

Governance Committee

Monday, 12th June, 2017
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Barnes-Andrews (Chair)
Councillor Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Parnell
Councillor Keogh

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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

Public Representations

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

Southampton City Council's Priorities:

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

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

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

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

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

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

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 2017/18

2017	2018
12th June	12th February
24th July	23rd April
13th November	
11th December	

CONDUCT OF MEETING

Terms of Reference

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

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

Rules of Procedure

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

Business to be discussed

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

Quorum

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

DISCLOSURE OF INTERESTS

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

DISCLOSABLE PECUNIARY INTERESTS

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

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

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

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

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

3 ELECTION OF VICE-CHAIR

To elect the Vice Chair for the Panel in the Municipal Year 2017- 2018.

4 STATEMENT FROM THE CHAIR

5 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

(Pages 1 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 24th April 2017 and to deal with any matters arising, attached.

6 FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2016-17 (Pages 5 - 20)

Report of the Service Director; Legal and Governance detailing statistical information for the financial year 2016-17 and requests received under the Data Protection Act 1998 (DPA) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA), attached.

7 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2016/17 (Pages 21 - 48)

Report of the Section 151 Officer detailing the Treasury Management activities 2016/17, attached.

8 DRAFT FINANCIAL STATEMENTS 2016-17 (Pages 49 - 56)

Report of Section 151 Officer reporting that the Draft Financial Statements have been signed by the S151 Officer and will be approved by Governance Committee once audited, attached.

9 ANNUAL GOVERNANCE STATEMENT (Pages 57 - 76)

Report of the Service Director Strategic Finance & Commercialisation seeking to review the draft Annual Governance Statement 2016-17 and to note the status of the 2015-16 Action Plan, attached.

10 EXTERNAL AUDIT - AUDIT FEE LETTER 2017-18 (Pages 77 - 82)

Report of Service Director Finance and Commercialisation confirming the audit work and associated fee proposed by external audit for the 2016/17 financial year, attached.

11 CHIEF INTERNAL AUDITORS ANNUAL REPORT AND OPINION 2016/17 (Pages 83 - 100)

Report of Chief Financial Auditor detailing the Chief Internal Auditors Annual Report and Opinion 2016/17, attached.

12 EXCLUSION OF THE PRESS AND THE PUBLIC

Chair to move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the appendix to the following item based on Categories 7A of paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein is potentially exempt as it relates to information about council contracts and contractors which may be deemed to be confidential. Having applied the public interest test it is not appropriate to disclose this information.

13 STRATEGIC CONTRACTS ANNUAL REPORT (Pages 101 - 118)

Report of Head of Service, Contract Management, Business Operations and Digital providing an annual overview of the strategic external contracts, attached.

14 EXCLUSION OF PRESS AND PUBLIC

Chair to move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the following item based on Categories 1, 2, and 3 of paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein is potentially exempt as it relates to information relating to an individual, information likely to disclose the identity of an individual and information relating to the financial or business affairs of any person including the Authority. Having applied the public interest test it is not appropriate to disclose this information having regard to the nature of a confidential investigation.

15 HOUSING SERVICES UPDATE (Pages 119 - 124)

Confidential report of Service Director HR & OD providing an update at the request of Governance Committee on a number of historical HR issues that have now been

completed, attached.

Friday, 2 June 2017

Service Director, Legal and Governance

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 24 APRIL 2017

Present: Councillors Barnes-Andrews (Chair), Inglis, Noon, Parnell and Keogh (Vice-Chair)

Apologies: Councillors Jordan and O'Neill

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

RESOLVED: that the minutes for the Committee meeting on 13th February 2017 be approved and signed as a correct record.

34. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee considered the report of the Service Director; Legal and Governance detailing the Annual Review of the Constitution. The Committee noted that proposed changes were to Contract Procedure Rules, the amalgamation of Employment and Appeals Panel with Governance Committee and Delegations to the Senior Leadership Team to deal with appeals against dismissals and school transport appeals. In addition the Committee noted that revisions to the current terms of reference for Chief Officer Employment Panel were proposed so that it would be responsible for the appointment and dismissal (where permissible) of all Chief Officers, the Chief Executive as Head of Paid Service would assume responsibility for all employees up to and including Deputy Chief Officers in accordance with national best practice.

The Committee also noted that following proposed changes to the Constitution and as part of the strengthening of Governance Procedures there would now be two additional annual reports submitted to the Committee detailing External Contract Arrangements and HR matters including police referrals. In relation to paragraph 36 of the report and proposed changes to Chief Officer Employment Panel it was noted that this was a late addition to the report and would be a reversal of a Council decision taken in November 2015. The Chair reported that there had not yet been opportunity to discuss this fully with the Chief Executive, therefore it was suggested that it remained as a recommendation to the Annual General Meeting; in the meantime the Chair would discuss the matter with Group Leaders and the Chief Executive with Council making the final decision based on discussion outcomes and recommendations.

RESOLVED:

- (i) That the proposed changes to the Constitution be recommended to Council for adoption at its Annual General Meeting on 17th May 2017; and
- (ii) That the Chair of the Committee discuss the proposed changes as detailed in paragraph 36 of the report with Group Leaders and the Chief Executive and make recommendation accordingly to the Annual General Meeting on 17th May 2017.

35. **CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW**

The Committee considered the report of the Service Director; Legal and Governance detailing the Annual Review of the Code of Corporate Governance which sets out the commitment of Southampton City Council to continue to uphold the highest possible standards of good governance.

RESOLVED: that the Code of Corporate Governance 2017 as detailed in Appendix 1 of the report be approved.

36. **EXTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the External Auditor detailing progress against the external auditor's 2016/17 audit plan. In particular the Committee noted that there had been a decision not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities which would have had significant implementation costs and that there had been a decision that the Council would perform some of the initial testing itself in relation to 2016/17 Housing Benefit Certification in return for a 20% reduction in the external auditor's fee. The Committee were assured that the external auditor would perform sufficient checking to satisfy that testing had been performed appropriately.

37. **2016-17 INTERNAL AUDIT PLAN - PROGRESS REPORT**

The Committee considered the report of the Chief Internal Auditor detailing the internal audit progress report up to March 2017. The Committee particularly noted and raised concern in relation to the "limited assurance" relating to the Child Protection and Court Team (PACT) which had sat at that status for a significant period of time and suggested that this required further discussion between the Chair of the Committee and the Service Director; Children and Families.

RESOLVED: that the Chair of the Committee meet with the Service Director; Children and Families to discuss further the "limited assurance" relating to PACT.

38. **AUDIT CHARTER 2017**

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit and Counter Fraud Charter and Code of Ethics for 2017/18 which was a requirement of the Public Sector Internal Audit Standards. The Committee noted with effect from 1st April 2017 the internal audit and counter fraud function was being delivered as a shared service with Portsmouth City Council under the direction and control of the shared Chief Internal Auditor (the Chief Internal Auditor for Portsmouth City Council) and as such the introduction of an Investigation Steering Group was being recommended which consisted of the Monitoring Officer, s151 Officer, Service Director; Human Resources and Organisational Development and the Chief Internal Auditor or deputy which would be a new process for Southampton City Council.

RESOLVED: that the Internal Audit and Counter Fraud Charter and Code of Ethics for 2017/18 as detailed in the appendix to the report be approved.

39. **INTERNAL AUDIT PLAN 2017/18**

The Committee considered the report detailing a draft Annual Internal Audit Plan for 2017/18 as detailed in the appendix to the report. The Committee noted that with effect from 1st April 2017 the internal audit and counter fraud function was being delivered as a shared service with Portsmouth City Council under the direction and control of the shared Chief Internal Auditor (the Chief Internal Auditor for Portsmouth City Council). As this was a new arrangement the 2017/18 Annual Audit Plan was presented as a draft plan that would be extended during Quarter 1 and submitted to a future meeting of the Committee for final ratification in order to allow the Chief Internal Auditor to accurately assess the needs of the Council following discussions with the senior management team and Members.

RESOLVED: that the draft Annual Internal Audit Plan for 2017/18 as detailed in the appendix to the report be approved.

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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2016-17		
DATE OF DECISION:	12 JUNE 2017		
REPORT OF:	SERVICE DIRECTOR, LEGAL & GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	TRACY HORSPOOL	Tel: 023 8083 2027
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Director	Name:	RICHARD IVORY	Tel: 023 8083 2794
	E-mail:	richard.ivory@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

A report detailing the statistical information for the financial year 2016-17, the twelfth year of implementation of the Freedom of Information Act (FOIA) and associated legislation. This report also details statistical information on requests received under the Data Protection Act 1998 (DPA) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA). Members are also made aware of the implementation of new Data Protection legislation in May 2018, the General Data Protection Regulation (GDPR) and the likely impact on the Council.

RECOMMENDATIONS:

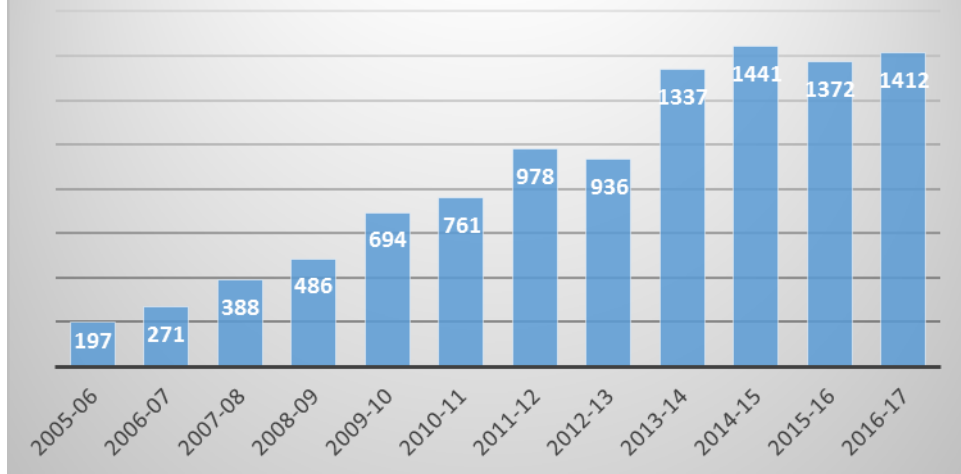
	(i)	To note and comment on the update of the statistical information for the year 1 st April 2016 – 31 st March 2017 relating to:	
		(a)	FOIA and associated legislation
		(b)	DPA 1998
		(c)	RIPA 2000
	(ii)	To note the likely impact of the forthcoming GDPR on the Council	

REASONS FOR REPORT RECOMMENDATIONS

1.	To keep Members informed as to the impact of the legislation to the Council and to detail the form and type of requests received in 2016-17, the twelfth full year of FOIA implementation.
2.	To keep Members informed as to the type of DPA requests received and the Council's activity under the RIPA.
3.	To ensure that Members continue to be aware of the Council's statutory obligations

	under FOIA and associated legislation, DPA and RIPA.
4.	To ensure that Members are kept informed as to new legislation in the field of information law, preparations that are being made and the likely impact on the Council.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
5.	The alternative to bringing this report before members is to not report the yearly analysis. This was rejected because it is considered to be good governance to report such matters to Members, provides an audit trail to demonstrate to the Information Commissioner that the Council has a robust structure in place to comply with the legislation, and to maintain the profile of information law requirements and resource implication within the organisation.
DETAIL (Including consultation carried out)	
6.	This report will be published on the Council's website.
	FOIA
7.	The FOIA came fully into force on 1 st January 2005, marking a major enhancement to the accessibility of information held by public authorities.
8.	Running parallel to the FOI regime is the Environmental Information Regulations (EIRs) that give a separate right to request environmental information from public authorities, the DPA which gives the individual the right to access their own personal data and the Re-Use of Public Sector Information Regulations (RUPSIRs) which allow a requester to re-use (under licence) information provided to them by a public authority.
9.	Under the FOIA and associated legislation, anybody may request information from a public authority with functions in England, Wales and/or Northern Ireland. Subject to exemptions, the FOIA confers two statutory rights on applicants: <ul style="list-style-type: none"> (i) The right to be told whether or not the public authority holds that information; and (ii) The right to have that information communicated to them
10.	There are two types of exemptions that may apply to requests for information – absolute and qualified.
11.	Information that falls into a particular exemption category, for example information relating to commercial interests, will have to be disclosed unless it can be successfully argued that the public interest in withholding it is greater than the public interest in releasing it. Such exemptions are known as qualified exemptions.
12.	Where information falls within the terms of an absolute exemption, for example, information reasonably accessible by other means or information contained in court records, a public authority may withhold the information without considering any public interest arguments.
13.	The Council has now experienced the twelfth full year of the FOIA and statistics show a slight increase in the number of information (FOI/EIR) requests received.

FOR/EIR Requests Received



The number has increased from 1372 for the year ending March 2016 to 1412 for the year ending March 2017.

