

Governance Committee

Monday, 10th June, 2019
at 5.30 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Keogh (Chair)
Councillor Kataria
Councillor Harwood
Councillor White
Councillor G Galton
Councillor Professor Margetts
Councillor Spicer

Contacts

Director of Legal and Governance
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Senior Democratic Support Officer
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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

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 2019/20

2019	2020
10 June	10 February
29 July	20 April
9 September	
11 November	
9 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 **ELECTION OF VICE-CHAIR**

To elect a Vice-Chair for the Municipal Year 2019/20

3 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

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

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

4 **STATEMENT FROM THE CHAIR**

5 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 15th April and 14th May 2019 and to deal with any matters arising, attached.

6 **FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2018-19** (Pages 5 - 16)

To consider the report of the Director Legal and Governance detailing information governance compliance and statistical information for the financial year 2018-19, attached.

7 **HR QUARTERLY STATISTICS** (Pages 17 - 26)

To consider the report of the Service Director Human Resources and Organisational Development detailing Quarter 4 HR Statistics, attached.

8 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2018/19** (Pages 27 - 56)

To consider the report of the Interim Services Director Finance and Commercialism detailing the review of Prudential Limits and Treasury Management Outturn 2018/19, attached.

9 DRAFT FINANCIAL STATEMENTS FOR 2018/19 (Pages 57 - 62)

To consider the report of the Interim Service Director Finance and Commercialisation (S151) providing an overview of the 2018/19 Draft Financial Statements, attached.

10 ANNUAL GOVERNANCE STATEMENT (Pages 63 - 82)

To consider the report of the Service Director Strategic Finance & Commercialisation seeking to review the draft Annual Governance Statement 2018-19 and to note the status of the 2017-18 Annual Governance Statement Action Plan, attached.

11 INTERNAL AUDIT PROGRESS REPORT 2018-19 (Pages 83 - 114)

To consider the report of the Chief Internal Auditor detailing the Internal Audit Progress Report 2019-29, attached.

12 EXTERNAL AUDIT FEE LETTER FOR YEAR ENDING 31ST MARCH 2019 (Pages 115 - 122)

To consider the report of the External Auditor detailing the External Audit Fee Letter for Year Ending 31st March 2019, attached.

Friday, 31 May 2019

Director of Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 15 APRIL 2019

Present: Councillors Keogh (Chair), Kataria (Vice-Chair), Harwood, Noon and White (mins 50 – 53)

Apologies: Councillors Parnell and Whitbread

47. **APOLOGIES**

Apologies were received from Councillors Parnell and Whitbread.

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

RESOLVED: that the minutes for the Committee meeting on 11th February 2019 be approved and signed as a correct record.

49. **ANNUAL REVIEW OF THE CONSTITUTION**

The Committee considered the report of the Director of Legal and Governance setting out the Annual Review of the Constitution.

In particular the Committee noted that changes were being proposed to Council Procedure Rules, Contract Procedure Rules, Chief Officer Employment Panel as detailed in the report and the Officer Scheme of Delegations updated to reflect revised job titles and other minor matters to remove duplication and to include delegations required to give effect to new and revised legislation, no new delegations were included.

RESOLVED: that the proposed changes to the Constitution be recommended to Council at its Annual General Meeting for adoption.

50. **INTERNAL AUDIT PROGRESS REPORT 2018-19**

The Committee received and noted the report of the Chief Internal Auditor providing an internal audit progress report for the period 31st January to 31st March 2019.

51. **ANNUAL INTERNAL AUDIT PLAN 2019-20**

The Committee considered the report of the Chief internal Auditor detailing the proposed Annual Internal Audit Plan 2019-2020 as detailed in Appendix 1 of the report.

The Committee referenced the planned IT audits and the potential service impact of these particularly when Capita return to the Local Authority. It was acknowledged that this was a valid point and audit timings would be aligned to ensure minimal impact on service areas. In addition it was noted that it was also a positive and helpful process for these audits to be undertaken and an opinion provided in order that improvements could be identified.

RESOLVED: that the provisional Annual Internal Audit Plan for 2019-2020 as detailed in Appendix 1 be approved.

52. **EXTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the External Auditor detailing the external audit progress report for the year ending 31st March 2019 as detailed in Appendix 1 of the report.

53. **PROGRAMME AND PROJECTS QUARTERLY REPORT**

The Committee received and noted the report of the Interim Director of Finance and Commercialisation providing a summary of key corporate projects and programmes in formal stages of project governance.

