/2016 %	% of Fixed Rate as at 30/09/2016 %	Compliance with set Limit?
Under 12 Months	0	45	9.0	3.06	4.50	Yes
Over 12 Months but within 24 Months	0	45	-			Yes
Over 24 Months but within 5 years	0	50	52.2	3.23	26.10	Yes
Over 5 years but within 10 years	0	75	-			Yes
10 years and above	0	75	138.8	3.83	69.40	Yes
			200.0	3.57	100.0	

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.

4. 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.

Table 5

Ratio of Financing Costs to Net Revenue Stream	Actual 2015/16	Approved 2016/17	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	%	%	%	%	%
General Fund	5.80%	8.47%	6.64%	7.45%	8.24%
HRA	14.07%	14.12%	14.84%	14.56%	14.91%
Total	9.18%	11.18%	10.18%	10.60%	11.33%

5. Adoption of the CIPFA Treasury Management Code

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

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management Code* on 19 February 2003 and has subsequently agreed further updates.

6. 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.

Table 6

HRA Summary of Borrowing	Actual 2015/16	Approved 2016/17	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	£M	£M	£M	£M	£M
Brought Forward	153.5	174.6	155.0	196.7	197.4
Maturing Debt	(5.1)	(5.2)	(5.6)	(5.6)	(5.6)
Appropriation from General Fund	0.6				
New Borrowing	6.0	24.5	47.3	6.3	
Carried Forward	155.0	193.9	196.7	197.4	191.8
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	44.6	5.7	2.9	2.2	7.8

7. Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available within a rolling three month period with the view of looking to borrow short term if cash available in instant access accounts falls below £20M.

8. Summary

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

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Southampton Benchmarking Scores 30th September 2016
Appendix 4



Investment Benchmarking

30 September 2016

Southampton
21 English Unitaries Average
138 LAs Average

Internal Investments	£55.4m	£62.9m	£64.4m
External Funds	£7.2m	£8.9m	£7.4m
TOTAL INVESTMENTS	£62.6m	£72.2m	£71.8m

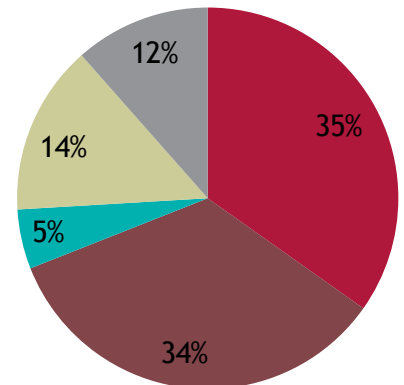
Security			
Average Credit Score	3.21	4.16	4.29
Average Credit Rating	AA	AA-	AA-
Average Credit Score (time-weighted)	1.53	3.77	4.03
Average Credit Rating (time-weighted)	AA+	AA-	AA-
Number of Counterparties / Funds	24	16	16
Proportion Exposed to Bail-in	39%	67%	66%

Liquidity			
Proportion Available within 7 days	27%	44%	42%
Proportion Available within 100 days	43%	67%	68%
Average Days to Maturity	324	103	54

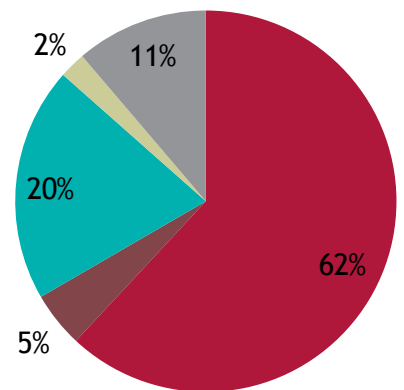
Market Risks			
Average Days to Next Rate Reset	210	106	76
External Fund Volatility	4.1%	1.8%	3.1%

Yield			
Internal Investment Return	1.02%	0.56%	0.60%
External Funds - Income Return	4.87%	3.82%	3.29%
External Funds - Capital Gains/Losses	-1.84%	-2.50%	-1.32%
External Funds - Total Return	3.03%	1.32%	1.98%
Total Investments - Income Return	1.46%	0.95%	0.88%
Total Investments - Total Return	1.25%	0.77%	0.86%

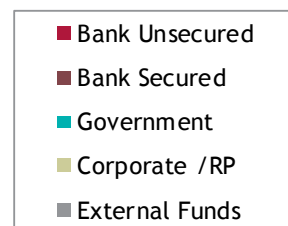
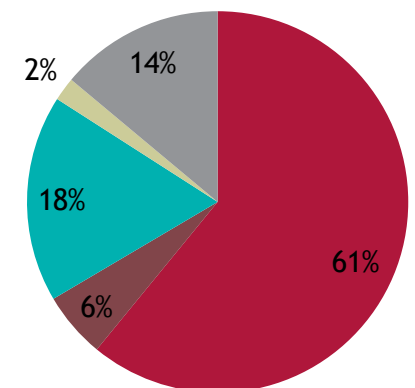
Southampton



All Arlingclose Clients



English Unitaries



Notes

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

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GLOSSARY OF TREASURY TERMS

Amortised Cost Accounting:

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.

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bail - in Risk:

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.

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.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.

<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p>Certainty Rate:</p> <p>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.</p>
<p>CD's:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>
<p>Comprehensive Spending Review (CSR):</p> <p>Comprehensive Spending Review is a governmental process in the United Kingdom carried out by HM Treasury to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).</p>
<p>Constant Net Asset Value (CNAV)</p> <p>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.</p>
<p>Corporate Bonds:</p> <p>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.</p>
<p>Cost of Carry:</p> <p>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%.</p>
<p>Counterparty List:</p> <p>List of approved financial institutions with which the Council can place investments with.</p>
<p>Covered Bond:</p> <p>Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often</p>

a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI :

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

Credit Rating:

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

Department for Communities and Local Government (DCLG) :

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

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Diversification /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

European Investment Bank (EIB):

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.

Federal Reserve:

The US central bank. (Often referred to as “the Fed”).

Floating rate notes (FRNs) :

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.

FTSE 100 Index:

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

General Fund:

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

Gilts:

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

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced 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.

The G7:

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

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

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

LIBID:

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

LIBOR:

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

LOBO:

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

effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

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

Minimum Revenue Provision (MRP):

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

Money Market Funds (MMF):

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

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

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

Multilateral Development Banks:

See Supranational Bonds below.

Municipal Bonds Agency

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.