The service area breakdown of the requests is as follows:

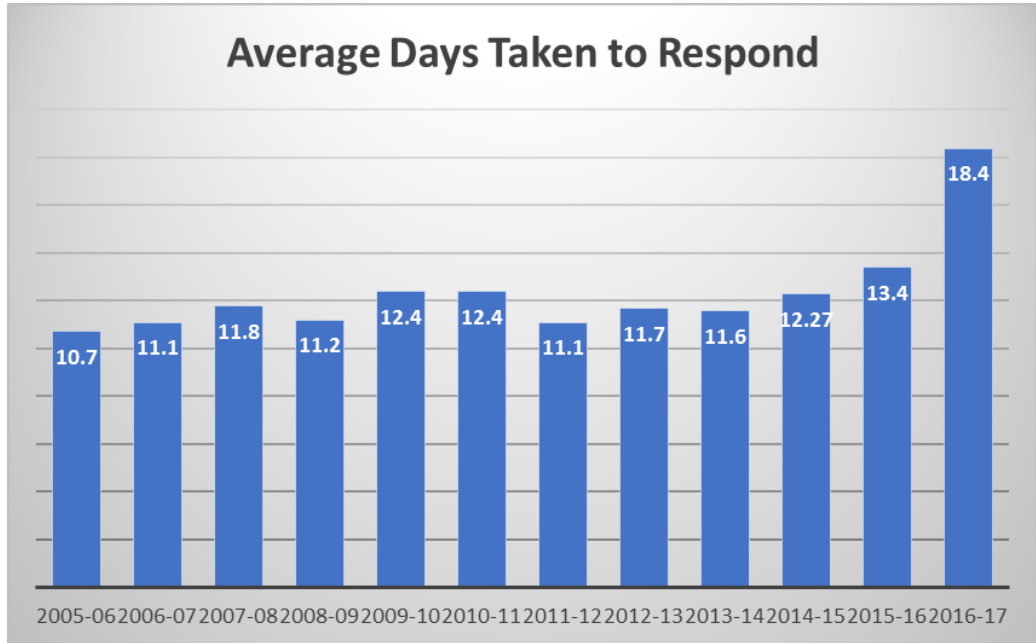
Directorate	No. Rec'd	%	Days
Children & Families (DCS)	234	56.8%	22.2
Digital & Business Operations	106	55.7%	25.0
Growth	202	70.3%	19.5
Housing, Adults & Communities (DASS)	249	84.7%	14.5
HR Strategy	102	52.0%	25.5
Intelligence, Insight & Communications	16	81.3%	18.3
Legal & Governance	44	75.0%	18.8
Public Health	19	89.5%	15.6
Quality & Integration	2	50.0%	17.0
Strategic Finance & Commercialisation	185	64.9%	18.9
Transactions & Universal Services	241	88.8%	13.0
Unallocated	12	N/A	N/A
Grand Total	1412	71.4%	18.4

14. To summarise, the Council has received a total of 1412 requests between 1st April 2016 and 31st March 2017. This comprises 1394 dealt with as FOI requests and 18 EIR requests. This figure also includes 12 requests not allocated to a Service, as it was not clear from the request which service area held the information, and clarification from the requester was never received.

15. 2016/17 has seen an overall increase in the volume of requests received in comparison to previous years. The average number of requests received per month was 117, compared with 114 last year.

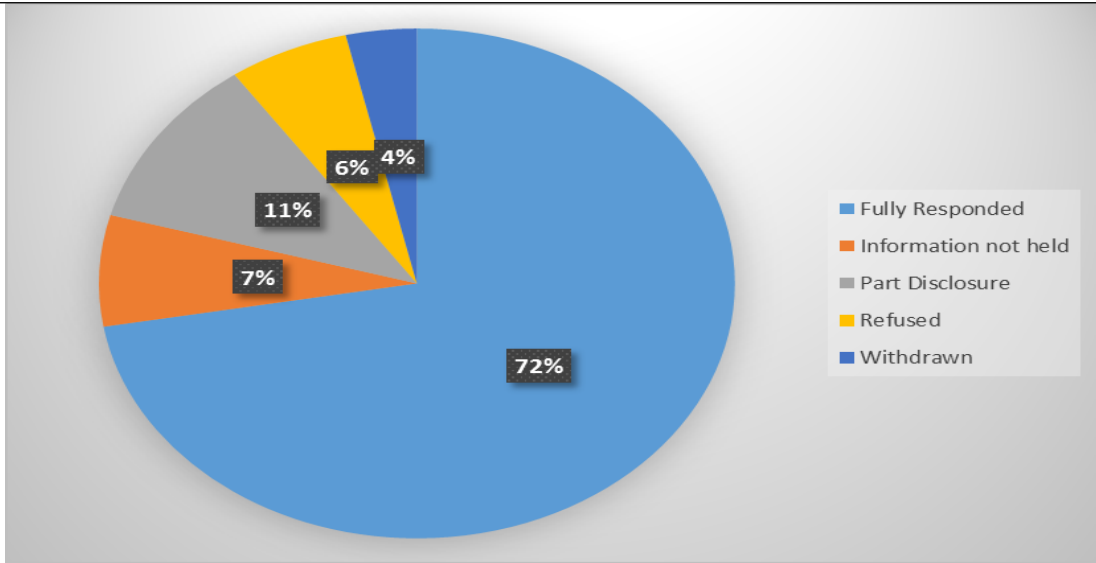
16.	During the year, 71.1% of all monitored FOI and EIR requests (excluding those 'on hold' or lapsed) were dealt with within the statutory deadline of 20 working days. This is a significant decrease on previous years, and is the lowest recorded by the Council in the history of the FOIA.																										
	<p style="text-align: center;">% FOI/EIR answered within 20 working days</p> <table border="1"> <thead> <tr> <th>Year</th> <th>% FOI/EIR answered within 20 working days</th> </tr> </thead> <tbody> <tr><td>2005-06</td><td>96.45%</td></tr> <tr><td>2006-07</td><td>95.57%</td></tr> <tr><td>2007-08</td><td>97.68%</td></tr> <tr><td>2008-09</td><td>94.65%</td></tr> <tr><td>2009-10</td><td>90.20%</td></tr> <tr><td>2010-11</td><td>91.46%</td></tr> <tr><td>2011-12</td><td>96.22%</td></tr> <tr><td>2012-13</td><td>96.47%</td></tr> <tr><td>2013-14</td><td>98.43%</td></tr> <tr><td>2014-15</td><td>96.11%</td></tr> <tr><td>2015-16</td><td>89.30%</td></tr> <tr><td>2016-17</td><td>71.14%</td></tr> </tbody> </table>	Year	% FOI/EIR answered within 20 working days	2005-06	96.45%	2006-07	95.57%	2007-08	97.68%	2008-09	94.65%	2009-10	90.20%	2010-11	91.46%	2011-12	96.22%	2012-13	96.47%	2013-14	98.43%	2014-15	96.11%	2015-16	89.30%	2016-17	71.14%
Year	% FOI/EIR answered within 20 working days																										
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17.	This decrease for the past two years has coincided with the roll-out of the Business Support service, who have taken on the role of co-ordinating and responding to FOI and EIR requests																										
18.	Compliance rates have been affected by the implementation of a new system for processing requests through the Council by Business Support Officers, many of whom had not had previous experience of processing information requests. It was hoped that as Business Support had taken on this role for a year, an improvement in compliance would be seen in 2016/17, but this is not the case, and further restructuring within the department has led to a decrease in the number of staff co-ordinating requests.																										
19.	It should also be noted that the Information Commissioner's Office has recently revised its acceptable compliance rate for local authorities from 85% to 90%. As such, the Council is currently falling way below expected standards.																										
20.	Business Support have identified additional resources to address this, and a full time post will be dedicated to FOI requests for 6 months. It is hoped that this will improve compliance, at least in the short term. It will be reviewed quarterly to ensure the required improvements are made.																										
21.	The complexity of requests have remained similar to 2015/16, with the average number of pieces of information sought per request increasing slightly from 7.5 in 2015/16 to 8.1 in 2016/17.																										
22.	The overall response time has also been affected, with the Council responding to requests within 18.4 days on average. This is a sharp increase on last year (and the highest average recorded), and it is hoped that the additional resource in Business																										

Support will help bring the average down to previous levels.



23. Under FOIA, where the cost of responding to the request will exceed the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (which is currently set at £450 for local authorities), the Council may refuse to comply with it. For 2016/17, the Council issued 61 Refusal Notices on fees grounds, which represents a decrease, with 73 being issued last year.

24. Of all requests received during the year, 72% of information requested was disclosed in full. Of the remaining requests, 7% of information was not held by the Council, 11% were partly responded to by the Council (i.e. some parts of the request were subject to an exemption), and 6% were completely refused as information was withheld because a fees notice was issued or it was exempt (e.g. requests for personal information such as individual/contact details or confidential/commercially sensitive contract or financial information). The remaining 4% of the requests were withdrawn or lapsed (the requester did not respond to a request for clarification after 3 months had passed).



25. Of the 1259 requests responded to (153 were withdrawn, or are still in the process of being responded to), 228 (18%) were deemed to be covered by absolute exemptions and accordingly some or all of the requested information was withheld

26. 27 (2%) requests were considered by the Public Interest Test Panel as they were deemed to be covered by one or more qualified exemptions.

27. 13 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.

28. This year, there have been no occasions where an appeal was made to the ICO as a result of the Council’s decision in respect of their internal review.

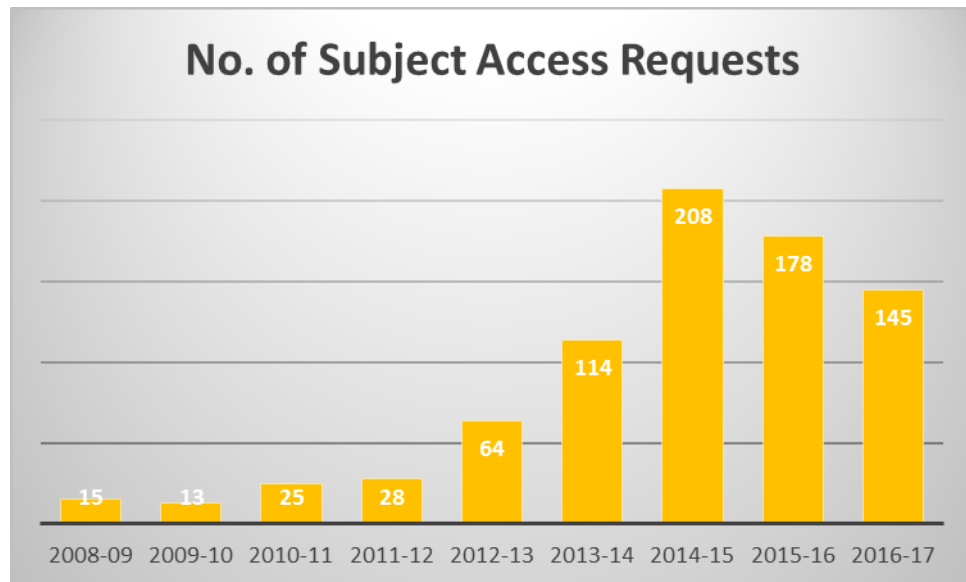
29. As with all years, types of requests have been varied and covered every service area of the Council, including budget, HR, council tax and business rates data, schools, highways maintenance, and social services.

The top ten request subjects ranked in order of popularity are as follows:

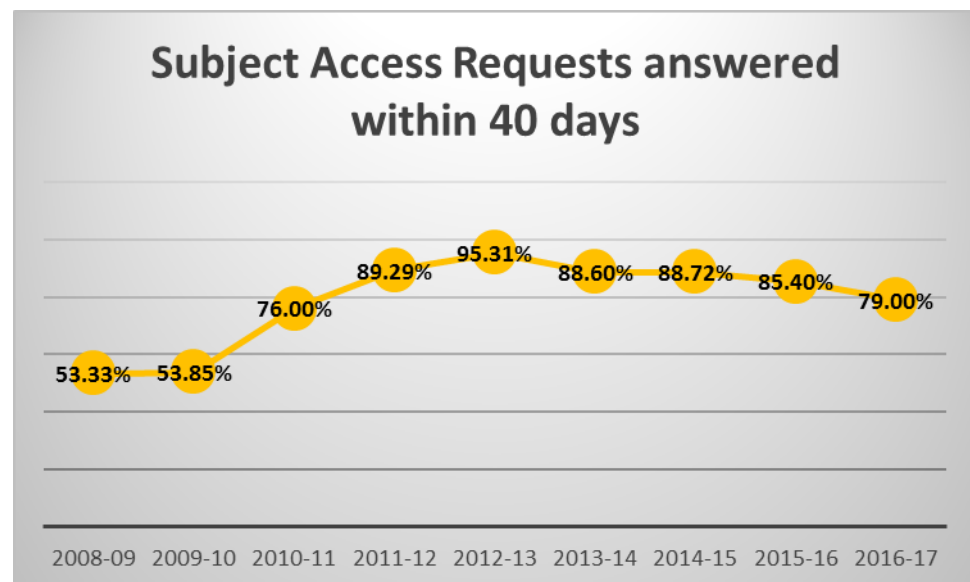
Service Area	Requests Received
Finance - Business Rates	100
Children - Schools	98
HR Strategy - HR Policies and HR Records	63
Business Operations - Contracts and Procurement	47
Planning - General	45
Digital Operations - IT	44
Children - Looked After Children / Children in Care	39
HR Strategy - General	39
Finance - council tax	34
Housing - General	32

30.	For the period covered in this report, 55% of requests came from private citizens, 19% came from companies/businesses, 12% from the media. The remaining 14% came from a combination of charities, students, researchers, lobby groups, MPs / Members and other Councils etc.
31.	Previously, Members requested information as to how much time and resources each Service spends on dealing with requests. We do not record this information. Previous years (2011/12) have shown that it took Corporate Legal approximately 2 hours to respond to each request. However, current research from Parliamentary post-legislative scrutiny of the Act indicates “the best-performing local authorities took between one and six hours for each request”. We can estimate that our time spend on requests is comparable to this, and using the £25 per hour rate that the Act allows us to charge for staff time when refusing requests, we can estimate that each request costs the Council between £25 and £150 to respond on average.
32.	As Corporate Legal accurately time record we are able to detail how much time it takes to log, monitor, and give advice on requests. For 2016/17, the average time taken per request was 1.3 hours. Most requests take less than half an hour to action within the Corporate Legal Team but, where detailed exemptions and redactions are needed, this can push time taken on a single request up to around 13 hours for very complex cases. The average therefore predominantly represents the time taken for detailed application of legal tests to requests where the Council seeks to withhold certain information from release
33.	It should be stressed that this figure does not include the time taken for Business Support or the service areas to locate, collate, and send out the information requested and the Council does not have a mechanism for capturing that resource cost (which comprises the bulk of any cost to the Council).
34.	In the Corporate Legal team there are now 2 FTE member of staff dedicated to providing advice and monitoring compliance with information law. We have added a Modern Apprentice post to the Corporate Legal Team, to assist in the administration of information law matters, but this is a “trainee” post, and requires considerable support and training alongside their contribution to workloads and is supported by day release to college during term time. Other members of Legal Services and an innovative intern scheme with local and regional universities support this function when their capacity allows it.
35.	Other members of staff who are involved in the FOI process are the Information Governance Co-Ordinators (Team Leaders within Business Support Services), who are responsible for managing information compliance within their respective Services as well as being a single point of contact for providing advice and guidance at a “local” level. However, they are not wholly dedicated to information compliance as their roles within the Council are to support business generally.
	Data Protection Act
36.	The Data Protection Act 1998 (DPA) gives individuals the right to know what information is held about them and provides a framework to ensure that personal information is handled properly.
37.	Under the DPA, an individual is entitled to access personal data, held by an organisation, of which that individual is the data subject. Such requests for information are known as subject access requests.