The Committee requested that for future update reports that a section on the finances of the projects was included and indicated such information as any budget re-alignments that had been required together with the date the project had been included on the programme.

EXTRAORDINARY GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 14 MAY 2019

Present: Councillors Keogh (Chair), Kataria (Vice-Chair), Fitzhenry, Harwood, Noon, White and Whitbread

54. **APOLOGIES AND CHANGES IN MEMBERSHIP**

The Committee noted the resignation of Councillor Parnell and the appointment of Councillor Fitzhenry in place thereof in accordance with the provisions of Council Procedure Rule 4.3.

55. **STATEMENT FROM THE CHAIR**

56. **LGSCO COMPLAINT OUTCOME - KENTISH ROAD**

The Committee considered the joint report of the Service Lead: Legal Partnership/Link Officer- Local Government Social Care Ombudsman (LGSCO) and Service Director: Adults, Housing and Communities detailing the outcome of 8 grouped complaints relating to 9 individuals affected by the transfer of service users from the full time respite provision offered at Kentish Road to revised respite services at other locations and/or the reduced hours of service provided at Kentish Road following a review of the closure decision taken by the Council.

The Committee noted that all the complaints had been upheld as maladministration (fault) resulting in injustice to the complainants. Although the fault in each case differed slightly, the nature and thematic approach taken by the LGSCO and the outcomes found merit in reporting to the Governance Committee as a stand-alone item rather than waiting for the annual complaints report later in the year.

The report also provided the Committee with an update on the internal review undertaken by the Council, the "Lessons Learned" Report, commissioned from an external independent third party on the overall governance of the project from inception to decision making and outcomes which was received by the Council in May 2018 together with the progress on the delivery of the resultant action plan and the changes that had been introduced as a result of the learning from this report.

The Committee also noted that the Local Government Association were in attendance at the Council this week undertaking a Peer Review with particular focus on 3 areas which included the full service, a deep dive of the financial aspects of the service and the delayed transfers of care which was a "system wide" review.

Councillor Fielker, Cabinet Member for Adult Social Care was in attendance at the meeting and with the consent of the Chair addressed the meeting along with Elected Members, Carers and Members of the Public.