Non Specified Investment:

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

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised

Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

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

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

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

Property:

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

Prudential Code:

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

Prudential Indicators:

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

Public Works Loans Board (PWLB):

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

Quantitative Easing (QE):

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

Repo Rate:

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.

Revenue Expenditure:

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

RPI:

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

(Short) Term Deposits:

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

Specified Investments:

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

Supported Borrowing:

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

Supranational Bonds:

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

Treasury (T) -Bills:

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

Temporary Borrowing:

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

Treasury Management Code:

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

Treasury Management Practices (TMP):

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

activities.

Unsupported Borrowing:

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

Variable Net Asset Value (VNAV):

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.

Yield:

The measure of the return on an investment instrument.

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	LOCAL APPOINTMENT OF EXTERNAL AUDITORS		
DATE OF DECISION:	14 NOVEMBER 2016 16 NOVEMBER 2016		
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
Not Applicable			
BRIEF SUMMARY			
<p>This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, noting that the current arrangements only cover up to and including the 2017/18 audits. The Council will need to implement new arrangements in respect of the appointment of external auditors from 1st April 2018 and these arrangements will need to be in place in time to make a first appointment by 31 December 2017.</p>			
<p>Regulations made under the Local Audit and Accountability Act 2014 ('the Act') allow authorities to opt in for their external auditor to be appointed by an 'appointing person'. Public Sector Audit Appointments ('PSAA') has been specified by the Secretary of State as an 'appointing person' (or 'sector led body'). PSAA has now formally invited the Council to opt in, along with all other authorities, so that they can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's external auditor from 1st April 2018.</p>			
RECOMMENDATIONS:			
Governance Committee			
	(i)	To consider and recommend to Council that it accepts PSAA invitation to 'opt in' to the sector led option for the appointment of external auditors.	
Council			
	(ii)	That Council accepts PSAA invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.	

REASONS FOR REPORT RECOMMENDATIONS	
1.	Whilst the Council has until December 2017 to appoint its' external auditors, PSAA has formally invited the Council to opt in to the national sector led body. Details relating to PSAA's invitation are provided in Appendices 1 and 2 of this report. If the Council is to take advantage of this national scheme for appointing external auditors then it needs to take the decision to enable it accept the invitation by early March 2017.
2.	The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') require that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA.
3.	PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.
4.	It is considered that sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically: <ul style="list-style-type: none"> a) The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms; b) The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector; c) Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon; d) Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming; e) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; f) Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector in the medium and long term.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
5.	There are three options open to the Council under the Act. In summary, these comprise: <ul style="list-style-type: none"> a) Setting up an independent Auditor Panel and undertaking an individual external auditor procurement and appointment exercise; b) Joining with other councils to set up a joint independent Auditor Panel and undertaking a joint audit procurement and appointing exercise; or c) Opting-in to a national sector led body that will negotiate contracts and

	make the appointment on behalf of councils.
6.	If the Council chooses not to opt in then there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
7.	Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
8.	Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.
9.	It should also be noted that currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that any local procurement exercise, as described above, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.
DETAIL (Including consultation carried out)	
10.	The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA
11.	PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
12.	The transitional arrangements come to an end on 31 March 2018 at which time the council is able to move to local appointment of the external auditors. The Act sets out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be

	appointed by an 'appointing person'.
13.	The Act requires that a local auditor is appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So for the audit of the accounts of the 2018/19 financial year, there must be a local auditor appointed by 31 December 2017.
14.	In July 2016 PSAA were specified by the Secretary of State as an 'appointing person' under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will make auditor appointments to relevant principal local government bodies that choose to opt-in to the national appointment arrangements for audits of the accounts from 2018/19.
15.	The principal benefits in choosing to opt-in to the sector led body are as follows: <ul style="list-style-type: none"> a) PSAA will run the tendering exercise, evaluate bids and award contracts and will consult on individual auditor appointments. b) PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together; c) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; d) It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition; e) The overall procurement costs would be lower than an individual smaller scale local procurement.
16.	PSAA consider the optimal length of contract between PSAA and firms as being 5 years.
17.	The scope of the audit will still be specified nationally with the National Audit Office responsible for writing the Code of Audit Practice which all firms appointed to carry out the council's audit must follow.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
18.	Current external fees levels are anticipated to increase when the current contract ends on 31 st March 2018. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's external audit fees for 2016-17 are £161,720.
19.	The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms however opting-in to a national scheme will provide maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale

	collective procurement arrangement.
20.	The audit fee under the sector led arrangement will reflect the size, audit risk and complexity of the work required. PSAA is to establish a system for setting the fee which is fair to all opted-in bodies noting that, as a not-for-profit organisation, PSAA will be able to return any surpluses to participating bodies after all costs have been met.
21.	If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.
<u>Property/Other</u>	
22.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
23.	Section 7 of the Act requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment which is reserved to full Council.
24.	Section 12 of the Act makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
25.	Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Regulations (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.
<u>Other Legal Implications:</u>	
26.	None
POLICY FRAMEWORK IMPLICATIONS	
27.	None
KEY DECISION	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	PSAA Invitation – Southampton City Council
2.	Form of notice of acceptance of the invitation to opt in
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
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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

27 October 2016

Email: appointingperson@psaa.co.uk

Dawn Baxendale
Southampton City Council
Civic Centre
Southampton SO14 7LY

Copied to: Mel Creighton, Deputy Chief Financial Officer, Southampton City Council
Richard Ivory, Head of Legal Services, Southampton City Council

Dear Ms Baxendale

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your authority's formal notice of acceptance of the invitation to opt into the appointing person arrangements)

To: appointingperson@psaa.co.uk

Subject: [Name of authority]

Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 27 October 2016 to become an opted-in authority for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that [name of authority] has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: [Name of signatory]

Title: [Role title] (authorised officer)

For and on behalf of: [Name of authority]

Date:

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DECISION-MAKER:		GOVERNANCE COMMITTEE			
SUBJECT:		ANNUAL GOVERNANCE STATEMENT 2015-16: STATUS REPORT			
DATE OF DECISION:		14 NOVEMBER 2016			
REPORT OF:		SERVICE DIRECTOR FINANCE AND COMMERCIALISATION			
<u>CONTACT DETAILS</u>					
AUTHOR:	Name:	Peter Rogers	Tel:	023 8083 2835	
	E-mail:	peter.rogers@southampton.gov.uk			
Director	Name:	Mel Creighton	Tel:	023 8083 4897	
	E-mail:	mel.creighton@southampton.gov.uk			
STATEMENT OF CONFIDENTIALITY					
Not Applicable					
BRIEF SUMMARY					
The Council's 2015-16 Annual Governance Statement ('AGS') identified five 'significant governance issues' and detailed how these issues were to be addressed.					
It is appropriate for the Governance Committee to receive and note the current status of these 'Planned Actions'.					
RECOMMENDATIONS:					
The Governance Committee is asked to:					
	(i)	Note the status of planned actions to address the significant governance issues identified in the 2015-16 AGS (Appendix 1).			
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.	As per the report to the Governance Committee on 25 th July 2016 "the Committee will be provided with a mid-year update report in respect of the status of the Planned Actions".				
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED					
3.	No alternative options have been considered.				
DETAIL (Including consultation carried out)					
4.	The 2015-16 AGS was presented and approved by the Governance Committee at 25 th July 2016 meeting.				
5.	The AGS identified five 'significant governance issues' and, for each issue, there was an agreed 'Planned Action' detailing how the issue was to be				

	addressed together with a named 'Responsible Officer' and 'Target Date for Completion'.	
6.	An 'AGS Significant Governance Issues - Action Plan' was subsequently developed and has been updated by the 'Responsible Officers' to reflect the current position.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
7.	None	
<u>Property/Other</u>		
8.	None	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
9.	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 arrangement are intended to meeting those responsibilities.	
<u>Other Legal Implications:</u>		
10.	None	
POLICY FRAMEWORK IMPLICATIONS		
11.	None	
KEY DECISION		No
WARDS/COMMUNITIES AFFECTED:		Not applicable
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Annual Governance Statement 2015/16 Significant Governance Issues: Status Report	
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
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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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ANNUAL GOVERNANCE STATEMENT 2015/16

SIGNIFICANT GOVERNANCE ISSUES: 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 2015-16:

	Governance Issue	Planned Action	Responsible Officer	Target Date	Status	Comments
1.	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.	Review and implement appropriate arrangements to provide adequate organisational resources in each service area to enable compliance and oversight of information governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented. An operational review is also taking place as a result of a voluntary audit by the Information Commissioners Office in January 2016. The Action Plan (as agreed by CMT) will be in effect by Sept 2016 and will address this issue.	Service Director - Legal & Governance	Sept 2016	Completed (Sept 16)	A corporate Senior Information Risk Officer (Service Director - Legal & Governance) is in place and Information Asset Owners "IAOs" (Service Directors) have been trained and put in place across the Council. IAOs are accountable to both the Information Governance Board ("IGB") and CMT for information governance compliance within their areas and are required to submit evidence of compliance on a quarterly basis to the IGB. Non-compliance will be reported to CMT. The Senior Legal Assistant (Information Governance) has been appointed as the Data Protection Officer in order to separate out the roles of the DPO and SIRO as recommended by the Information Commissioner's Office
2.	The general level of staff awareness of the existence and content of the	A 'Corporate Standards' Training programme, which will incorporate the above policies, is being	HR Strategy Manager (Organisational Development and	March 2017	In Progress-On Target	In hand as part of the Managerial Toolkit and development of programmes for newly appointed

	'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.	developed and will be rolled out to managers in 2016-17.	Reward)			managers.
3.	There is need for more a formal, robust and consistent approach to succession planning, performance appraisal and performance monitoring across the organisation.	Phase 2 of the council's management restructure (which form parts of the council's wider Transformation Programme) will see the introduction of a more robust and consistent approach to performance management, via individual performance contracts, and will also seek to address future succession planning issues. In light of significantly reduced resources succession planning remains an issue. Note: Phase 1 of the programme involving the restructure of the senior management team was implemented in February 2016.	Council Management Team	Sept 2016	Completed	Phase 2 of the Management restructure commenced in May 2016 with the vast majority of the new posts having been appointed to. Each new post incorporates a 'performance contract' which sets out the required management behaviours and competencies. In addition, the Workforce Strategy (approved by Full Council in September 2016) also seeks to address the wider issues in relation to recruitment and retention, talent management and succession planning.
4.	The Partnership Code, which forms part of the council's constitution needs to be reviewed and updated to reflect the current approach.	A new Partnership Code has been drafted and will be presented, as a supplementary report on the constitution, at the Sept 2016 Council meeting.	Service Director - Intelligence, Insight & Communications	Sept 2016	Deferred to Nov 2016	The report was not taken to the September Council meeting but has been added to the agenda for the November 2016 meeting.
5.	Reduced overall capacity and loss of some experienced staff coupled with implementation of a	To be addressed as part of the development of a Workforce Strategy to be considered in Sept	HR Strategy Manager (Organisational Development and	Sept 2016	Completed (Sept 2016)	The Workforce Strategy and Action Plan, presented to and approved by Full Council at the September 2016 meeting,

	new organisational structure will present challenges in terms of the demands on managers	2016.	Reward)			provides an overview of what is required for the Council to develop its current and future workforce reflecting the agreed operating model and the transformation programme.
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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT	
DATE OF DECISION:		14 NOVEMBER 2016	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit (England) Regulations 2015 a relevant body must:</p> <p>‘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’.</p> <p>In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Governance Committee, summarising:</p> <ul style="list-style-type: none"> • progress in implementing the audit plan; • internal audit reviews in progress; • audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified; and • the status of ‘live’ reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control <p>Appendix 1 summarises the activities of internal audit for the period to October 2016</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Internal Audit Progress report to the period October 2016 as attached	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Governance Committee is required to receive the Chief Internal Auditor’s progress report.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		

DETAIL (Including consultation carried out)	
3.	The internal progress report has been approved by the Council's Management Team
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit Progress Report - October 2016
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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Internal Audit Progress Report

October 2016

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

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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’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