38. For the year 2016/17, the Council received 145 subject access requests compared with 178 last year. A proportion of these were dealt under the corporate procedures, but requests relating to closed social services (Adult Services and Children Services and Learning requests) were processed by the Customer Relations Team, with support from the Corporate Legal Team where appropriate.



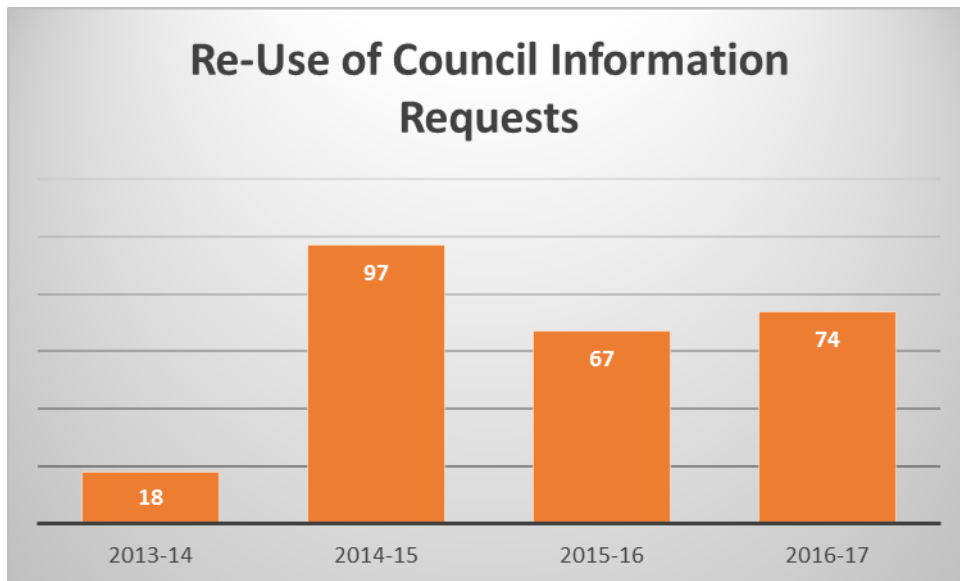
39. 79.0% of the Subject Access Requests were responded within the statutory timescales of 40 calendar days compared with 85.4% last year.



40.	<p>The Directorate breakdown is as follows:</p> <table border="1" data-bbox="347 293 1444 846"> <thead> <tr> <th data-bbox="347 293 922 367">Row Labels</th> <th data-bbox="922 293 1094 367">No. Rec'd</th> <th data-bbox="1094 293 1299 367">%</th> <th data-bbox="1299 293 1444 367"></th> </tr> </thead> <tbody> <tr> <td data-bbox="347 367 922 409">Children & Families (DCS)</td> <td data-bbox="922 367 1094 409">67</td> <td data-bbox="1094 367 1299 409">67.2%</td> <td data-bbox="1299 367 1444 409">43.0</td> </tr> <tr> <td data-bbox="347 409 922 452">Digital & Business Operations</td> <td data-bbox="922 409 1094 452">1</td> <td data-bbox="1094 409 1299 452">100.0%</td> <td data-bbox="1299 409 1444 452">N/A</td> </tr> <tr> <td data-bbox="347 452 922 495">Growth</td> <td data-bbox="922 452 1094 495">2</td> <td data-bbox="1094 452 1299 495">100.0%</td> <td data-bbox="1299 452 1444 495">18.0</td> </tr> <tr> <td data-bbox="347 495 922 568">Housing, Adults & Communities (DASS)</td> <td data-bbox="922 495 1094 568">46</td> <td data-bbox="1094 495 1299 568">87.0%</td> <td data-bbox="1299 495 1444 568">30.6</td> </tr> <tr> <td data-bbox="347 568 922 611">HR Strategy</td> <td data-bbox="922 568 1094 611">4</td> <td data-bbox="1094 568 1299 611">100.0%</td> <td data-bbox="1299 568 1444 611">19.8</td> </tr> <tr> <td data-bbox="347 611 922 654">Legal & Governance</td> <td data-bbox="922 611 1094 654">2</td> <td data-bbox="1094 611 1299 654">100.0%</td> <td data-bbox="1299 611 1444 654">27.5</td> </tr> <tr> <td data-bbox="347 654 922 728">Strategic Finance & Commercialisation</td> <td data-bbox="922 654 1094 728">5</td> <td data-bbox="1094 654 1299 728">60.0%</td> <td data-bbox="1299 654 1444 728">42.0</td> </tr> <tr> <td data-bbox="347 728 922 770">Transactions & Universal Services</td> <td data-bbox="922 728 1094 770">8</td> <td data-bbox="1094 728 1299 770">100.0%</td> <td data-bbox="1299 728 1444 770">5.8</td> </tr> <tr> <td data-bbox="347 770 922 813">On Hold - Awaiting Allocation</td> <td data-bbox="922 770 1094 813">8</td> <td data-bbox="1094 770 1299 813">100.0%</td> <td data-bbox="1299 770 1444 813">18.0</td> </tr> <tr> <td data-bbox="347 813 922 846">Grand Total</td> <td data-bbox="922 813 1094 846">145</td> <td data-bbox="1094 813 1299 846">79.3%</td> <td data-bbox="1299 813 1444 846">34.4</td> </tr> </tbody> </table>	Row Labels	No. Rec'd	%		Children & Families (DCS)	67	67.2%	43.0	Digital & Business Operations	1	100.0%	N/A	Growth	2	100.0%	18.0	Housing, Adults & Communities (DASS)	46	87.0%	30.6	HR Strategy	4	100.0%	19.8	Legal & Governance	2	100.0%	27.5	Strategic Finance & Commercialisation	5	60.0%	42.0	Transactions & Universal Services	8	100.0%	5.8	On Hold - Awaiting Allocation	8	100.0%	18.0	Grand Total	145	79.3%	34.4
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41.	A further 2 requests were not allocated to a directorate, as it was not clear from the request which service area held the information, and clarification from the requester was not received.																																												
42.	As with FOI requests, the decrease in compliance can be attributed to the restructuring within Business Support, who were responsible for co-ordination of SARs until Q4 2016/17.																																												
43.	For Q4, the responsibility for the co-ordination of SARs was temporarily assumed by the Corporate Legal team, and compliance rose from an average of 75% for Qs 1 – 3, to 90% for Q4. A temporary student intern resource has been fully utilised for this purpose.																																												
44..	7 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.																																												
45.	<p>There were four occasions where the ICO contacted the Council in light of data protection concerns they had about how personal information was handled.</p> <p>The concerns were:</p> <ul style="list-style-type: none"> • A birth mother of an adopted child had been contacted via social media • Telephone calls being recorded without proper notice • Information being disclosed to an ex-partner without a legal basis • Parent being denied access to their children's records without reason 																																												
46.	All concerns were investigated by the Corporate Legal team, and their findings relayed to the ICO. In all cases, the ICO considered that no further action was necessary as the Council has put into action an adequate and robust remediation plan to ensure that such errors do not reoccur.																																												

47.	In the year 2016/17, the Council reported no instances of personal information disclosed in error to the Information Commissioner.																				
48.	Sometimes there is a requirement to disclose personal data which might otherwise be in breach of the Act. Where an exemption from the non-disclosure provisions applies, such disclosure is not in breach of the Act. Examples of exemptions include section 29 (the crime and taxation exemption) and section 35 (disclosures required by law or made in connection with legal proceedings). Such requests are typically made to the Council by regulatory authorities such as the police, the Department of Work and Pensions and so on as part of their investigations.																				
49.	<p>For the year 2016/17 the Council received 626 requests for data from such third party organisations compared to 928 in the previous year. This is a decrease from last year, but still above the yearly average.</p> <div data-bbox="418 725 1386 1303" data-label="Figure"> <table border="1"> <caption>No. of Third Party Requests Received</caption> <thead> <tr> <th>Year</th> <th>Number of Requests</th> </tr> </thead> <tbody> <tr> <td>2008-09</td> <td>366</td> </tr> <tr> <td>2009-10</td> <td>248</td> </tr> <tr> <td>2010-11</td> <td>275</td> </tr> <tr> <td>2011-12</td> <td>273</td> </tr> <tr> <td>2012-13</td> <td>332</td> </tr> <tr> <td>2013-14</td> <td>349</td> </tr> <tr> <td>2014-15</td> <td>536</td> </tr> <tr> <td>2015-16</td> <td>928</td> </tr> <tr> <td>2016-17</td> <td>626</td> </tr> </tbody> </table> </div>	Year	Number of Requests	2008-09	366	2009-10	248	2010-11	275	2011-12	273	2012-13	332	2013-14	349	2014-15	536	2015-16	928	2016-17	626
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50.	In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 845 and 212 third party requests respectively (the majority of the Licensing requests were for footage from the vehicle Taxi Cameras). These requests are regulated by information sharing agreements, which removes the requirement to have each one authorised by Corporate Legal.																				
51.	The Corporate Legal team also monitor and authorise requests from internal Services to re-use personal information already held by the Council. Such requests are commonly made where personal information is necessary when taking enforcement action, performing a statutory function, or improving the efficiency of Council services.																				

52. In 2016/17, 74 requests were processed, with CCTV footage being the most common source of information (32% of requests), and Council Tax being the next (24%).



Information Commissioner’s Office Audit (ICO)

53. In January 2016, auditors from the ICO visited the Council. The ICO visited the Council and acted as a ‘critical friend’ to audit the Council’s data protection practices. A team of 3 auditors conducted 47 interviews with staff as well as conducting a ‘walkaround’ of the Civic building and the Sea City stores. They also visited the SDC records store at Northam. The auditors looked at three information governance areas of the Council’s choosing across the Council, these being: Governance; Records Management and Data Sharing.

54. A ‘limited assurance’ rating was given for both Governance and Records Management and a ‘reasonable assurance’ rating given for Data Sharing. Overall this meant a rating of limited assurance. A straw poll of local authorities audited by the ICO in 2016 indicates that this is the most common form of assurance rating.

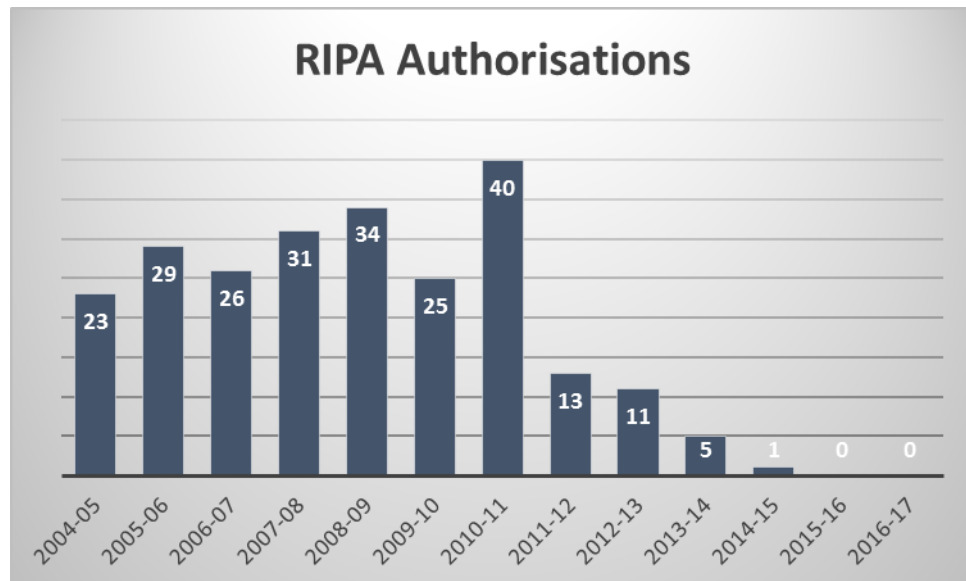
55. In March 2016, the Council signed up to a nine month ICO action plan for improvement. By September 2016, the Council was 91% compliant. Actions left to complete have been largely as a result of the Council’s significant restructure. The most significant of these has been the failure to appoint to the IT client senior manager post. This is now being actioned.