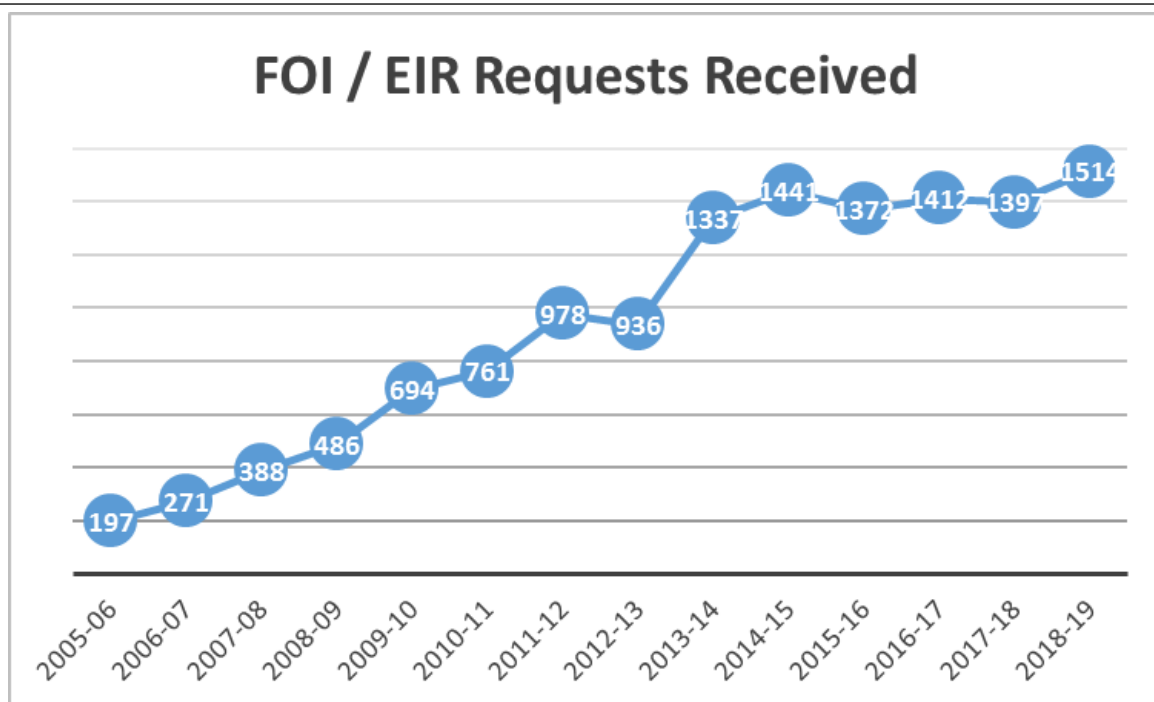
RESOLVED

- (i) That the subject matter of the investigations, the faults identified by the LGSCO and the settlements offered by the Council and accepted by the LGSCO to remedy the complaints be noted;
- (ii) That the outcomes of the Peer Review currently taking place and the full NDTI Review be presented to both Governance and Overview and Scrutiny Committees in order that the necessary assurances can be obtained that the Service is fit for purpose moving forward.

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2018-19		
DATE OF DECISION:	10 th June 2019		
REPORT OF:	Service Director: Legal and Governance		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	TRACY HORSPPOOL	Tel: 023 8083 2027
	E-mail:	Tracy.horspool@southampton.gov.uk	
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 2018-19 with regard to information governance. This report details statistical information on requests received under the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 (EIR), the General Data Protection Regulation (GDPR) and the Council's activity under the Regulation of Investigatory Powers Act 2000 (RIPA).			
RECOMMENDATIONS:			
	(i)	To note and comment on the update of the statistical information for the year 1 st April 2018 – 31 st March 2019 relating to: <ul style="list-style-type: none"> • FOIA and associated legislation • GDPR • RIPA 2000 	
REASONS FOR REPORT RECOMMENDATIONS			
1.	To keep Members informed as to the impact of the legislation to the Council and to detail the form and type of information requests received in 2018-19.		
2.	To ensure that Members continue to be aware of the Council's statutory obligations and compliance performance.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	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)			

FOIA	
4.	The FOIA came fully into force on 1 st January 2005, marking a major enhancement to the accessibility of information held by public authorities.
5.	Running parallel to the FOI regime is the EIR, which gives a separate right to request environmental information from public authorities, the GDPR, 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.
6.	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
7.	There are two types of exemptions that may apply to requests for information – absolute and qualified.
8.	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.
9.	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.
10.	The Council has now experienced the fourteenth full year of the FOIA, which yielded the highest number of FOI requests received by the Council to date.



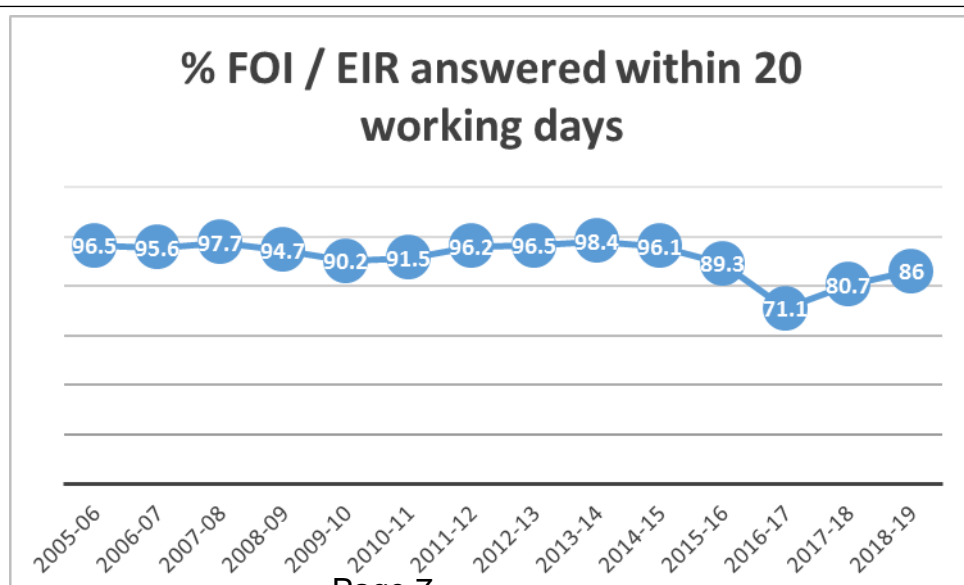
11. The number has increased from 1397 for the year to 1514, which bucks a trend in recent years of the number of requests leveling out. The area breakdown of the requests is as follows:

Directorate	No. Rec'd	%	Days
Svc Director Transactions & Universal Services	323	88.9	10.1
Svc Director Growth	256	87.8	12.0
Svc Director Children & Families	229	82.1	14.9
Svc Director Housing, Adults & Communities	187	82.4	14.2
Svc Director Strategic Finance & Commercialisation	176	93.1	10.2
Svc Director Digital & Business Operations	136	72.8	17.1
Svc Director HR and Organisational Development	72	86.1	13.6
Svc Director Legal & Governance	45	91.1	10.8
Svc Director Intelligence, Insight & Communications	41	95.0	11.2
Svc Director Public Health	24	83.3	14.2
Director of Quality & Integration	16	87.5	15.5
Requests on hold at time of report	9	N/A	N/A
Grand Total	1514	86.0	13.0

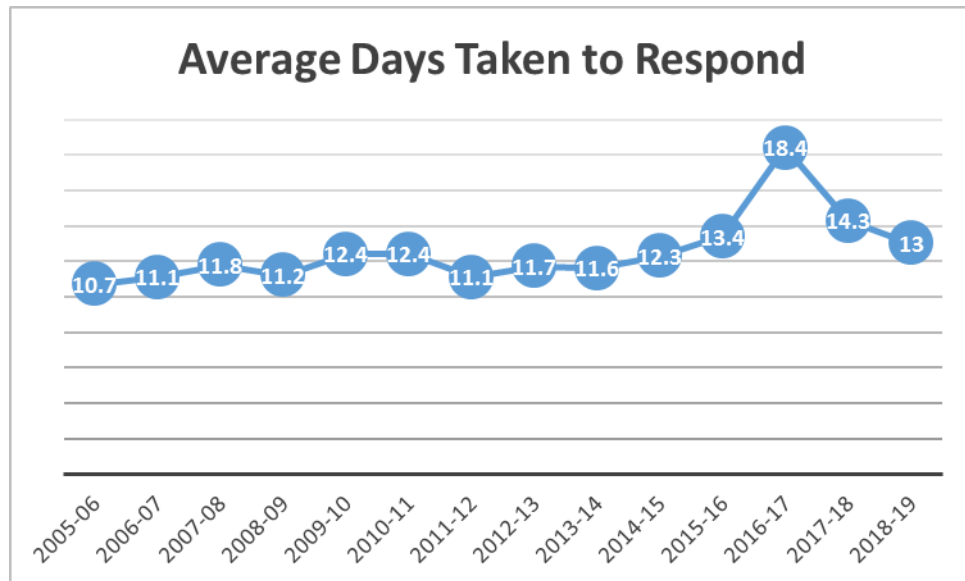
To summarise, the Council has received a total of 1514 requests between 1st April 2018 and 31st March 2019. This comprises 1510 dealt with as FOI requests and 4 EIR requests.

12. 2018/19 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 126, compared with 116 last year.

13. During the year, 86% 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 an increase on the previous year, and is due to measures put in place to address the low compliance rate of previous years.

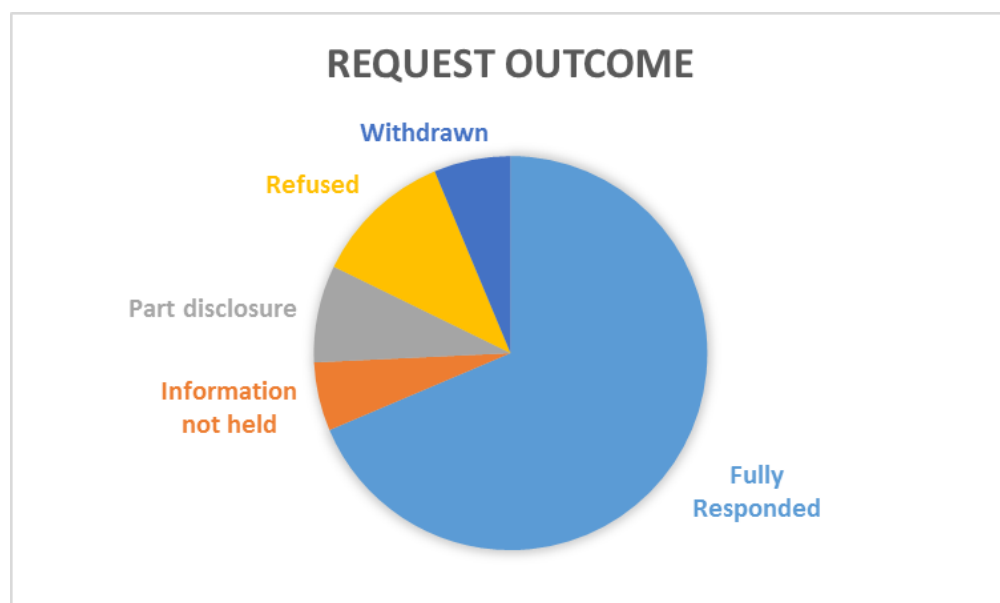


14. The overall response time has also been improved, with the Council responding to requests within 13 days on average.



15. 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 2018/19, the Council issued 51 Refusal Notices on fees grounds, which represents a decrease, with 74 being issued last year.