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

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

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

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

2. Purpose of report

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

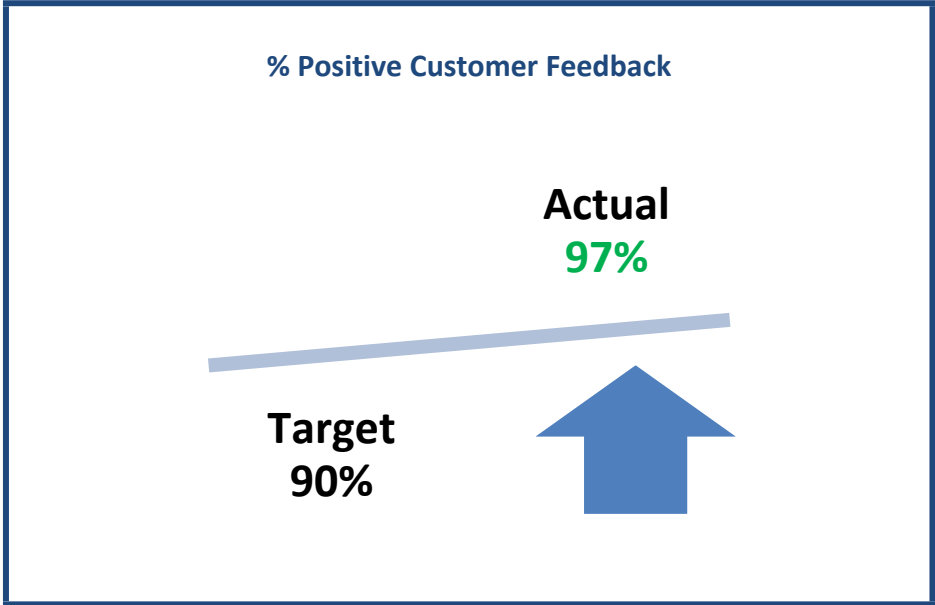
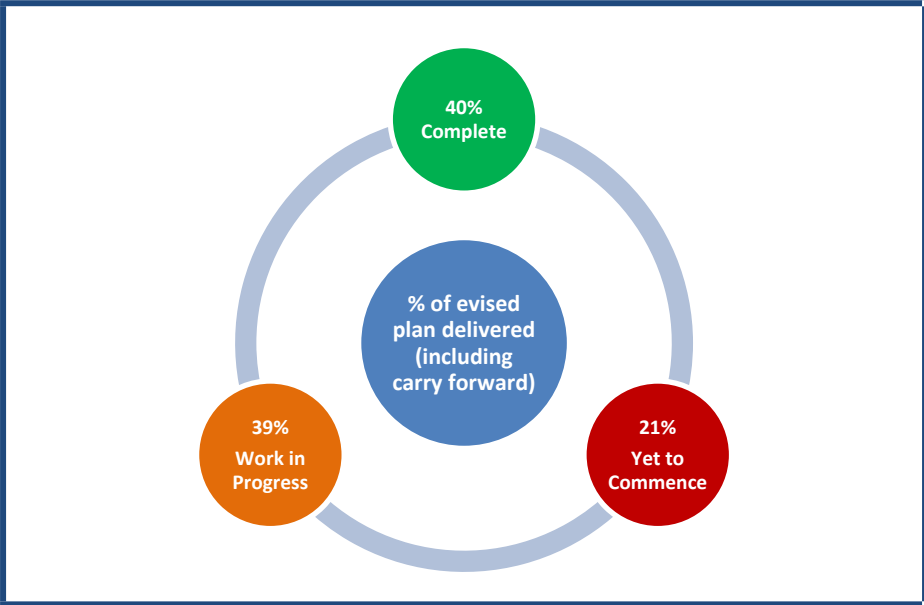
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

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


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

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p>

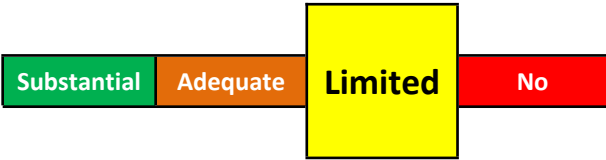
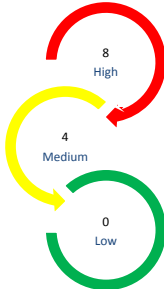
4. Status of 'Live' Reports

Audit Review	Report Date	Service Director	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Income Collection and Transactions	09/05/14	F & C	Adequate	6 (0)	0 (0)	0 (0)	5 (0)	1 (0)
Client Monies Service	09/03/15	A & H	Limited	30 (16)	0 (0)	0 (0)	29 (16)	1 (0)
Transport	15/06/15	G	Adequate	8 (1)	0 (0)	0 (0)	7 (1)	1 (0)
Financial Assessment Process	13/07/15	A & H	Limited	32 (22)	0 (0)	0 (0)	31 (22)	1 (0)
Accounts Receivable/Debt Management	08/10/15	F & C	Adequate	8 (1)	0 (0)	0 (0)	7 (1)	1 (0)
IT disaster recovery	22/02/16	D & BO	Limited	10 (3)	0 (0)	1 (0)	6 (2)	3 (1)
Across Schools Thematic Review Payroll	09/03/16	C & F	Adequate	4 (1)	0 (0)	2 (0)	2 (1)	0 (0)
Human Resources – sickness monitoring	18/03/16	HR & OD	Adequate	15 (10)	0 (0)	0 (0)	12 (10)	3 (0)
HMO Licencing	22/03/16	T & US	Adequate	13 (7)	0 (0)	1 (0)	7 (3)	5 (4)
Continuing healthcare	06/04/16	A & H	Adequate	6 (3)	0 (0)	1 (1)	4 (2)	1 (0)
Telecommunications	12/04/16	D & BO	Limited	4 (0)	0 (0)	0 (0)	3 (0)	1 (0)
Integrated Commissioning Unit Governance	21/04/16	Q & I	Adequate	6 (4)	0 (0)	0 (0)	5 (3)	1 (1)
Safeguarding Adults	05/05/16	A & H	Limited	27 (3)	0 (0)	2 (0)	23 (6)	2 (0)