56. Although the audit recommendations individually were in the main, relatively minor, collectively they did have significant resource implications for areas already stretched.

57. Previous reports to CMT had already identified the need to strengthen the Council’s information governance structure. In quarter 2 of 2016-17, CMT approved the adoption of the Information Asset Owner (IAO) and Administrator (IAA) structure. Service Directors are the appointed IAOs and broadly speaking Service Leads are the IAAs. This structure of senior accountability and compliance oversight forms the basis of the Council’s new IG framework and is a structure recommended by the ICO. We have implemented a new quarterly compliance requirement for all IAOs. Each quarter they are asked to confirm for instance, that

	staff in their service area have completed the mandatory information governance training, have their records management up to date, have completed privacy impact assessments for all new projects/policies etc. This has so far proved to be a very successful introduction and measure of the Council's compliance and the Council does appear to be in a vastly improved state than it was pre-audit.
	Caldicott Guardian
58.	Since the last IG report to CMT, the Caldicott Guardian (CG) role within the Council has been reviewed and new CGs have been appointed
59.	The CG carries the responsibility for protecting the confidentiality of health and social care service-user information and should enable appropriate information sharing. Acting as the 'conscience' of an organisation, the Caldicott Guardian also has a strategic role, which involves representing and championing health and social care IG issues at Board or management team level.
60.	To enhance IG engagement from both Children and Adults, the role has been split between the Service Director; Children & Families and the Service Director; Housing Adults & Communities. Informal training has been given. Specific training for the performance of the role is currently being arranged
	NHS Toolkit
61.	In order to share information with our health partners, the Council has to provide annual assurance as to the standard of its information governance compliance. In the absence of any service information governance lead, the Corporate Legal Team assumed short term responsibility for collation of the Toolkit evidence this year and, with input from the Caldicott Guardians and relevant service areas, the annual submission was made before the 31 st March deadline. The Council is assessed at being 82% compliant and has achieved level 2 status as previously. Last year's score was 69%. Level 3 status is the highest assessment level and remains an aspiration.
	RIPA
62.	Under RIPA, the Council as a public authority is permitted to carry out directed surveillance, the use of covert human intelligence sources and to obtain communications data if it is both necessary for the purpose of preventing or detecting crime and/or disorder and the proposed form and manner of the activity is proportionate to the alleged offence.

63. There were no authorisations made under RIPA in 2016-17. This mirrors the position last year.



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

65. Examples of activity authorised in previous years include covert surveillance of a victim’s home to detect acts of criminality, directed surveillance of individuals who were involved in fraudulent activities and a Covert Human Intelligence Source (‘CHIS’) was used to form an online relationship with a suspect to make a test purchase of suspected counterfeit goods.

66. The Council is required to formally appoint a ‘Senior Responsible Officer’ for RIPA. The Service Director; Legal & Governance is the officer who undertakes this role. The Senior Responsible Officer has responsibility for maintaining the central record of authorisations; the integrity of the RIPA process within his authority; compliance with the Act and Codes of Practice; oversight of the reporting errors to the Surveillance Commissioner; engagement with inspectors from the Office of Surveillance Commissioners and implementation of any subsequent action plan.

67. Training for Council officers involved in RIPA processes is regularly undertaken and is delivered by the Corporate Legal Team. Our documentation, procedures and training are also used as ‘best practice’ by a number of other local authorities and we regularly provide training for partner authorities on request.

68.	<p>The Office of Surveillance Commissioners carried out an inspection of the Council’s management of covert activities in 2016. In his report, the Chief Surveillance Inspector, the Rt Hon. Lord Judge noted:</p> <p><i>“It is clear that the City Council takes care to address its statutory responsibilities, and that the arrangements for compliance are in experienced, capable hands. From the discussions after the inspection, Sir David [Sir David Clarke, Assistant Surveillance Commissioner] was impressed with the positive approach to their responsibilities taken by Mr Ivory and Miss Horspool”</i></p>
	GDPR
69.	<p>The last regular information governance report to CMT highlighted the additional pressures that the Council will face with the implementation of the General Data Protection Regulation in May 2018. Those pressures are significant and will have a particular impact on Children and Families. For instance, consent will be necessary to process children’s data and there will be changes to the rules for obtaining valid consent. The Regulation mandates considerably tougher penalties than the DPA. The GDPR will not come into force immediately. However, as it contains some onerous obligations, it will have an immediate impact.</p>
70.	<p>The headline changes for the Council introduced by the Regulation are as follows:</p> <ul style="list-style-type: none"> • The appointment of a Data Protection Officer (DPO) will be mandatory • The necessary establishment of an IG framework of senior management accountability and evidence of compliance • The introduction of a tiered approach to penalties for breaches and increased fine levels. Tier 2 fines to be up to 4% of annual turnover or 20,000,000 euros (whichever is the higher) • As well as administrative fines, data subjects to now have a right to compensation • More onerous data breach notification requirements with a lower self-reporting threshold • The definition of personal data is wider, bringing more data (and consequently more areas of Council work) into the regulated perimeter • The introduction of mandatory privacy impact assessments
71.	<p>The Information Governance Board has approved a rolling 18 month IG action plan which incorporates all the necessary actions arising from the GDPR. Any corporate actions are being picked up by the Corporate Legal Team and IAOs will be responsible for any service specific actions. IAOs will be key players in getting the Council GDPR ready. At its meeting in May, the Leadership Team received a presentation on the GDPR, its likely impact and what preparations need to be made in the service areas. Separate contact will be made with the IAOs and IAAs over the next few weeks and they will be briefed as to what detailed steps they need to take in their respective areas</p>
72.	<p>The advent of the GDPR and the risk that it brings has been detailed on the Council’s strategic risk register.</p>

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
73.	None directly related to this report. The administration of information law within the authority is managed within corporate overheads, but ensuring that the Council performs to an acceptable information governance standard and complies with the new statutory standards imposed by the GDPR, places increased pressure on finite and already stretched resources. Members will see from the statistics that this is already being reflected in compliance rates.
<u>Property/Other</u>	
74.	None directly related to the report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
75.	The statutory obligations relating to information law are detailed in the body of this report.
<u>Other Legal Implications:</u>	
76.	None directly related to this report.
RISK MANAGEMENT IMPLICATIONS	
77.	The potential impact of the decision in terms of finance, service delivery and reputation is considered to be low. Although the report does highlight potential future pressures on service delivery with the advent of the GDPR, the decision of members in this report is to note the performance of the Council in terms of information governance for 2016-17.
POLICY FRAMEWORK IMPLICATIONS	
78.	The information contained in this report is consistent with and not contrary to the Council's policy framework.

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:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2016/17		
DATE OF DECISION:	12 JUNE 2017 19 JULY 2017		
REPORT OF:	SECTION 151 OFFICER (S151)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 8083 4153
	E-mail:	Sue.Poynter@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 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.

This report specifically highlights that:

- i. Borrowing activities have been undertaken within the borrowing limits approved by Council on 15 February 2017.
- ii. Current Investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. Returns during 2016/17 were £1.4M at an average rate of 1.94%.
- iii. The Council's strategy was to minimise borrowing to below its Capital Financing Requirement (CFR), the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.
- iv. The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.33%, is lower than that budgeted and slightly lower than last year (3.34%). This includes £30M of short term debt which was taken during the year. No new long term loans were taken during the year due to slippage in the capital programme and higher than expected balances. The predicted forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA rate.

- v. In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.
- vi. Net loan debt increased during 2016/17 from £243M to £278M as detailed in paragraph 14.
- vii. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 15 February 2017.
- viii. Due to the early production of this report, forecast capital expenditure and financing is not yet finalised, any material changes to these figures and the subsequent impact on indicators will be reported as part of the Capital update being submitted to council, alongside this report, on 19 July 2017.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

- i) Notes the Treasury Management (TM) activities for 2016/17 and the outturn on the Prudential Indicators
- ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
- iii) Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
- iv) Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

- i) Notes the Treasury Management (TM) activities for 2016/17 and the outturn on the Prudential Indicators
- ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
- iii) Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
- iv) Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2016/17 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2. The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options are relevant to this report

DETAIL (Including consultation carried out)

CONSULTATION

4. Not applicable

BACKGROUND

5. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
7. The Authority's TM Strategy for 2016/17 was approved by full Authority on 10 February 2016 which can be accessed as Item 76 on the Council Meetings Agenda found via the following web link:

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

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2017 on 15 February 2017, item 73.

[Prudential Limits and Treasury Management Strategy 2017/18 to 2020/21](#)

8. Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

9. This report:
- is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
 - presents details of capital financing, borrowing, debt rescheduling and investment transactions;
 - reports on the risk implications of treasury decisions and transactions;
 - gives details of the outturn position on treasury management transactions in 2016/17; and
 - confirms compliance with treasury limits and Prudential Indicators.
10. Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2016/17.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

11. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below. The borrowing CFR has increased as new capital expenditure was higher than the financing applied to it. Net borrowing has decreased despite this increase due to a rise in both working capital and usable reserves. As detailed in paragraphs 21 to 24 below, the Authority's current strategy is to maintain borrowing and investments below their underlying levels in order to reduce risk and keep interest costs low.

Table 1 – Balance Sheet Summary

	31/03/2016 Actual £M	2016/17 Movement £M	31/03/2017 Actual £M
General Fund CFR	280.80	41.76	322.56
Housing CFR	155.00	8.25	163.25
Total Opening CFR	435.80	50.01	485.81
Less Other Long Term Liabilities*	(80.00)	2.82	(77.18)
Borrowing CFR	355.80	52.83	408.63
Less Usable Reserves	(111.42)	(16.10)	(127.52)
Less Working Capital	(6.47)	(58.28)	(64.75)
Net Borrowing	237.91	(21.55)	216.36

* finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt

12. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2019/20. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.
13. The forecast movement in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. This is shown in the tables below together with activity in the year.

14. **Table 2: Borrowing and Investment Position**

	31-Mar-16 Actual	31-Mar-16 Average Rate	31st March 2017	Average Rate	31-Mar-18 Forecast	31-Mar-18 Forecast Average Rate
	£M	%	£M	%	£M	%
External Borrowing:						
Fixed Rate – PWLB Maturity	139	3.90	139	3.90	230	3.48
Fixed Rate – PWLB EIP	58	3.38	46	3.38	35	3.38
Variable Rate – PWLB	35	0.70	35	0.60	35	0.72
Fixed Rate – LOBO	9	4.87	9	4.86	9	4.85
Long Term Borrowing	241	3.35	229	3.33	309	3.14
Short Term Borrowing						
Fixed Rate – Market	8	0.53	31	0.40	41	0.50
Other Long Term Liabilities						
PFI Schemes	65	9.46	62	9.51	60	9.51
Deferred Debt Charges (HCC)	15	3.14	15	3.08	15	3.16
Total Gross External Debt	329	5.70	337	4.36	425	3.90
Investments:						
Managed In-House						
Bank & Building Societies (unsecured)	(10)	0.83	(9)	0.62	(8)	0.46
Covered Bonds (secured)	(21)	1.00	(12)	1.10	(8)	1.39
Multi - National Bonds (not subject to bail in)	(4)	5.30	(4)	5.30	(3)	5.30
Corporate and Other Bonds (not subject to bail in)	(14)	2.03	(3)	0.87	0	0.00
Money Market Funds	(30)	0.50	(14)	0.29	(10)	0.20
Managed Externally						
Pooled Funds (CCLA)	(7)	5.03	(17)	4.77	(27)	4.5
Total Investments	(86)	2.14	(59)	2.74	(56)	2.75
Net Debt	243		278		369	

Table 3: Movement in Borrowing during the year

15.

	Balance on 01/04/2016	Debt Maturing or Repaid	New Borrowing	Balance as at 31/3/2017	Increase/ (Decrease) in Borrowing	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Borrowing	8	(8)	31	31	23	6 Months	0.40
Long Term Borrowing	241	(12)	0	229	(12)	22 Years	3.33
Total Borrowing	249	(20)	31	260	11		

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

16. When the strategy was last updated in February 2017, the CFR was estimated at £508.1M, the Council's actual CFR at the end of the year was £485.8M, as detailed in section 2 of Appendix 2. This decrease was mainly due to slippage in the capital programme.
17. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
18. In undertaking of these objectives, no new long term borrowing was undertaken and short borrowing was kept to a minimum during the year, while existing loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The “cost of carry” analysis did not indicate any value in borrowing in advance for future years’ planned expenditure and therefore none was taken.

19. The PWLB remains the Council’s preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However due to the continued depressed markets and the ‘cost of carry’ associated with long term debt, the Council deferred long term borrowing and has continued to use internal resources to finance the capital programme. This will be kept under review during 2017/18 with the need to resource an increasing capital programme.

Loans at Variable Rates

20. Included within the debt portfolio is £35M of PWLB variable rate loans which during 2016/17 averaged a rate of 0.60% this helps to mitigate the impact of changes in variable rates on the Authority’s overall treasury portfolio (the Authority’s investments are deemed to be variable rate investments due to their short-term nature). This strategic exposure to variable interest rates will be regularly reviewed and, if appropriate, reduced by switching into fixed rate loans.

Internal Borrowing

21. 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.
22. As at the 31 March 2017 the Council used £149M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, approved by Council in February 2017 and adjusted for slippage from 2016/17, the Council is expected to borrow up to £161.7M between 2017/18 and 2020/21. Of this £124.5M relates to new capital spend (£69.9M GF and £54.6M HRA) and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the possible need to lock back into longer term debt prior to interest rises.
23. However as short-term interest rates have remained low, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.
24. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise providing that balances can support it. Our advisors assist the Authority with this ‘cost of carry’ and breakeven analysis.

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

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

a PWLB loan.