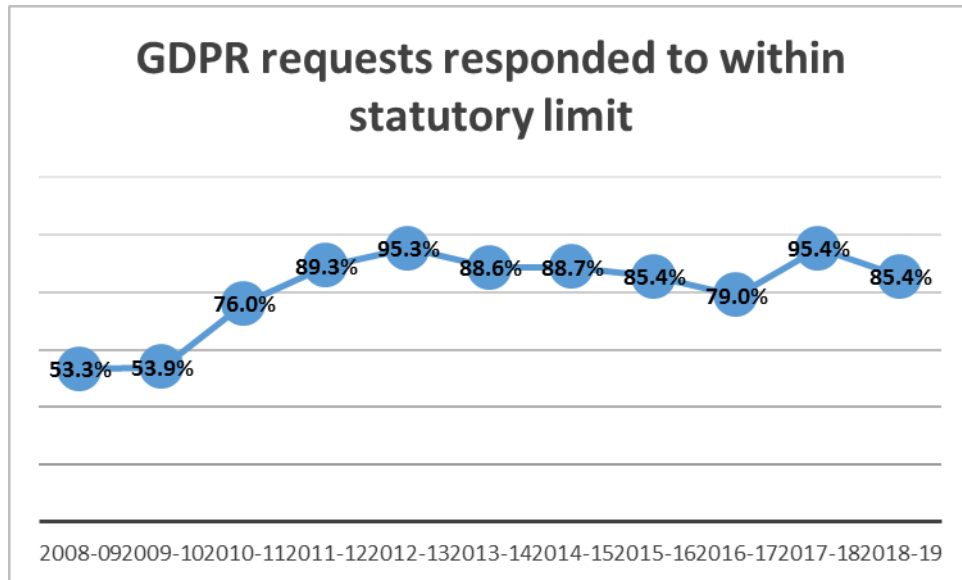
16. Of all requests received during the year, 68% of information requested was disclosed in full. Of the remaining requests, 6% of information was not held by the Council, 8% were partly responded to by the Council (i.e. some parts of the request were subject to an exemption), and 11% were completely 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 8% of the requests were withdrawn or lapsed (the requester did not respond to a request for clarification after 3 months had passed).



17.	12 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.																						
18.	This year, there has 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.																						
19.	<p>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.</p> <p>The top ten request subjects ranked in order of popularity are as follows:</p> <table border="1"> <thead> <tr> <th>Service Area</th> <th>Requests</th> </tr> </thead> <tbody> <tr> <td>Corporate Planning and Commercialisation - Business rates</td> <td>111</td> </tr> <tr> <td>Education and Early Help - Schools</td> <td>74</td> </tr> <tr> <td>HR Operations - Human resources</td> <td>51</td> </tr> <tr> <td>Supplier Experience - Procurement</td> <td>48</td> </tr> <tr> <td>Strategic IT & Digital Client - Information communication technology</td> <td>45</td> </tr> <tr> <td>Provider Services - Adult social care</td> <td>45</td> </tr> <tr> <td>Children's Social Care - Children and young people social care</td> <td>40</td> </tr> <tr> <td>Planning, Infrastructure and Development - Highway maintenance</td> <td>35</td> </tr> <tr> <td>Planning, Infrastructure and Development - Planning services</td> <td>32</td> </tr> <tr> <td>Env'mnt St Scene & Health - HMO Licensing</td> <td>30</td> </tr> </tbody> </table>	Service Area	Requests	Corporate Planning and Commercialisation - Business rates	111	Education and Early Help - Schools	74	HR Operations - Human resources	51	Supplier Experience - Procurement	48	Strategic IT & Digital Client - Information communication technology	45	Provider Services - Adult social care	45	Children's Social Care - Children and young people social care	40	Planning, Infrastructure and Development - Highway maintenance	35	Planning, Infrastructure and Development - Planning services	32	Env'mnt St Scene & Health - HMO Licensing	30
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20.	For the period covered in this report, 57% of requests came from private citizens, 17% 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.																						
21.	<p>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".</p> <p>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.</p>																						
22.	<p>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 2018/19, the average time taken per request was 0.74 hours. Most requests take around half an hour to action within the Corporate Legal Team but, where detailed exemptions and redactions are needed, this can increase time taken on a single request for very complex cases.</p> <p>For example, the Corporate Legal time spent over 16 hours on one single request in 2018/19. 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.</p>																						