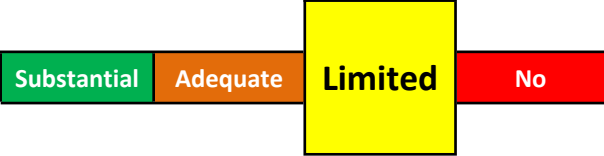
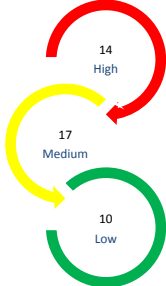
Audit Review	Report Date	Service Director	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Quality assurance	16/05/16	A & H	Limited	12 (8)	0 (0)	0 (0)	6 (5)	6 (3)
Fostering	25/05/16	C & F	Limited	20 (16)	0 (0)	0 (0)	17 (13)	3 (3)
Business Continuity and Emergency Planning (follow up)	26/05/16	T & US	N/A	1 (0)	0 (0)	1 (0)	0 (0)	0 (0)
DOLS	16/06/16	A & H	Limited	12 (12)	0 (0)	0 (0)	10 (10)	2 (2)
Public Health	17/06/16	PH	Limited	3 (3)	0 (0)	0 (0)	2 (2)	1 (1)
Health & Safety (follow up)	12/07/16	D & BO	N/A	16 (11)	0 (0)	6 (5)	10 (6)	0 (0)
Direct Payments	02/08/16	A & H	Limited	41 (14)	0 (0)	7 (0)	19 (12)	15 (2)
ICU – Care Placement Service	02/08/16	Q & I	Adequate	4 (4)	0 (0)	2 (2)	2 (2)	0 (0)
Local Government Transparency Code	28/09/16	L & G	Adequate	10 (5)	0 (0)	10 (5)	0 (0)	0 (0)
Main Accounting	28/10/16	F & C	Adequate	4 (0)	0 (0)	1 (0)	3 (0)	0 (0)

Service Directors	
Finance & Commercialisation	F & C
Growth	G
Adults & Housing	A & H
Human Resources & Organisational Development	HR & OD
Digital & Business Operations	D & BO
Children’s & Families	C & F
Transactions & Universal Services	T & US
Quality & Integration	Q & I
Public Health	PH
Legal & Governance	L & G

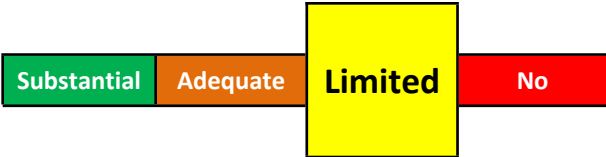
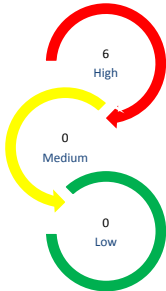
5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

Quality assurance		
<p>Directorate Sponsor: Children’s & Families</p> <p>Key Contacts: Kim Drake, Service Director, Children’s and Families</p> <p>Final Report Issued: Kim Drake, Service Director, Children’s and Families; Phil Bullingham, Principal Officer; Paul Juan, Service Manager</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>A Quality Assurance Framework is in place for Children and Families which aims to deliver a consistent approach to quality assurance in order to improve practices and outcomes within service areas. However, testing across four service areas highlighted that not all managers were aware of the framework.</p> <p>The Quality Assurance Business Plan 2014-16 outlined how the Quality Assurance Framework was to be rolled out across Adults and Housing by October 2015. However, as at the time of the audit this had yet to happen and consequently there was no formal structured and independent internal quality assurance work taking place across these service areas.</p> <p>The quality assurance plan was in place to outline what quality assurance work would be undertaking throughout the year, however, the plan did not cover the work of the QA Team, indicate the level of resource required to deliver the plan or relative priorities. Activities were not allocated to staff and where target dates were included for actions, each had lapsed and there were no details of outcomes / reasons for delays.</p> <p>The Quality Assurance Team monitors a "Plan of Plans" document which is a consolidated document detailing 20 reports and associated actions following reviews from sources such as Ofsted and Serious Case Reviews. A review of the document identified that it is very detailed and clear, however it was noted that there were more than 1,200 lines (actions), including 251 lines (21%) that had not been completed. Of these 245 (98%) were overdue.</p>		

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<p>Direct Payments</p>		
<p>Directorate Sponsor: Housing, Adults & Communities</p> <p>Key Contacts: Derek Laws, Interim Service Director, Housing, Adults & Communities</p> <p>Final Report Issued: Mark Heath, Chief Operating Officer; Derek Law, Interim Service Director; Paul Juan, Service Manager; Prisca Mascarenhas, Business Manager; Lorraine Stewart, Creditors Manager</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>Direct payments are available to residents eligible to social care whereby they, or their nominated carer, will receive money to buy services or equipment to manage their assessed needs.</p> <p>Review of the direct payment process highlighted weaknesses whereby some clients were in receipt of an ongoing payment despite not having signed the required agreement. Of those clients who did not have capacity to consent to a direct payment themselves testing identified instances where decisions were not supported by a mental capacity assessment form or a suitable person assessment for the direct payment to be managed by a third party.</p> <p>Additionally, 16% of direct payments tested were found to be overpaid as the client contribution had not been applied or an incorrect amount had been deducted. In addition a proportion of clients tested did not appear to be paying their client contribution towards their care.</p> <p>Care Managers are not carrying out regular reviews to determine if the needs of the client have changed and the direct payment remains appropriate. Of the clients tested, 80% had not received an annual review. Of the higher value direct payments (over £350 per week), 30% appear never to have been audited by the payments team and only 60% had been audited annually as required.</p> <p>Concerns have been highlighted by the payments team with 70% of the direct payments audited, however the escalation process was often not followed to resolve the highlighted issues. Of those direct payment audited by the Payment Team 42% highlighted accrued surpluses; however, these had not been adjusted or re-assessed.</p> <p>All documentation, assessments, reviews and audits should be recorded on PARIS. However information is not easy to find, documents were missing or information was incomplete as there are no mandatory fields for completion. Without a comprehensive audit trail there is a lack of evidence to support</p>		

decisions and fully monitor a client’s care.

Public Health		
<p>Directorate Sponsor: Public Health</p> <p>Key Contacts: Bob Coates, Acting Director of Public Health</p> <p>Final Report Issued: Bob Coates, Acting Director of Public Health; Suki Sitaram, Chief Strategy Officer; Dawn Baxendale, Chief Executive</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 

Summary of key observations:

The Health & Social Care Act 2012 gave local authorities new duties in relation to the responsibility for promoting and protecting the public’s health which came into effect from April 2013.

The Faculty of Public Health has developed a document setting out the local Public Health Functions in England. This document is used by the Public Health Team as the basis to assess Southampton City’s compliance with the three domains of Health Protection; Health Improvement; Health Services. Overall there are 34 sub functions.

Each of the sub functions had been allocated to a senior member of the Public Health Team to enable regular monitoring. Whilst monitoring of the 34 areas has been undertaken some areas are reliant on input and guidance from Public Health England (PHE) and NHS England (NHSE), which has not been received.