Debt Rescheduling

26. 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.

INVESTMENT ACTIVITY

27. Both the CIPFA and DCLG's Investment Guidance requires the authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.
28. The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Authority's investment balances have ranged between £58M and £108.5M. Movement in year is summarised in the table below:

Table 4: Investment activity during the year

	Balance on	Investments	New	Balance as at	Increase/	Average Life / Average Rate %	
	01/04/2016	Repaid	Investments	31/3/2017	(Decrease) in	Life	%
	£M	£M	£M	£M	£M		
Notice Account	(5)			(5)	0	180 days	0.90
Covered Bonds (secured)	(21)	9		(12)	9	1.27 years	1.10
Multi - National Bonds (not subject to bail)	(4)			(4)	0	5.47 years	5.30
Corporate and Other Bonds (not subject)	(17)	21	(7)	(3)	14	68 days	0.87
Money Market Funds and Call Account	(32)	431	(417)	(18)	14	1 day	0.29
Pooled Funds (CCLA)	(7)	0	(10)	(17)	(10)	Unspecified	4.77
Total Investments	(86)	461	(434)	(59)	27		1.46

29. 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.

	Target	Actual
Portfolio average credit rating	A-	AA-

30. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

31. The table below summarises the Council's investment portfolio at 31 March 2017 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:

Table 5: Credit ratings of Investments held at 31st March 2017

Credit Rating	Long Term		Short Term	
	2016 £000	2017 £000	2016 £000	2017 £000
AAA	12,556	8,308	11,128	4,636
AA+	3,358	3,125	3,660	138
AA				61
AA-			2,212	8,278
A+			2,702	5,645
A			16,303	9,015
A-				3,175
Shares in unlisted companies	20	20		
Unrated pooled funds	7,597	16,646	29,169	140
Total Investments	23,531	28,099	65,174	31,088

Credit Developments and Credit Risk Management

33. 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.
34. Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.
35. None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests.
- The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.
36. Or 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 since 2015. Details can be seen in Appendix 3. It also shows that on average the return on our internal investments at 1.02% is higher than the average of 0.67%.

Liquidity Management

37. In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the Council's fixed rate debt at 31 March 2017 can be seen in section 6 of Appendix 2.

Externally Managed Funds

38. The Council has invested £17M in property funds which offer the potential for enhanced returns over the longer term, but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
39. During 2016/17 this investment returned an average yield of 4.46% against the initial investment, but made a notional "loss" at year end of £0.4M being valued at £16.6M, this is due to a precautionary downward revaluation of 4% following Brexit, in line with other property funds, and a change in the way the asset is now valued at year end, using the bid price as opposed to NAV (Net Asset Value).
40. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. In light of their strong performance and the Authority's latest cash flow forecasts and income generation target, investment in these funds has been increased for the 2017/18 financial year.

COMPLIANCE WITH PRUDENTIAL INDICATORS

41. The Council can confirm that it has complied with its Prudential Indicators for 2016/17, approved by Full Council on 10 February 2016 which can be accessed as Item 76 on the Council Meetings Agenda found via the following web link:

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

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2017 on 15 February 2017, item 73.

[Prudential Limits and Treasury Management Strategy 2017/18 to 2020/21](#)

42. 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. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators other indicators can be found in Appendix 2.

43. **Table 6: Key Prudential Indicators**

Indicator	Limit	Actual at 31 March 2017
Authorised Limit for external debt £M	£863M	£337M
Operational Limit for external debt £M	£700M	£337M
Maximum external borrowing in year		£265M
Limit of fixed interest debt %	100%	83%
Limit of variable interest debt %	50%	17%
Limit for Non-specified investments £M	£115M	£35M

OTHER ITEMS

Future Developments and Amendment to Prudential Indicators

44. The approved 2016/17 general fund revenue estimates assumed an additional net £1M of revenue income to be generated from the creation of the Property Investment Fund (PIF). An investment business plan has been drawn up and identifies the potential types of investment that may be undertaken. One of these options is the potential to undertake further investment in property funds. It is expected that this activity can be accommodated within the current borrowing limits and prudential indicators agreed as part of the approved TM Strategy. However, these limits and indicators will be reviewed in line with any investment activity of this type. It is recommended that the S151 officer continues to have delegated authority to approve any changes required to the limits and indicators that will aid good treasury management. Any amendments will be reported as part of the quarterly financial and performance monitoring and in the TM Strategy Review.

Investment Training

45. The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2016/17 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA.

RESOURCE IMPLICATIONS

Capital / Revenue

46. This report is a requirement of the TM Strategy, which was approved at Council on 10 February 2016 and further revised on 15 February 2017.

47. The interest cost of financing the Authority's long term and short term loan debt is

charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £8.5M in 2016/17. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and the deferment of any new long term borrowing.

48. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2016/17 £1.4M was earned which was higher than budgeted mainly due to continuing investment in bonds and LAPF as detailed in paragraphs 26 - 37 above.
49. Overall this has given a saving against the TM Budget of £2.3M.
50. The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.13M in 2016/17 compared to an estimate of £0.18M. This decrease was mainly due a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing resulting in a saving on commission paid in year.

Property/Other

51. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

53. None

RISK MANAGEMENT IMPLICATIONS

54. Not Applicable

POLICY FRAMEWORK IMPLICATIONS

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

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:

SUPPORTING DOCUMENTATION

Appendices

1.	2016/17 Economic Background
2.	Compliance with Prudential Indicators During 2016/17
3.	Southampton Benchmarking 31 st March 2017
4.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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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.	Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19	
2.	Prudential Limits and Treasury Management Strategy 2017/18 to 2020/21	

2016/17 ECONOMIC BACKGROUND

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017. In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years. Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: 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. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively. After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

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COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2016/17

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. Council approved the Capital Programme for 2016/17 to 2020/21 in February 2017. Planned capital expenditure and financing is summarised below, together with actual for 2016/17 and adjusted for slippage. Any changes to the forecast will be reported as part of the Capital update being submitted to council on 19 July 2017.

Capital Expenditure and Financing	Actual 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M
General Fund	69.41	92.85	23.96	5.64	2.92
HRA	51.20	65.99	42.09	32.85	41.05
Total Expenditure	120.61	158.84	66.05	38.49	43.97
Capital receipts	9.22	11.96	8.44	2.35	1.42
Capital Grants	20.74	23.30	6.78	2.12	2.12
Contributions	3.54	4.31	2.13	0.00	0.00
Major Repairs Allowance	18.89	19.26	19.53	20.05	20.89
Other Council Resources	9.67	14.09	11.92	1.73	10.46
Total Financing	62.06	72.92	48.80	26.25	34.89
Council Resources - borrowing	58.55	85.92	17.25	12.24	9.08
Total Funding	58.55	85.92	17.25	12.24	9.08
Total Financing & Funding	120.61	158.84	66.05	38.49	43.97

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 S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2015/16, 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 detail our expected debt position and the year-on-year change to the CFR:

Gross Debt	31/03/2017 Actual £M	31/03/2018 Estimate £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M
Borrowing (Long Term)	66.05	119.73	131.27	133.94	133.50
Borrowing (Short Term)	30.35	40.35	40.35	40.35	40.35
Finance leases and Private Finance Initiatives	62.26	60.42	58.32	55.31	52.14
Transferred Debt	14.92	14.55	14.19	13.83	13.46
Total General Fund Debt	173.58	235.06	244.13	243.43	239.45
HRA	163.25	189.46	188.72	179.77	178.80
Total Debt	336.83	424.50	432.90	423.20	418.30

	31/03/2017 Actual £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M
Balance Brought forward	280.75	322.56	374.47	378.83	372.71
New Borrowing	43.72	54.12	12.06	3.25	0.50
MRP	(5.00)	(5.40)	(5.85)	(6.00)	(5.98)
Appropriations (to) from HRA	0.98	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(2.89)	(2.21)	(2.47)	(3.37)	(3.54)
MRP Holiday	5.00	5.40	0.62	0.00	0.00
Total General Fund Debt	322.56	374.47	378.83	372.71	363.69
HRA (see table 16 for breakdown)	163.25	189.46	188.72	179.77	178.80
Total CFR	485.81	563.93	567.55	552.48	542.49

3. Authorised Limit and Operational Boundary for External Debt

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

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

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2016/17; borrowing at its peak was £265.4M plus other deferred liabilities of £80M.

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

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

	Limits for 2016/17 (%)	Maximum during

		2016/17 (%)
Upper Limit for Fixed Rate Exposure	100	83
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	17
Compliance with Limits:	Yes	Yes

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

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £80M. In 2016/17 the actual principal sum invested for periods longer than 364 days peaked at £32M, (compared to £27M in 2015/16). This reflects the continued investment into the longer term secured bond market.

6. Maturity Structure of Fixed Rate Borrowing

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

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/3/2017	Average Fixed Rate as at 31/3/2017	% of Fixed	Compliance with set Limits?
Fixed Rate Debt	%	%	£M	%		
Under 12 months	0	45	39.36	3.08	18	Yes
12 months and within 24 months	0	45	0.00	0.00	0	Yes
24 months and within 5 years	0	50	46.45	3.23	21	Yes
5 years and within 10 years	0	75	0.00	0.00	0	Yes
20 years and within 30 years	0	75	15.00	4.65	7	Yes
30 years and within 40 years	0	75	77.90	3.83	35	Yes
40 years and within 50 years	0	75	45.95	3.54	20	Yes
			224.66	3.57	100	

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.

7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so 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 proposed capital programme (excluding cost of long term liabilities).

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, which is the main contributor for the increase in 2019/20 and 2020/21. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Actual %	2017/18 Forecast %	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %
General Fund	5.60*	5.19*	5.93*	6.25	5.01
HRA	14.06	14.24	14.96	30.72	19.72
Total	9.09	8.47	9.28	14.20	8.61

*The figure quoted as the actual for 2016/17 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

8. 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 in the Public Services Code* on 19 February 2003 and all its subsequent updates. (latest 2011 edition)

9. HRA Limit on Indebtedness

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

HRA Limit on Indebtedness	2016/17 Actual £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
Brought Forward	155.00	164.23	190.44	189.70	180.75
Maturing Debt	(5.60)	(5.59)	(5.93)	(17.94)	(9.55)
New borrowing	14.83	31.80	5.19	8.99	8.58
Carried forward	164.23	190.44	189.70	180.75	179.78
HRA Debt Cap (as prescribed by CLG)	199.60	199.60	199.60	199.60	200.60
Headroom	35.37	9.16	9.90	18.85	20.82

10. Summary

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



Investment Benchmarking

31 March 2017

Southampton
20 English Unitaries Average
136 LAs Average

Internal Investments	£41.5m	£50.3m	£55.4m
External Funds	£16.6m	£9.0m	£8.2m
TOTAL INVESTMENTS	£58.2m	£59.2m	£63.6m

Security			
Average Credit Score	3.67	4.77	4.30
Average Credit Rating	AA-	A+	AA-
Average Credit Score (time-weighted)	1.38	4.25	3.97
Average Credit Rating (time-weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	19	13	15
Proportion Exposed to Bail-in	55%	65%	60%

Liquidity			
Proportion Available within 7 days	31%	46%	44%
Proportion Available within 100 days	36%	68%	66%
Average Days to Maturity	331	119	47

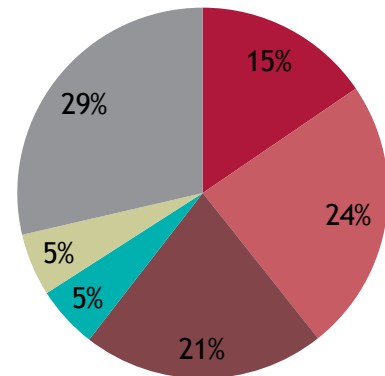
Market Risks			
Average Days to Next Rate Reset	241	128	68
External Fund Volatility	2.4%	1.5%	2.6%

Yield			
Internal Investment Return	1.02%	0.67%	0.61%
External Funds - Income Return	4.59%	3.89%	3.38%
External Funds - Capital Gains/Losses	-4.77%	-0.81%	0.27%
External Funds - Total Return	-0.18%	3.08%	3.64%
Total Investments - Income Return	2.04%	1.08%	0.99%

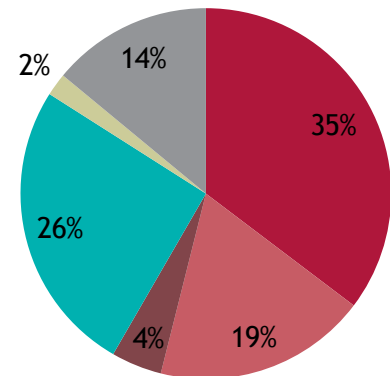
Notes

- 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.

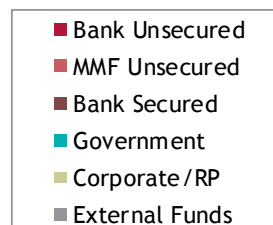
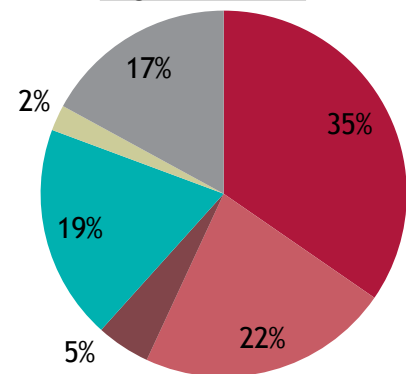
Southampton



All Arlingclose Clients



English Unitaries



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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 uprated using the RPI index.

(Short) Term Deposits:

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

Specified Investments:

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

Supported Borrowing:

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

Supranational Bonds:

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

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.

Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		DRAFT FINANCIAL STATEMENTS FOR 2016/17	
DATE OF DECISION:		12 JUNE 2017	
REPORT OF:		SECTION 151 OFFICER	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 80 834153
	E-mail:	Susan.poynter@southampton.gov.uk	
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	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2016/17 were signed by the Section 151 (S151) Officer on 22 May 2017 which is earlier than the statutory requirement to have the statements signed by the 30 June. A copy of the draft unaudited Financial Statements is available in the Members Room.</p> <p>The Annual Audit, carried out by our auditors Ernst & Young, commenced on 5 June 2017 and is due to be completed by the 14th July 2017. Any major changes to the Financial Statements arising from the annual audit will be reported to the 24th July 2017 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	To note that the Draft Financial Statements 2016/17 have been signed by the S151 Officer.	
	(ii)	To note that the approval of the audited Financial Statements 2016/17 by the Governance Committee will take place on the 24 th July 2017.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	<p>It is a legal requirement that the S151 Officer signs the Financial Statements by 30 June 2017 and certifies that they present ‘a true and fair position of the financial position of the body at the end of the year to which it relates and of that body’s income and expenditure for that year’. It should be noted that this have again been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31st May.</p> <p>The draft statements have been brought to the June committee in order to give members further opportunity and time to scrutinise them before final approval. It is envisaged that the July report will detail any non- trivial amendments made as a result of the audit along with an amended set of statements.</p>		

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the S151 Officer no later than 30 June.
DETAIL (Including consultation carried out)	
	FINANCIAL STATEMENTS
3.	The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.
	ACCOUNTING ISSUES AND DEVELOPMENTS
4.	The main accounting issues and developments are: <ul style="list-style-type: none"> • Pension Fund Deficit • Capital Southampton Ltd (CSL) • PSP Southampton LLP • Modular Housing Factory • Expenditure Funding Analysis
	<u>Pension Fund Deficit</u>
5.	The deficit on the Pension Fund, as at 31 March 2017, has increased from £366.8M to £425.0M. Further details are included in paragraphs 37 – 39.
	<u>Capita Southampton Ltd (CSL)</u>
6.	During 2015/16 the agreement with the Council’s strategic partner, Capita, was reset and this came into effect from 1st April 2016. As a result, the HR Advisory Service and Property Services were reintegrated into the council in 2016/17.
7.	Additionally, the majority of the services provided by Capita, are now provided to the Council through a special purpose vehicle, Capital Southampton Ltd, which enables greater transparency of costs for services provided to the council.
	<u>PSP Southampton LLP</u>
8.	In September 2014, the Council entered into a limited liability partnership (LLP) with PSP Facilitating Ltd to enable it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council’s operation properties and investment properties.
9.	There are currently several opportunities being considered by the partnership with one in progress. The expected outcome of this development is to generate an overall increase in the asset value of properties held by the Council and to generate ongoing enhanced revenue stream to the Council.

	<u>Modular Housing Factory</u>
10.	The council have made a successful bid to the Solent LEP for match funding in the development and set up of a Modular Housing Factory in the city. An in principle award has been made of £3M.
11.	The proposal is to invest in setting up an off-site manufacturing facility in Southampton with the initial aim of meeting the development and regeneration needs of the council and partner housing associations but with the potential to expand quickly across the Solent region and potentially beyond.
12.	Co-investment in the sum of £6 million, the form of equity split equally between the Solent LEP and the council, is proposed with further start up investment being sought from the Homes & Communities Agency (HCA) through the Accelerating Construction Programme. Further investment by other local authorities to support business expansion will be considered once the project is established.
13.	This facility will: <ul style="list-style-type: none"> • Help with the delivery of better quality housing at a faster pace • Have the potential to help address social issues such as fuel poverty through the provision of better insulated homes that require less energy to heat • Support the council's Strategy by ensuring that the city has strong and sustainable growth and people in Southampton live, safe, healthy, independent lives. It will also help meet the Executive Commitment to deliver 365 Affordable Homes a year
	<u>Expenditure and Funding Analysis(EFA) and Comprehensive Income and Expenditure Statement(CIES)</u>
14.	This is a new financial performance statement that is being introduced from 2016/17. Its purpose is to report performance in a similar format used for reporting to management throughout the year.
15.	The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.
16.	The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.
17.	In addition, the Comprehensive Income and Expenditure Statement, cost of services section, has been changed from a SERCOP basis to the council's portfolio reporting basis.
	GENERAL FUND REVENUE EXPENDITURE AND INCOME
18.	Within the Financial Statements, the Comprehensive Income & Expenditure Account (CIES) presents the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 8 of the Final Accounts presents the Council's

	expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. The outturn for the council was a contribution to general reserves of £4.17M.		
19.	The following table shows actual expenditure compared to the working budgets 2016/17.		
20.			(Under) / Over Spend £M
	Portfolio Total		3.67
	Levies & Contributions		0.06
	Capital Asset Management		(2.35)
	Other Expenditure & Income		(4.29)
	Non-Specific Grants & Other Funding		(1.17)
	Business Rates		(0.09)
	Transfer to Reserves – Year End Surplus		(4.17)
21.	Against this are requests to carry forward budget of £0.13M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2016/17 that will go to Council on 19 July 2017.		
	GENERAL FUND BALANCES AND RESERVES		
22.	The General Fund balance stands at £11.3M. This is a net reduction of £1.5M compared to a balance of £12.8M at the end of 2015/16.		
23.	The council's approved level for the General Fund Balance was £5.5M. Following an assessment of risk by the Chief Financial Officer, it was recommended that this should increase to £11.3M. In reviewing the level of reserves and balances as part of closing the 2016/17 accounts, it was possible to increase the balance to the recommended level in line with the coming year's budget recommendation. There is no proposed draw on the balance to support the budget position in 2017/18.		
24.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.		
25.	Within the Medium Term Financial Strategy (MTFS), the financial risks facing the Council in the medium term are identified. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.		
26.	In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2016/17 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. Full details can be found on page 13 of the Final		

	Accounts.		
	HOUSING REVENUE ACCOUNT (HRA)		
27.	The Table on page 10 of the Final Accounts presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. The budget for the year was set at £1.0M surplus which was the actual outturn position for the year. The HRA working balance at 31 March 2017 has increased accordingly to £3M.		
28.			£M
	Increase in Repairs		2.4
	Savings on Supervision & Management		(0.3)
	Reduction in Capital Financing Charges		(1.3)
	Variation on day to day services		0.8
	Reduction in Capital Funding from Direct Revenue Financing and Depreciation		(0.7)
	Total Income		(0.1)
	Total Variation		0.0
	CAPITAL EXPENDITURE		
29.	In 2016/17 the Council spent £120.61M on capital projects. This was £32.82M less than the latest approved estimates, due largely to re-phasing and slippage of expenditure which will now be incurred in 2017/18. Of this expenditure £69.41M related to the General Fund and £51.20M to the HRA.		
30.	The Capital Outturn position for 2016/17 will be reported to Council in July. These report will contain further details, including setting out how the expenditure has been financed.		
	THE COLLECTION FUND		
31.	There is an overall surplus on the Collection Fund of £10.02M to be carried forward into 2017/18. The following table shows how the surplus has been derived:		
			£M
	NDR Deficit for Year		1.65
	Council Tax Surplus for Year		(1.70)
	Total Surplus on Collection Fund 2016/17		(0.50)
	Collection Fund Surplus B/Fwd 2015/16		(9.97)
	Collection Fund Surplus to C/Fwd 2017/18		(10.02)

	<u>Council Tax</u>
32.	The Council Tax element of the Collection Fund had a surplus for the year of £1.70M. There was a surplus brought forward from 2015/16 of £2.14M, to give a surplus to be carried forward to 2017/18 of £3.84M.
33.	When setting the Council Tax for 2017/18 in February 2017, it was estimated that there would be a deficit of £0.07M to be carried forward. This estimated surplus was taken into account in setting the 2017/18 Council Tax and was shared by the City Council, the Police & Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2016/17. This leaves a surplus of £1.77M that will be carried forward to 2017/18 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when setting the Council Tax for 2018/19.
	NDR
34.	The NDR element of the Collection Fund had a deficit for the year of £1.65M. There was a surplus brought forward from 2015/16 of £7.83M, to give a surplus carried forward of £6.18M.
35.	When setting the Council Tax for 2017/18 in February 2017, it was estimated that there would be an NDR surplus of £4.74M to be carried forward (the Council's share of this surplus of £2.8M was taken into account in setting the 2017/18 budget for the Council). This additional a surplus of £1.44M, that will be carried forward to 2018/19, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)
	PENSIONS
36.	In 2016/17 the Council paid an employer's contribution of £24.9M into Hampshire County Council's Pension Fund. The employer's rate set for 2016/17 was 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and was equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.
37.	The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2017 was £770.8M, compared to its estimated liabilities of £1,195.8M, giving an estimated deficit on the Fund of £425.0M (£366.8M in 2015/16). This was due to an actuarial loss following a change to their financial assumptions.
38.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.
	ACCOUNTING AND OTHER POLICIES
39.	The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2015.
40.	The Accounting Policies are described in detail on pages 26 to 39 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> • Property, Plant and Equipment

	<ul style="list-style-type: none"> • Depreciation • Heritage Assets • Pensions • Accruals • PFI contracts • VAT <p>The main change to the Accounting Policies in 2016/17 was updating the basis of preparation to remove reference to SERCOP.</p>
41.	The majority of the accounting policies adopted by the Council are in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
42.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
<u>Property/Other</u>	
43.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
44.	Accounts and Audit Regulations 2015.
<u>Other Legal Implications:</u>	
45.	None
RISK MANAGEMENT IMPLICATIONS	
46.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
47.	Not applicable. It should be noted that the Financial Statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2016/17.

Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	

Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT		
DATE OF DECISION:	12 th June 2017		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<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			
None			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.</p>			
<p>In accordance with CIPFA Guidance, Audit [Governance] Committees should be provided with early sight of a draft of the AGS noting that the final version will be signed as part of the Statement of Accounts.</p>			
RECOMMENDATIONS: The Governance Committee is asked to:			
	(i)	Review the draft 2016-17 AGS (Appendix 1); and	
	(ii)	Note the status of the 2015-16 AGS Action Plan (Appendix 2).	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. This responsibility extends to receiving, reviewing and approving the draft AGS.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	No alternative options have been considered		
DETAIL (Including consultation carried out)			
3.	Production of an AGS is a mandatory requirement in accordance with Regulation 6 (1) (b) of the Accounts and Audit England Regulations 2015. This requires that the council must, each financial year, conduct a review of the effectiveness of the system of internal control and prepare an annual		

	governance statement.
4.	The draft AGS has been developed in accordance with the new “Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)” which applies to annual governance statements prepared for the financial year 2016/17 onwards.
5.	The Committee will recall that at the April 2017 meeting a revised version of the Council’s Code of Corporate Governance (“CCG”), based on the “Delivering Good Governance in Local Government” document, was presented and approved. The updated CCG refers to the 7 core principles of good governance which, in turn, are explicitly referred to in the draft AGS.
6.	<p>In accordance with the CIPFA/SOLACE guidance, the key good practice features of an annual governance statement are:</p> <ul style="list-style-type: none"> • The statement has been properly approved. • It is regarded as a valuable means of communications which will enable stakeholders to understand the authority’s governance arrangements. • It is easily accessible by authority members and members of the public, for example: <ul style="list-style-type: none"> ▪ through its prominent display on the authority’s website ▪ publishing it with, but separately from, the statement of accounts. • It has been clearly thought out and reflects the vision, character and structure of the authority, i.e. the big picture and not the detail. • It demonstrates ownership by the authority and has a high status within senior management. • It is a genuinely shared effort with wide input from outside the finance and audit functions. • It is a key document for showing how the authority is achieving its strategic objectives. • It is in an open and readable style. • It demonstrates challenge. • Issues are clearly articulated and it communicates a clear and concise message. • Weaknesses together with areas for improvement are highlighted. • It clearly communicates what has been done to resolve significant control issues and what remains to be done. • Actions identified are specific, measurable, achievable, realistic and time-related (SMART). • Responsibility for those actions is clearly identified. • It is a ‘living’ document, i.e. it is not focused exclusively on year end and communicates significant issues which may change from year to year.
7.	The draft 2016-17 AGS has been developed and shared with the Council’s ‘Controls Assurance Management Group’. This group comprises the Section 151 Officer (Service Director - Finance and Commercialisation), Monitoring Officer (Service Director - Legal and Governance), Chief Internal Auditor, Chief Strategy Officer and the Chair of Governance Committee.

8.	The AGS is produced following a review of the systems and processes that comprise the Council's governance arrangements. This review, based on CIPFA/SOLACE guidance, is informed by an 'assurance gathering process.' The key components of this process are completion of an 'Assurance Framework' document together with 'Self-Assessment Statements' completed by each Service Director. Both documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.	
9.	The draft AGS has also been reviewed by the Council's Strategic Leadership Team.	
10.	The AGS must be current at the time it is published so the final version of the 2016-17 AGS will be presented to the Governance Committee at the July meeting for approval prior to being signed by the Leader of the Council and the Chief Executive respectively.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
11.	N/A	
<u>Property/Other</u>		
12.	N/A	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
13.	The Accounts and Audit (England) Regulations 2015 which require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.	
<u>Other Legal Implications:</u>		
14.	None	
POLICY FRAMEWORK IMPLICATIONS		
15.	None	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		N/A
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Draft 2016-17 Annual Governance Statement	
2.	2015-16 AGS Action Plan	

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

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

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

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.pdf

or can be obtained from the:

Service Director – Legal and Governance,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

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

The governance framework has been in place at the council for the year ended 31st March 2017 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE STATEMENT

THE GOVERNANCE FRAMEWORK

The fundamental function of good governance is to ensure that the Council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the Council's business and includes 'Decision Making' and 'Finance, Contract and Legal Matters' with more detailed procedures and codes of practice provided in separate rules and protocols. These include Access to Information Procedure Rules, Council Procedure Rules and Executive Procedure Rules. The Constitution may be accessed on the internet at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both an Officers' Code of Conduct and a Members' Code of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees, the purpose of which is to ensure that employees understand the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

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

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

As part of the commitment to safeguard public funds there is an 'Anti-Fraud and Anti-Corruption Policy Statement and Strategy' which outlines the process to be followed where there is suspicion of financial irregularity. The Strategy applies equally to all organisations with which the Council has joint working relations. The council also has in place an 'Anti-Money Laundering' policy and a 'Bribery Policy' which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. All such policies and strategies are subject to periodic review.