23.	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).																								
24.	In the Corporate Legal team there are now 3 FTE member of staff dedicated to providing advice and monitoring compliance with information law. Other members of Legal Services and an innovative intern scheme with local and regional universities support this function when their capacity allows it.																								
GENERAL DATA PROTECTION REGULATION																									
25.	The GDPR gives individuals the right to know what information is held about them, along with other rights, and provides a framework to ensure that personal information is handled properly.																								
26.	<p>Under the GDPR, 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. Other requests available under the GDPR are:</p> <ul style="list-style-type: none"> • Rectification • Erasure • Restriction • Object • Portability 																								
27.	<p>For the year 2018/19, the Council received 205 GDPR, requests compared with 130 such requests (made under the Data Protection Act 1998) last year.</p> <div style="text-align: center;"> <table border="1" style="margin: 10px auto;"> <caption>No. of Subject Rights Requests</caption> <thead> <tr> <th>Year</th> <th>No. of Requests</th> </tr> </thead> <tbody> <tr><td>2008-09</td><td>15</td></tr> <tr><td>2009-10</td><td>13</td></tr> <tr><td>2010-11</td><td>25</td></tr> <tr><td>2011-12</td><td>28</td></tr> <tr><td>2012-13</td><td>64</td></tr> <tr><td>2013-14</td><td>114</td></tr> <tr><td>2014-15</td><td>208</td></tr> <tr><td>2015-16</td><td>178</td></tr> <tr><td>2016-17</td><td>145</td></tr> <tr><td>2017-18</td><td>130</td></tr> <tr><td>2018-19</td><td>205</td></tr> </tbody> </table> </div>	Year	No. of Requests	2008-09	15	2009-10	13	2010-11	25	2011-12	28	2012-13	64	2013-14	114	2014-15	208	2015-16	178	2016-17	145	2017-18	130	2018-19	205
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28.	<p>The types of requests were as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Subject Access</td> <td style="text-align: right;">197</td> </tr> <tr> <td>Erasure</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Objection</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Restriction</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Rectification</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Grand Total</td> <td style="text-align: right;">205</td> </tr> </table>	Subject Access	197	Erasure	2	Objection	2	Restriction	2	Rectification	2	Grand Total	205												
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29. 85.4% of the requests were responded within the statutory timescales compared with 95.4% last year.
 This decrease can be attributed to the increase in requests, and the reduction in timescale for compliance (40 calendar days under the DPA 1998 to one calendar month under the GDPR)



30. The Directorate breakdown is as follows:

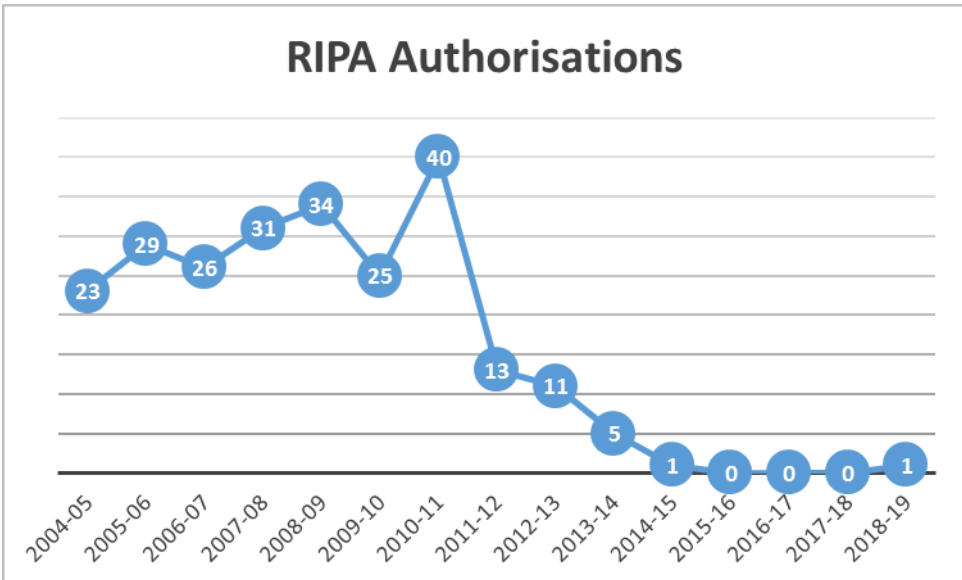
	No. Rec'd	%	Days
Svc Director Children & Families	116	81.0%	29.7
Svc Director Housing, Adults & Communities	26	92.3%	22.0
Svc Director HR and Organisational Development	16	81.3%	27.5
Svc Director Transactions & Universal Services	12	91.7%	17.0
Svc Director Strategic Finance & Commercialisation	9	88.9%	19.4
Svc Director Legal & Governance	4	100.0%	13.0
Svc Director Intelligence, Insight & Communications	3	100.0%	29.0
Svc Director Digital & Business Operations	3	100.0%	31.0
Grand Total	192	95.4%	29.0