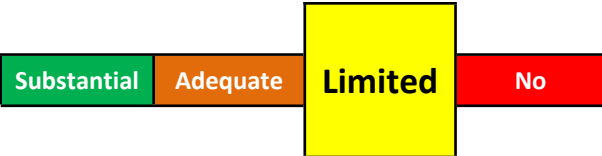
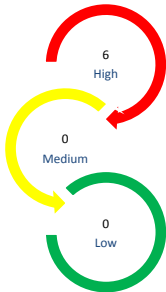
Of the 34 areas, 14 were assessed at the time of the audit as fully compliant and 20 were partially compliant. There were no non-compliant areas. There was no clear risk assessment to assess the impact of this and no action plan in place to address the areas of partial compliance to ensure that resources were targeted effectively to minimise the impact.

The Senior Management Team had not been made aware of the level of compliance or the issues / risks that arise as a result. Therefore, at the time of the audit there was no clear direction of travel to improve or minimise any further reduction in the overall compliance level for the Public Health Functions for the City Council.

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With the exception of one, all management actions raised to mitigate identified risks have been implemented

Leisure – Contract Management

<p>Directorate Sponsor:</p> <p>Key Contacts: Service Director Digital & Business Operations</p> <p>Final Report Issued: Mark Heath, Acting Chief Operating Officer; Mike Harris, Acting Service Director Growth; Rob Harwood, Service Director, Digital & Business Operations; Paul Paskins, Contract & Governance Manager</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
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Summary of key observations:

A Project Agreement contract was put in place between Southampton City Council and DC Leisure Ltd (the Contractor) in 2010. At the same time, an operating contract (assigning delivery of the service to a separate Operator) was put in place between DC Leisure Ltd and Active Nation (UK).

We were advised by the Contract and Governance Manager that the Authority’s approach to contract and supplier management was under review as part of the ongoing Transformation project

We examined contract governance in place and found that a partnership arrangement exists between SCC and Places for People. This enables joint decision making to occur, and is further supported by the presence of a Strategic Board, which meets to decide on the longer-term direction of the contract. Representatives from all stakeholders attend these meetings.

It was found that some individual risks had been identified and action was being taken to mitigate them, however, it was agreed that there was no structured approach to capture and record all potential contract risks enabling each to be assessed and allowing resource to be effectively directed against those of highest priority.

The SCC Contract Management Team regularly requests from the contract Operator (Active Nation), details of Health & Safety checks undertaken at individual sites, however, although this system is now in place, documentation remained outstanding at the time of testing.

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The Project Agreement requires a signed declaration, in respect of income and expenditure, from the contractor’s representative. However, we found that SCC has historically relied upon the contractor to provide accurate and complete figures to enable the profit share and the performance of the contract to be monitored, without undertaking their own integrity checks. We understand that integrity checks have been proposed for the future.

With regard performance management, we found that the Operator, Active Nation UK, has regularly provided management information. However, our review of the reports found that they do not fully address all of the four outcomes defined in the contract. The Contract & Governance Manager advised us that the issue of inadequate reporting against these outcomes has been recognised by the Contract Management Team, which has in the past, made ad hoc requests to the Operator for additional information.

All management actions raised to mitigate identified risks have been implemented

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.2016 – 30.09.2016
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	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	50 days
Total number of (new) fraud cases investigated	6 **

*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 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.'*

7. Planning & Resourcing

The internal audit plan for 2016/17 was approved by the Council's Management Team and the Audit Committee in April 2016.

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

8. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ⌚ Delay)	Comment
2016-17 Reviews (incl. 2015-16 Carry Forward)									
Corporate Cross Cutting									
Transformation – Governance and Programme Management	TD	✓	✓	✓	✓	✓	Adequate	✓	15/16
Business Continuity and Emergency Planning (Follow up)	D & BO	✓	✓	✓	✓	✓	N/A	✓	15/16
Health and Safety (Follow up)	D & BO	✓	✓	✓	✓	✓	N/A	✓	15/16
Transformation	TD	✓						✓	
Health and Safety	D & BO	✓	✓	✓				✓	
Information Governance	L & G	✓	-					✓	
Human Resources	HR & OD								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Human Resources – Pay and Allowances	HR & OD	✓	✓	✓				✓	
Repairs and Maintenance	G								
Corporate Governance									
Annual Governance Statement (Assurance Statement)	L & G	-	-	✓	-	✓	Adequate	✓	
Proactive Fraud Review(s)	F & C	-	-	✓	n/a			-	
National Fraud Initiative	F & C	-	-	✓	n/a			✓	
Local Government Transparency Code 2015	L & G	✓	✓	✓	✓	✓	Adequate	✓	
Financial management									
Housing Rents and Debt Management	A & H	✓	✓	✓	✓	✓	Substantial	✓	15/16
Income Collection and Transactions (Port Health)	F & C	✓	✓	✓	✓	✓	Adequate	✓	
Accounts Payable	F & C	✓	✓	✓	✓	✓	Substantial	✓	15/16
Main Accounting System	F & C	✓	✓	✓	✓	✓	Adequate	✓	15/16
Payroll	F & C	✓	✓	✓	✓	✓	Substantial	✓	15/16
Employers Pensions	F & C	✓	✓	✓				✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Accounts Receivable & Debt Management	F & C	✓						✓	
Financial Management	F & C	✓						✓	
NNDR	F & C	✓	✓	✓	✓			✓	
Housing Benefits (inc Council Tax Reduction Scheme)	F & C	✓	✓	✓	✓	✓	Substantial	✓	
IT									
Telecommunications	D & BO	✓	✓	✓	✓	✓	Limited	✓	15/16
IT Applications and Operating Systems	D & BO								
Network Management and Security	D & BO	✓	✓	✓	✓			✓	
Virtualisation	D & BO	✓						✓	
Cyber Essentials Scheme – Assurance mapping	D & BO	-	-	✓	-	-	N/A	✓	
Strategic Objectives									
Arts and Heritage	G	✓	✓	✓	✓	✓	Substantial	✓	15/16
Across Schools Thematic Review – Compliance with Procurement Rules	C & F	✓	✓	✓	✓	✓	Limited	✓	15/16