Complaints are managed via a formal Corporate Complaints policy and procedure in place which is published on the Council's website and set out how a complaint will be dealt with. In accordance with legislation there are a separate procedures in place in respect of Children's Services Complaints and Adult Social Care Complaints. Complaints about Members are dealt with under the Members' Code of Conduct.

ANNUAL GOVERNANCE STATEMENT

B. Ensuring openness and comprehensive stakeholder engagement

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

The 'Southampton City Council Strategy 2016-20' reflects feedback from residents, both from the Priorities Survey (2015) and the more recent City Survey 2016. The Strategy sets out how the Council will work in order to deliver services in a modern, efficient and sustainable way that meets the needs of our residents. The Strategy is subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors.

The Council's website includes a 'Have your say' section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

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

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the final budget report for 2017-18. Information was made available in an easy to understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The 2016 City Survey which asked residents about their views and opinions on a range of issues facing the city of Southampton. The survey, which was commissioned by Southampton Connect and the Police, Council and NHS, in intended to help understand the views of local residents. This survey is repeated every other year in order to understand trends and evaluate performance.

The Council has established a 'People's Panel' which now has a membership of over 1,100. This Panel comprises a group of residents who take part in various forms of activity including surveys, quick polls, interviews and workshops. Their views are used to inform future decisions and services. Resident's views are also tracked over time over time to see how changes in the city affect their opinions and experience of the city.

Southampton is the first council to develop a 'Citizen Science' project with around 100 members of the People's Panel. 'Citizen Science' is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants were supported by the Council's Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. This project involved one of the largest cohorts of participants ever in the UK for a project of this type and focussed on what prevents residents from recycling and what could help them recycle more.

There is a strong focus on youth participation in the city via 'The Youth Forum Southampton' which provides opportunity for young people to influence how services are delivered, highlight issues that that need to be reviewed, and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' explains how young people can get involved to help make Southampton a better place.

ANNUAL GOVERNANCE STATEMENT

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Strategy 2016-20 ('Council Strategy') is a key strategic document that sets out what the Council wants to achieve, what it will do, how it will work and how it will contribute to the Southampton City Strategy (2015-2025). The Council Strategy sets out the priorities for the next four years, the outcomes that are expected to be achieved by 2020 and the measures used to monitor progress. It influences all other Council strategies and policies developed during this period, as well as the Council's spending decisions. The priority outcomes in the Council Strategy are:

- *Southampton is a city with strong and sustainable economic growth*
- *Children and young people in Southampton get a good start in life*
- *People in Southampton live safe, healthy, independent lives*
- *Southampton is a modern, attractive city where people are proud to live and work*
- *A modern and sustainable council*

Performance against the key indicators is actively monitored with performance reports published each quarter.

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: '*Southampton a city of opportunity where everyone thrives*'. This Strategy has been developed by Southampton Connect which is a strategic partnership in the city that seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

In 2016, Southampton City Council, Portsmouth City Council and Isle of Wight Council worked with wider Solent authorities and Solent Local Enterprise Partnership to negotiate a devolution deal with HM Government. Following a public consultation on the governance arrangements for the deal, a submission was made by the three authorities to the Secretary of State in the Autumn of 2016, requesting consideration of proposed arrangements to establish a Solent Mayoral Combined Authority. The outcome of this submission is awaited.

The Council's Medium Term Financial Strategy ('MTFS') is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action. The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities.

This forecast forms part of the base assumptions for developing the overall budget, together with unavoidable service pressures agreed by the Cabinet and the Council's Management Team that need to be taken into account in the overall budget deliberations. The Council's Medium Term Financial

ANNUAL GOVERNANCE STATEMENT

Strategy has been developed in order to secure a forward looking approach and long term sustainability in service provision. The strategy concentrates on the principles that will provide a strong direction for the medium term.

The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. A sustainable MTFS is therefore key to the effective delivery of the Council's overall aims of achieving better outcomes for residents.

Development of the MTFS takes into account a number of other strategies including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties. The associated Better Care Fund, which commenced in 2015, pools funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast. In recognition of the pressures in dealing with adult social care demand, local authorities are able to levy a "social care precept" of up to 2% in council tax which must be spent exclusively on social care, with the potential to bring almost £2bn more into the care system across the country.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered and rejected together with a details (including consultation carried out) section. The details section includes any pros and cons relevant to the proposal and deals with any supporting information that the decision maker may require in order to make a valid, legal decision.

There are also separate sections detailing any Financial (Resource), Legal, Risk and Policy implications that consider the how proposals will be paid for and from what budget if appropriate, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council's approved Policy Framework.

The Council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme, monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the Council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

All scrutiny meetings are held in public with opportunity for the public to ask questions or submit questions in writing to the committee or panels. Scrutiny inquiries can consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to

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the attention of Inquiry Panel members.

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key priorities and outcomes. These plans identify the key challenges associated with the delivery of the respective key priority and outcomes and how they can be addressed. These plans reflect 'How we are performing' (against a base year 2015-16) and 'How we will perform in 2019-20' with a suite of key performance measures explicitly aligned with the individual key priority outcomes. Performance against these measures or indicators is subject to regular and robust review by both the Council Management Team and Members.

Each service area within the Council is also required to produce an annual business plan that includes what and how services are to be delivered, the cost drivers, future challenges, opportunities and risks and how they will be addressed. The plans detail the budget envelope and projected costs for the service over a three year period.

Budget pressures arising from services are identified through regular monitoring of budgets and work plan with action plans to address any significant in year budget variances are agreed with the Council Management Team and subject to monthly progress / status reporting.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within in

The Council has in place a 'Workforce Strategy and Action Plan' which was approved by Full Council in September 2016. The Workforce Strategy covers pay and reward, recruitment, retention, performance management, training and development of the workforce. It provides direction for all staff with the learning and development elements also covering all elected Members

The Workforce Strategy covers the period 2016 - 2021 to deliver the priorities set in the Southampton City Council Strategy and to align with the other key strategies – the Customer Strategy and that Medium Term Financial Strategy. The 'Workforce Strategy' is intended to enable the Council to respond to short and medium term issues relating to organisational development and human resources in a rapidly changing world, national legislation and local demands. The Strategy and the integral workstreams aim to close the gap between the Council's aspirations and its capacity to deliver by having clear priorities, policies and strong leadership throughout the organisation. The Strategy takes account of challenges in relation to overall Council budget and is used to guide resource allocation decisions, drive positive change and deliver a return on investment.

The vision is for the Council to be an employer of choice and be recognised as a 'Great Place to Work' where employees have pride in their work, the Council and the city. It is intended that this is delivered through:

- A skilled, agile, flexible and engaged workforce of high performing, professional teams guided in their work by our core behaviours and delivering the right services effectively and efficiently for a sustainable Council
- The Council recognising, developing and rewarding talent, proactively promoting learning and growth across all areas.

F. Managing risk and performance through robust internal control and strong public financial management

ANNUAL GOVERNANCE STATEMENT

The Council has in place a 'Risk Management Policy 2017-2020' which sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. The Policy is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk. It is also relevant to Members in their capacity as 'decision makers'.

The Policy is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. Any significant changes reported to the Council's Governance Committee which has responsibility to provide independent assurance on the

adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance.

Performance against the key indicators in the Council Strategy are published on the council website for each quarterly period. Performance is actively monitored and reported to both the Council's Management Team, Strategy Unit and the Overview and Scrutiny Management Committee. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a Contract Management Team which provides a senior management interface between the Council and our partnership service providers.

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2016)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

The Council's assurance arrangements also conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money. The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The Council is committed to openness and transparency and publishing as much Council data as it can

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in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access the data published under the requirements of the Local Government Transparency Code (2015). This Code sets out the specific data required to be published, and the timescales by which the data must be published. All data required to be published by the Local Government Transparency Code is published.

The 'Council Data' web page includes a link to the Council's budget book which provides a comprehensive summary of the Council's 2016/17 Revenue Budget and details the assumptions made and risks considered in setting the budget. It also provides summary information of the Council's Medium Term Financial Position. It also includes a link to the Statement of Accounts which shows how public money has been used and that the Council has been honest and responsible. The Statement of Accounts are prepared in accordance with the Accounting Code of Practice.

The Council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the Council and by Council bodies acting as tribunals.

The Council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the Council's website.

The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance

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

REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the
-

relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;

ANNUAL GOVERNANCE STATEMENT

- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors ‘Annual Report and Opinion’ on the adequacy and effectiveness of the Council’s internal control environment;
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual ‘Self-Assessment Statement’ by Service Directors which cover the key processes and systems that comprise the council’s governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an ‘Assurance Framework’ document which reflects the key components of the Council’s overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1.	Governance Issue (CARRIED FORWARD FROM 2015-16)
	The general level of staff awareness of the existence and content of the ‘Whistleblowing Duty to Act’ policy, ‘Anti-Fraud and Corruption Strategy’ and ‘Anti Money Laundering Policy’ and associated responsibilities is inconsistent.
	Planned Action: A new Induction programme which incorporates the above policies has been developed and is being delivered to all new entrants to SCC. In addition, a Continuous Learning programme including the above policies has also been developed for existing staff.
	Responsible Officer: Service Director: Human Resources & Organisational Development
	Target for completion: Induction programme is ongoing. Continuous learning programme is being rolled out from June 2017
2.	Governance Issue
	The Council’s Code of Corporate Governance needs to be reviewed and updated in order that it is

ANNUAL GOVERNANCE STATEMENT

	<p>aligned with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.</p> <p>Completed Action: The Code of Corporate Governance has been reviewed and updated to reflect current best practice. It was presented to and approved by the Council's Governance Committee on 24th April 2017</p> <p>Responsible Officer: Service Director - Legal and Governance</p>
3.	<p>Governance Issue</p>
	<p>Information Governance - Not all staff have completed the Data Protection and Freedom of Information training which is mandatory for all Council employees at induction and annually thereafter. The training made is available via e-learning together with alternative options available for those staff unable to access a computer as part of their day to day work.</p> <p>Planned Action: This is an ongoing concern. It will be raised as part of the annual 'Information Governance' report at Council Management Team to agree actions including suspension of individual IT user accounts and disciplinary action as a last report.</p> <p>Equally, confidence in the core supporting data produced by HR Pay is lacking given accuracy issues. This aspect is being investigated urgently by the Service Director: Human Resources & Organisational Development.</p> <p>Responsible Officer: Service Director - Legal and Governance</p> <p>Target for completion: 1st September 2017</p>
4.	<p>Governance Issue</p>
	<p>Performance Management - Not all staff have had an annual performance appraisal. The performance appraisal process is intended to allow for priorities and objectives for the forthcoming period to be determined and agreed which, in turn, should reflect the Service / Council's key outcomes and priorities.</p> <p>Planned Action: A new Performance Management Framework has been approved and is in the process of being implemented. This new Framework is intended to ensure all staff are working to deliver the Council Strategy and other key strategies which are then translated into outcome plans, service based business plans and individual and/or team objectives. This will be delivered throughout 2017/18 taking into account the implementation of Phase 3 restructures.</p> <p>For all staff, this will be through:</p> <ul style="list-style-type: none"> • A Performance Contract for each role (linked to the job description) • Annual and quarterly targets, considered at Annual Performance Review meetings and Quarterly Performance Review meetings • Personal Development Plans • Team meetings • Individual supervision / one to one meetings <p>Responsible Officer: Service Director – Human Resources and Organisational Development</p> <p>Target for completion: March 2018</p>

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5. Governance Issue
There is need for more a formal, robust and consistent approach to succession planning, for key posts and/or a spread of skills to avoid over reliance on any particular individual.
Planned Action: Delivery of a workforce strategy and action plan is addressing the issues that are highlighted as part of the Phase 3 restructures.
Responsible Officer: Service Director – Human Resources and Organisational Development Target for completion: March 2018

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

Signed

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

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

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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 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and	A 'Corporate Standards' Training programme, which will incorporate the above policies, is being developed and will be rolled out to managers in 2016-17.	HR Strategy Manager (Organisational Development and Reward)	March 2017	Not Completed - Action carried forward and	

	Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.				reflected on the 2016-17 AGS	
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	Completed (Nov 2016)	The revised Partnership code was approved by at the November 2016 Council meeting.
5.	Reduced overall capacity and loss of some experienced staff coupled with implementation of a new organisational structure will present	To be addressed as part of the development of a Workforce Strategy to be considered in Sept 2016.	HR Strategy Manager (Organisational Development and Reward)	Sept 2016	Completed (Sept 2016)	The Workforce Strategy and Action Plan, presented to and approved by Full Council at the September 2016 meeting, provides an overview of what is required for the Council to develop its current

	challenges in terms of the demands on managers					and future workforce reflecting the agreed operating model and the transformation programme.
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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT – AUDIT FEE LETTER 2017-18	
DATE OF DECISION:		12th June 2017	
REPORT OF:		Chief Financial Officer	
<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			
None			
BRIEF SUMMARY			
This letter confirms the audit work and associated fee proposed by external audit for the 2017/18 financial year. The fee was set by Public Sector Audit Appointments Ltd (PSAA) and has been agreed with the Service Director - Finance and Commercialisation (Chief Financial Officer).			
RECOMMENDATIONS:			
	(i)	To note the external auditor's 'Audit Fee Letter' as attached Appendix 1.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee's terms of reference require it to be satisfied that appropriate action is taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	The report, as attached in Appendix 1, has been discussed and agreed with the Chief Executive and the Service Director - Finance and Commercialisation.		
4.	It should be noted that from 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. The Council has previously resolved to opt into the sector led option for the appointment of external auditors. PSAA will 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.		