31. 13 of the 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

32. 5 individuals requested internal reviews regarding decisions made to withhold, partially withhold information requested, or where they were generally unhappy with how their request was handled.

33.	<p>There was 1 occasion where the ICO contacted the Council in light of concerns they had about how a request was handled. The concerns raised were in relation to a delay in processing the SAR.</p>																								
34.	<p>The concerns were investigated by the Corporate Legal team, and their findings relayed to the ICO. The request was a complex matter that involved a great deal of disclosure, however, an updated deadline was given to the ICO, which was met.</p>																								
35.	<p>Sometimes there is a requirement to disclose personal data which might otherwise be in breach of the DPA. Where an exemption from the non-disclosure provisions applies, such disclosure is not in breach of the DPA. Examples of exemptions include crime and taxation and 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.</p>																								
36.	<p>For the year 2018/19 the Council received 385 requests for data from such third party organisations compared to 448 in the previous year. This is a decrease from last year, and continues a trend in a reduction in such requests. This is likely as a result of an increase in information sharing partnerships, where such disclosures would be governed by a data sharing agreement, without the need to each request to be logged and authorised by the Corporate Legal Team.</p> <div data-bbox="405 983 1370 1561" 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>636</td></tr> <tr><td>2017-18</td><td>448</td></tr> <tr><td>2018-19</td><td>385</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	636	2017-18	448	2018-19	385
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37.	<p>In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 1059 and 150 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.</p>																								
38.	<p>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.</p>																								
39.	<p>In 2018/19, 47 requests were processed, with CCTV footage being the most common source of information (34% of requests), and Council Tax being the next (21%).</p>																								

	<div style="text-align: center;"> <h3>Re-Use of Council Information Requests</h3> <table border="1"> <caption>Re-Use of Council Information Requests</caption> <thead> <tr> <th>Year</th> <th>Number of Requests</th> </tr> </thead> <tbody> <tr> <td>2013-14</td> <td>18</td> </tr> <tr> <td>2014-15</td> <td>97</td> </tr> <tr> <td>2015-16</td> <td>67</td> </tr> <tr> <td>2016-17</td> <td>74</td> </tr> <tr> <td>2017-18</td> <td>73</td> </tr> <tr> <td>2018-19</td> <td>47</td> </tr> </tbody> </table> </div>	Year	Number of Requests	2013-14	18	2014-15	97	2015-16	67	2016-17	74	2017-18	73	2018-19	47
Year	Number of Requests														
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2015-16	67														
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2018-19	47														
<p>DATA SECURITY INCIDENTS</p>															
40.	<p>During 2018-19, 155 data security incidents were reported to the Corporate Legal team. 76% of these were determined to be actual data breaches upon investigation, with the most common cause being data sent electronically to incorrect recipients.</p>														
41.	<p>This year, the Council began recording the “severity” of the incidents reported, determined by a number of factors, including the nature of the information involved, the volume of data, and the possible harm the breach might cause to individuals involved. Any incident receiving a severity rating over 1 is considered to require a full investigation and remediation report.</p> <p>For 2018-19, the average severity of incidents determined to be actual breaches was 0.5</p>														
42.	<p>3 of the data breaches were considered sufficiently serious to be reported to the Information Commissioner’s Office. The details of these are as follows:</p> <ul style="list-style-type: none"> • An email was sent to a distribution list containing a large number of recipients, and the sender failed to use the BCC function. This resulted in the recipients being able to see each other’s email addresses. • Information about an ex-employee was disclosed to their new employer without the individual’s consent. • A report containing details of children open to social services was emailed in error to a client, rather than the relevant manager. 														
43.	<p>In the first two incidents, the ICO considered that no further action was necessary as the Council has put into action adequate and robust remediation plans to ensure that such errors do not reoccur. With regard to the third incident, the Council is still waiting on the outcome of the ICO’s investigation.</p>														
<p>NHS TOOLKIT</p>															
44.	<p>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 again 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 31st March deadline. The Council is self-assessed at being 100% compliant with the mandatory evidence requirements.</p>														