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Safeguarding - Protection and Court Teams (PACT)	A & H	✓	✓	✓	✓			✗	15/16
Integrated Commissioning Unit – Governance	Q & I	✓	✓	✓	✓	✓	Adequate	✓	15/16
Integrated Commissioning Unit – Domiciliary Care Procurement	Q & I	✓	✓	✓	✓			✓	
Housing – Stock Control (follow up)	A & H	✓	✓	✓	✓	✓	N/A	✓	15/16
Leisure - contract management	D & BO	✓	✓	✓	✓	✓	Limited	✓	15/16
Adoption	C & F	✓	✓	✓	✓	✓	Limited	✓	15/16
Better Care Fund	Q & I	✓	✓	✓	✓	✓	Substantial	✓	15/16
Care Act	A & H	✓	✓	✓	✓			✗	15/16
Families Matters governance review	C & F	✓	✓	✓	✓	✓	N/A	✓	15/16
Safeguarding - Adults	A & H	✓	✓	✓	✓	✓	Limited	✓	15/16
Continuing healthcare	A & H	✓	✓	✓	✓	✓	Adequate	✓	15/16
Fostering	C & F	✓	✓	✓	✓	✓	Limited	✓	15/16
Direct payments	A & H	✓	✓	✓	✓	✓	Limited	✓	15/16
Quality assurance	A & H	✓	✓	✓	✓	✓	Limited	✓	15/16
DOLS	A & H	✓	✓	✓	✓	✓	Limited	✓	15/16

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Public Health	PH	✓	✓	✓	✓	✓	Limited	✓	15/16
Across Schools Thematic Review – Budgetary Control	C & F	✓	✓	✓				✓	
Across Schools Thematic Review - Schools Admissions and Attendance	C & F	✓	✓	✓				✓	
General School Reviews (4)	C & F								
0-25 Special Educational Needs	C & F	✓	✓	✓	✓			✓	
Short Breaks	C & F								
Transitions	C & F / A & H								
SFVS - School Financial Value Standard (Return)	F & C	✓	-	✓	-	-	N/A	✓	
SFVS – Analysis/Follow-up	F & C	✓	-	✓				✓	
Childrens Safeguarding – End to End Case Review	C & F								
Care Leavers	C & F	✓	✓	✓				✓	
Looked After Children	C & F	✓	✓	✓				✓	
Better Care Fund	Q & I								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Direct payments	A & H								
Families Matters grant claim 1	C & F	✓	-	✓	-	✓	n/a	✓	
Families Matters grant claim 2	C & F								
ICU – Care Placement Service	Q & I	✓	✓	✓	✓	✓	Adequate	✓	
ICU – Quality Monitoring Team	Q & I	✓	✓	✓	✓			✓	
Rehabilitation, Reablement and Integration Programme	A & H								
Capital Programme Management	G								
Planning Applications	G								
Port Health	T & US	✓						✓	
CIL – Community Infrastructure Levy	G	✓	✓	✓					
Housing Depot Review	A & H	✓	✓	✓	✓	✓	n/a	✓	
Procurement	D & BO	✓						✓	
Contract Management – RFID	D & BO	✓	✓	✓	✓			✓	
Contract Management – Supported Buses	D & BO	✓	✓	✓	✓			✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Contract Management – Governance	D & BO	✓						✓	
Contract Management – Highways	D & BO								
ICU - Procurement	Q & I								
ICU – Contract Management	Q & I								
Joint Venture – PSP	COO	✓						✓	
Southampton New Arts Centre (SNAC)	G								
Contribution and charging – FAB process review	F & C	✓	-					✓	
Bitterne Sixth Form – Capital Project	F & C	✓	✓	✓				✓	
PUSH	F & C	✓	✓	✓	✓	✓	Substantial	✓	
Local Transport Capital Block Funding	F & C	✓	-	✓	n/a	✓	n/a	✓	
Disabled Facilities Grant	F & C	✓	-	✓	n/a	✓	n/a	✓	
Local Authority Bus Subsidy Grant	F & C	✓	-	✓	n/a	✓	n/a	✓	

Service Directors	
Finance & Commercialisation	F & C
Growth	G
Adults & Housing	A & H
Human Resources & Organisational Development	HR & OD
Digital & Business Operations	D & BO
Children’s & Families	C & F
Transactions & Universal Services	T & US
Quality & Integration	Q & I
Public Health	PH
Legal & Governance	L & G
Transformation Director	TD
Chief Operating Officer	COO

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2015-16	
DATE OF DECISION:		14 NOVEMBER 2016	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
The purpose of the annual audit letter is to communicate the key issues arising from the work of the external auditor to Members and external stakeholders, including members of the public.			
RECOMMENDATIONS:			
	(i)	To note the Annual Audit Letter 2015/16 as attached Appendix 1.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	Under the statutory Code of Audit Practice, the external auditors are required to issue a report to those charged with governance the conclusions from their audit work.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	The external auditors 2015-16 audit work was undertaken in accordance with the Audit Plan issued in April 2016 and was conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.		
4.	<p>The external auditors are responsible for:</p> <ul style="list-style-type: none"> • Forming an opinion on the financial statements, and on the consistency of other information published by them; • Reviewing and reporting by exception on the Council’s AGS; • Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and • Undertaking any other work specified by the Audit Commission and the Code of Audit Practice. <p>The Annual Audit Letter 2015/16 summaries the results of the external auditor’s work across these areas. The report elaborates on those matters the external auditors consider most significant to the Council.</p>		

RESOURCE IMPLICATIONS	
Capital/Revenue	
5.	None
Property/Other	
6.	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
7.	Audit work is undertaken in accordance with the requirements of the Local Audit & Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd, auditing standards and other professional requirements.
Other Legal Implications:	
8.	None
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Audit Letter for the year ended 31 March 2016
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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

Southampton City Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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Agenda Item 13
Appendix 1

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Southampton City Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports was issued on 25 July 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 14 October 2016.

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

Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 25 July meeting of the Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 April 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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

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

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We issued an unqualified audit report on 4 August 2016.