RESOURCE IMPLICATIONS		
Capital/Revenue		
5.	None	
Property/Other		
6.	None	
LEGAL IMPLICATIONS		
Statutory power to undertake proposals in the report:		
7.	Local Government Act 1999	
Other Legal Implications:		
8.	None	
RISK MANAGEMENT IMPLICATIONS		
9.	The report is for noting. There are no significant risks to consider	
POLICY FRAMEWORK IMPLICATIONS		
10.	None	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		None
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Audit Fee Letter 2017/18	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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		
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	

Dawn Baxendale
Chief Executive
Southampton City Council
Civic Centre
Southampton
SO14 7LY

18 April 2017

Ref: SCC/1718 Fee Letter

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Dawn

Annual Audit and Certification Fees 2017/18

We are writing to confirm the audit and certification work that we propose to undertake for the 2017/18 financial year at Southampton City Council.

From 1 April 2015, the duty to make arrangements for the audit of the accounts and the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. These audited bodies will be responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. The PSAA will play a new and different role in these arrangements.

Indicative audit fee

For the 2017/18 financial year PSAA has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- whole of government accounts.

For Southampton City Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- officers meeting the agreed timetable of deliverables;
- the operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- we can rely on the work of internal audit as planned;
- our accounts opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council;
- there is an effective control environment; and
- prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2016/17, our audit planning process for 2017/18 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA sets an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee for 2017/18 will be based on actual 2015/16 benefit certification fees. As the actual 2015/16 benefit certification fee has not been finalised by PSAA at the time of writing they have not yet set the 2017/18 certification fees.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2017/18 relates to work on the housing benefit subsidy claim for the year ended 31 March 2018. We will set the certification fee at the indicative fee level. We will

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



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

cc. Councillor Barnes-Andrews, Chair of the Governance Committee
Mel Creighton, Service Director Finance & Commercialisation

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	CHIEF INTERNAL AUDITOR – ANNUAL REPORT & OPINION 2016-17		
DATE OF DECISION:	12 JUNE 2017		
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 proper internal audit practices, the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.</p> <p>The attached report (Appendix 1) provides the Chief Internal Auditor's opinion and summarises audit work from which that opinion has been derived for the year ending 31 March 2017.</p> <p>The report concludes that Southampton City Council's framework of governance, risk management and control is 'Adequate'.</p> <p>Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee approves the Chief Internal Auditor Annual Report & Opinion 2016-17
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion 16-17.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
3.	The Internal Audit Report & Opinion has been agreed both senior management within SCC.

RESOURCE IMPLICATIONS	
Capital/Revenue	
4.	None.
Property/Other	
5.	None.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
6.	The Accounts and Audit (England) Regulations 2015 state ‘a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.
Other Legal Implications:	
7.	None.
RISK MANAGEMENT IMPLICATIONS	
8.	The internal audit plan on which the annual report and opinion is based was informed by and aligned with the organisation corporate and directorate risk registers.
POLICY FRAMEWORK IMPLICATIONS	
9.	None.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Chief Internal Auditor Annual Report & Opinion 2016-17
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.	

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Annual Internal Audit Report & Opinion

2016 - 17

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’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2016 [the Standards].

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

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

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

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

2. Internal Audit Approach

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

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

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

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

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



3. Internal Audit Opinion

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

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

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Southampton City Council's audit need that has been covered within the period.

Audit Opinion

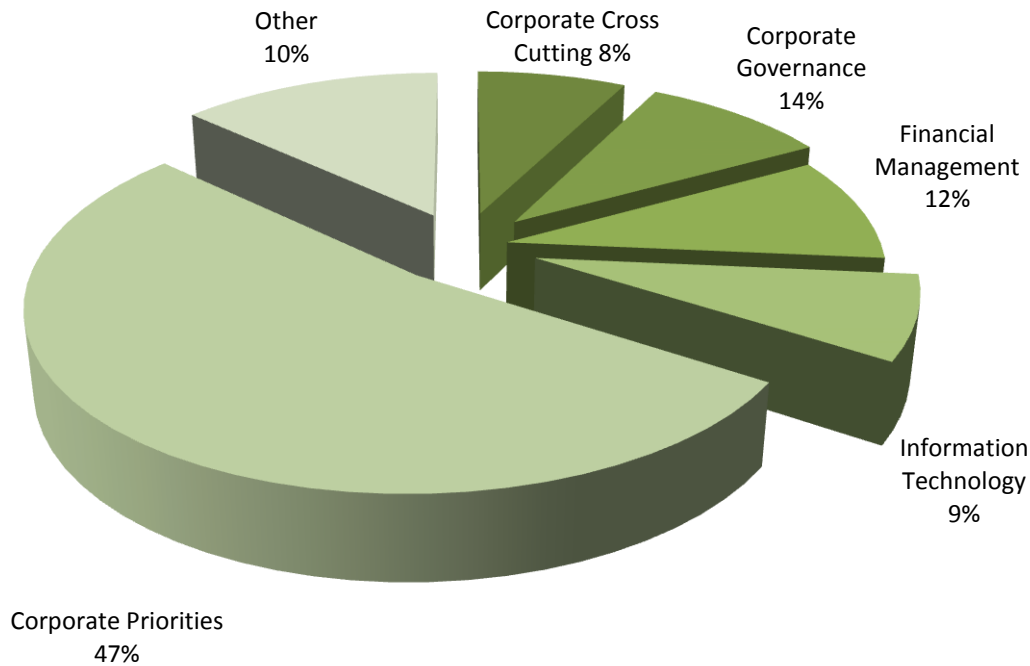
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

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

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

4. Internal Audit Coverage and Output

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



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

The 2016-17 Internal audit plan, approved by the Governance Committee, 12 April 2016, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

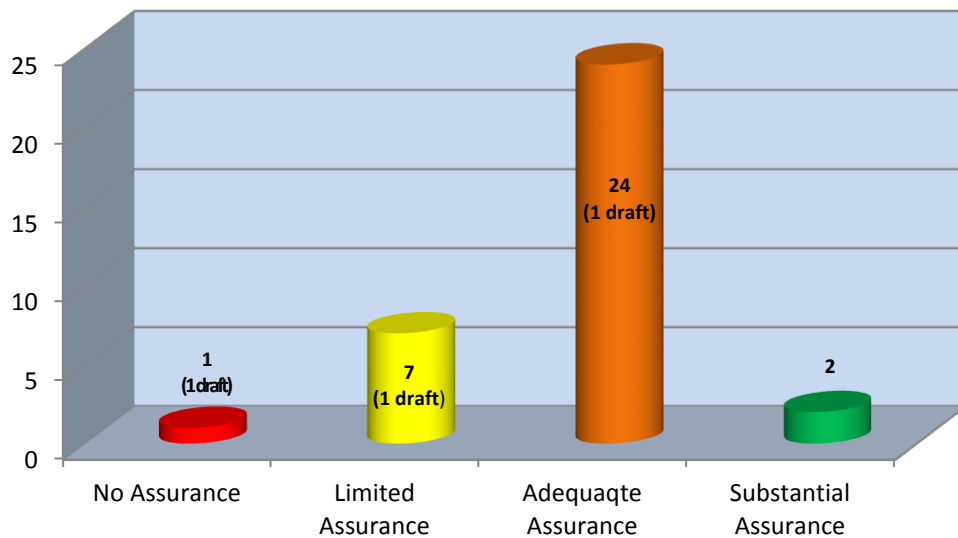
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership provided assurance across 53 review areas over the course of the year ending 31 March 2017.

The revised 2016-17 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 3 reviews, however, final reports have not yet been agreed with management;

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



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

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

5. Significant Issues Arising

Direct Payments (Draft)

A 'No Assurance' opinion was reported in concluding the internal audit review of Direct Payments during the year following a 'Limited Assurance' opinion in 2015-16. Significant concerns were identified across the breadth of the Direct Payments process including:

- For more than half of the records sampled no direct payment agreement had not been signed by the 'client' or 'suitable person' or recorded on PARIS;
- Where a 'suitable person' was managing a direct payment, there was no evidence to support that all within the sample tested had been assessed as appropriate and approved to manage the direct payment on behalf of the client;
- Care managers were not carrying out regular reviews to establish whether the needs of the client had changed and the direct payment remained appropriate. Of those tested over half had not received a regular annual review. Additionally there was no evidence for over half of the clients sampled that integrity checks had been undertaken on their bank account and supporting paperwork;
- There was no information recorded for 66% of direct payments reviewed to confirm they had been audited by the Payments Team (eight of which were higher value payments (over £350 p/w)). There was no record of clients who had been issued an audit letter or a response rate;
- A new interface between PARIS and Agresso, to make direct payments to client, had been introduced during the year. Testing of the direct payment actually paid to the client against the amount recorded in PARIS did not agree for 50% of records tested. Variances were also found in the amount of the client contribution recorded in PARIS to the amount deducted from the direct payment in Agresso;
- From sample testing two overpayments were made to clients in January 2017 (in excess of £30k and £1k respectively) where clients had been paid at a daily rate instead of a monthly rate. The overpayments were repeated in February despite being highlighted in January,
- Key policy and guidance documentation is overdue for review.

As a more general observation documentation was not consistently or comprehensively recorded in PARIS or was not always easy to locate. This was raised as an issue in 15-16 annual report and opinion.

Compliance – there was a common theme across reviews of Safeguarding – Protection and Court Teams; 0–25 Special Educational Needs & Disability (SEND); and Safeguarding Children & Young People that statutory timeframes within which proceedings and/or procedures were required to be undertaken were exceeded or where no evidence was available to provide assurance that relevant action had been taken. There is a risk that such delays may adversely impact decisions and outcomes affecting vulnerable children.

Procurement – there is a reported high level of non-compliance with the sub £100k procurement process which was introduced in 2014, with many service areas undertaking their own procurement directly. Where contract or frameworks exist there remained a high level of off contract spend and examples were identified where expenditure had not been appropriately aggregated and procured in line with relevant guidance and legislation.

We understand that procurement guidance to staff is currently under review and due to be relaunched later in the year supported by workshops to improve awareness and requirements.

6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services.

A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). As part of the 2016/17 NFI exercise the Council submitted required data sets in October 2016 receiving feedback on potential matches in February / March 2017. Work will continue throughout 2017-18 to review identified matches.

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

Local Government Transparency Code 2014	01.04.16 – 31.03.17
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	91 days*
Total number of 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, housing benefits etc.)

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

7. Quality Assurance and Improvement

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

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

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

In accordance with PSIAS, a further self assessment was completed in April 2017 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors, further substantiated through the self assessment in April 2017 that:

‘the Southern Internal Audit Partnership conforms to: the Definition of Internal Auditing; the Code of Ethics; and the Standards’.

There are no disclosures of Non-Conformance to report.




9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2016-17 through the following internal processes:

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

10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2015-16		2016-17
	Actual (%)		Actual (%)
Revised plan delivered (including 2014/15 c/f)	90		100
Positive customer responses to quality appraisal questionnaire	97		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

11. Acknowledgement

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

Neil Pitman
 Head of Southern Internal Audit Partnership
 May 2017

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		STRATEGIC CONTRACT – ANNUAL REPORT	
DATE OF DECISION:		12TH JUNE 2017	
REPORT OF:		HEAD OF SERVICE – CONTRACT MANAGEMENT, BUSINESS OPERATIONS AND DIGITAL	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	KATIE RENOUARD	Tel: 023 8083 3233
	E-mail:	katie.renouard@southampton.gov.uk	
Director	Name:	ROB HARWOOD	Tel: 023 8083 3436
	E-mail:	rob.harwood@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
<p>The appendix to the report is confidential in accordance with paragraph number 7(A) of the Council's Access to Information Procedure Rules in Part 4 of the Council's Constitution as it contains information about council contracts and contractors which may be deemed to be confidential.</p>			
BRIEF SUMMARY			
<p>This report provides members with an overview of the performance, governance and contractual matters relating the council's most strategically important contracts. It also sets out how these contracts contribute to meeting the Priority Outcomes, add value to the council's operations and achieve value for money.</p> <p>The report is produced by the Supplier Experience team on an annual basis.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Strategic Contract – Annual Report for the period March 2013 to April 2017 as attached as Appendix 1.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The report has been provided for information.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	N/A		
DETAIL (Including consultation carried out)			
3.	N/A		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	N/A		
<u>Property/Other</u>			
5.	N/A		

LEGAL IMPLICATIONS		
6.	N/A	
<u>Other Legal Implications:</u>		
7.	N/A	
POLICY FRAMEWORK IMPLICATIONS		
8.	N/A	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		N/A
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Strategic Contract - Annual Report 2016/17	
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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