Our detailed findings were included in our Audit Results Reports presented to the 25 July 2016 meeting of the Governance Committee. In that report we noted there were some areas where our work was outstanding and was to be completed. We completed work in those areas and this enabled us to issue an unqualified audit report on the Council's financial statements. There were no matters arising from the completion of our work that needed to be reported to the Governance Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias, reviewing accounting policies and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We completed our testing in respect of the procedures set out in our Audit Plan. In respect of these procedures we noted no:</p> <ul style="list-style-type: none"> · indicators of inappropriate journal entries recorded in the general ledger or inappropriate adjustments made in the preparation of the financial statements; · indicators of management bias within accounting estimates or judgments; · inappropriate accounting policies; or · transactions lacking appropriate business rationale. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p>

Other Risks	Conclusion
<p>Minimum Revenue Provision (MRP)</p> <p>Local authorities are required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP.</p> <p>MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The Authority made changes to the basis on which it has charged MRP and its future approach to calculating the provision and as such we considered this a risk to our audit opinion.</p>	<p>We commissioned an EY expert to review the changes proposed by the Council in this area.</p> <p>Our testing highlighted some minor changes to the underlying arrangements of the Authority but these did not have an impact on the council tax financing requirement.</p>
<p>Better Care Fund (BCF)</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups and NHS providers with the primary aim of driving closer integration and improving outcomes for patients, service users and carers.</p> <p>From 1 April 2015, local BCFs have been set up pooling funds between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled funds to jointly commission or deliver health and social care services.</p> <p>BCF arrangements can be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise the risk of inconsistencies in treatment between the partners. We identified a risk regarding the proper disclosure and accounting for this arrangement in the Council's accounts.</p>	<p>We engaged with management to ensure that the plans for the financial statements production were clear.</p> <p>We reviewed the proposed accounting treatment for the BCF against the requirements of the underlying accounting standards. Our testing did not highlight any issues with the Council's accounting for BCF transactions.</p>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

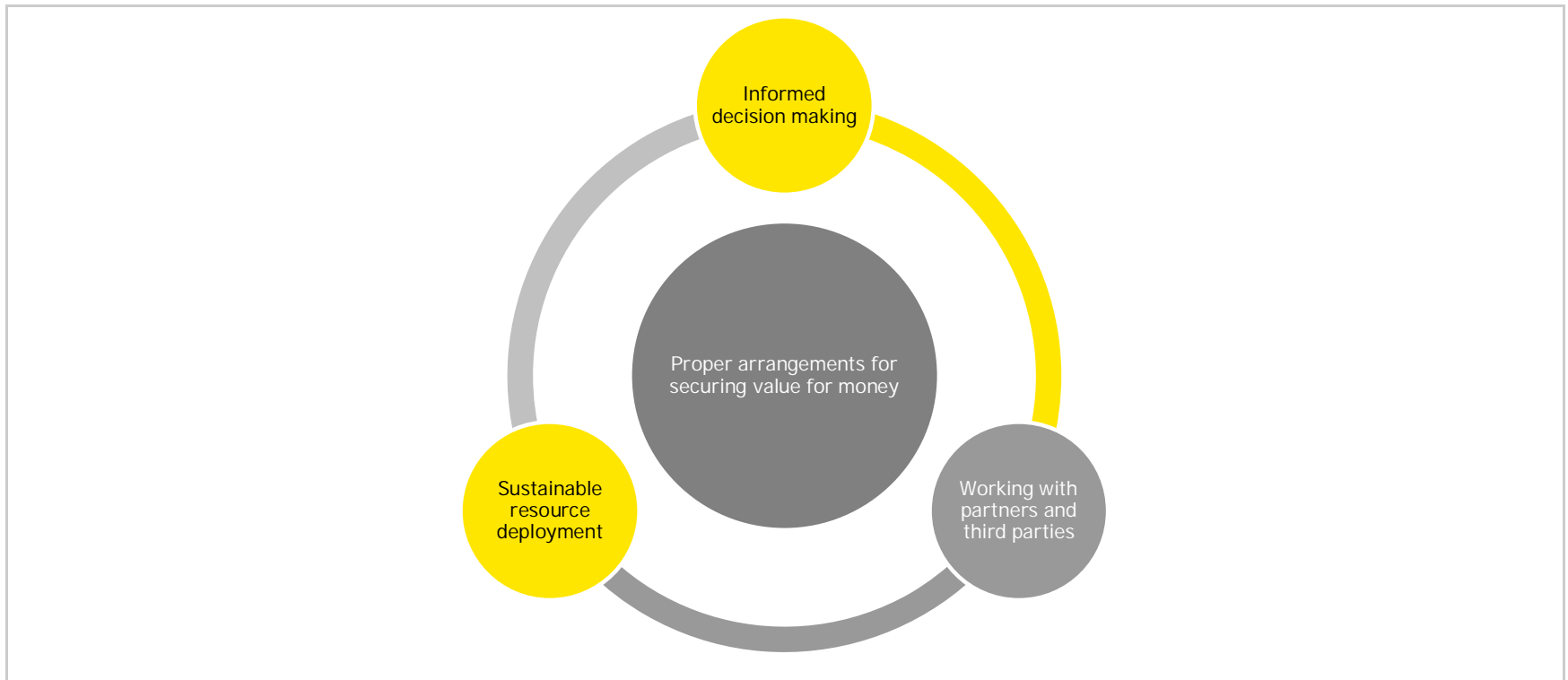
Value for Money

Value for Money

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

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

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We issued an unqualified value for money conclusion on 4 August 2016.

We identified a significant risk that the Council would not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We reported our detailed findings in our Audit Results Report. The overall conclusion from our procedures was that the Council is financially resilient for the foreseeable future. However, it is important that the Council continues its track record of delivering its planned budget and savings, in particular progressing the overall transformation programme and identifying clearly supported savings plans. This is critical to the Council's finances and the balance it has to strike between the funding available against the level of services it can provide.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

We had no issues to report.

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Governance Committee meeting on 25 July 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK’s membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody’s) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council’s balance sheet will be highly significant. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our Audit Plan and Audit Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work	142,715	142,715	142,715	190,286
Total Audit Fee – Certification of claims and returns	19,524*	19,524	19,524	25,340
Non-audit work	25,427	0	0	0

In 2015/16 the ratio of non-audit fees to audit fees is approximately 0.15:1. This amount is within both the limits set by EY and the Authority. The non-audit fees work relates to a forensic audit undertaken by EY on the costs included within the Authority's contract with Capita Business Services Limited. This work was led and delivered by a separate EY team. We considered the following factors when considering whether this work affected our independence:

- no members of the advisory team worked on the audit, and no audit team members worked on the project;
- the remuneration of the engagement lead, Helen Thompson, and the audit team were not impacted by this project; and
- decisions regarding which options to pursue and how to implement them were wholly the responsibility of the Authority.

**Our work on the certification of the Council's claims and returns is ongoing, our final fee for this work will be reported to those charged with governance in December 2016 within the Annual Certification Report for 2015/16.*

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ED None

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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