	RIPA																																
45.	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.																																
46.	<p>There was one authorisation made under RIPA in 2018-19.</p>  <table border="1" data-bbox="400 488 1366 1066"> <caption>RIPA Authorisations</caption> <thead> <tr> <th>Year</th> <th>Number of Authorisations</th> </tr> </thead> <tbody> <tr><td>2004-05</td><td>23</td></tr> <tr><td>2005-06</td><td>29</td></tr> <tr><td>2006-07</td><td>26</td></tr> <tr><td>2007-08</td><td>31</td></tr> <tr><td>2008-09</td><td>34</td></tr> <tr><td>2009-10</td><td>25</td></tr> <tr><td>2010-11</td><td>40</td></tr> <tr><td>2011-12</td><td>13</td></tr> <tr><td>2012-13</td><td>11</td></tr> <tr><td>2013-14</td><td>5</td></tr> <tr><td>2014-15</td><td>1</td></tr> <tr><td>2015-16</td><td>0</td></tr> <tr><td>2016-17</td><td>0</td></tr> <tr><td>2017-18</td><td>0</td></tr> <tr><td>2018-19</td><td>1</td></tr> </tbody> </table>	Year	Number of Authorisations	2004-05	23	2005-06	29	2006-07	26	2007-08	31	2008-09	34	2009-10	25	2010-11	40	2011-12	13	2012-13	11	2013-14	5	2014-15	1	2015-16	0	2016-17	0	2017-18	0	2018-19	1
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47.	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).																																
48.	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.																																
49.	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.																																
50.	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.																																
51.	<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,</i></p>																																

	<i>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>
	GDPR IMPLEMENTATION
52.	The last annual governance report highlighted the additional pressures that the Council will face with the implementation of the GDPR in May 2018. The GDPR came into force on 25 th May 2018, and is supplemented by the Data Protection Act 2018 (DPA18).
53.	The implications of the GDPR are becoming clearer, and the Council has seen an impact in the following areas: <ul style="list-style-type: none"> • An increase in the number of SARs (up 52%, from 130 to 197), due to the removal of the £10 fee that the DPA1998 allowed data controllers to charge for processing such requests. • A drop in compliance, due to the reduction in the statutory timeframe for responding (from 40 calendar days to one month) • An increase in the number of data security incidents reported (up 72%, from 90 to 155). This can be attributed to an increase in awareness in staff to report all such incidents no matter how minor, which is reflected in the low average severity rating. • An increase in the number of Data Protection Impact Assessments conducted by the Council (up 190%, from 48 to 139)
54.	The Corporate Legal team will continue to monitor the above to see if these trends continue as GDPR becomes bed in.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
55.	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 and DPA18 places increased pressure on finite and already stretched resources.
<u>Property/Other</u>	
56.	None directly related to the report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
57.	The statutory obligations relating to information law are detailed in the body of this report.
<u>Other Legal Implications:</u>	
58.	None directly related to this report.
RISK MANAGEMENT IMPLICATIONS	
59.	The potential impact of the decision in terms of finance, service delivery and reputation is considered to be low.

POLICY FRAMEWORK IMPLICATIONS

60.	The information contained in this report is consistent with and not contrary to the Council's policy framework.
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KEY DECISION?**No****WARDS/COMMUNITIES AFFECTED:**

none

SUPPORTING DOCUMENTATION**Appendices None**

1.

None

Documents In Members' Rooms None

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****Data Protection Impact Assessment****Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.****No****Other Background Documents None****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	
SUBJECT:		Quarterly HR Statistics	
DATE OF DECISION:		10 th June 2019	
REPORT OF:		Service Director, HR&OD	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Christine Hefferon	Tel: 023 8083
	E-mail:	Christine.hefferon@southampton.gov.uk	
Director	Name:	Janet King	Tel: 023 8083 2378
	E-mail:	janet.king@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None.			
BRIEF SUMMARY			
The Governance Committee requested quarterly, council wide information on key employment data covering disciplinaries, dismissals, referrals to the police, suspensions and grievances. Additional summary information on levels of staff sickness was requested from September 2018 onwards.			
The report format is as requested and agreed with the Governance Committee.			
RECOMMENDATIONS:			
	(i)	To note the Quarter 4 2018/9 HR statistics.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	As requested by the Governance Committee.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	N/A		
DETAIL (Including consultation carried out)			
3.	<p>Quarter 4: In the period January – March 2019 the Council had: A total of 7 dismissals:</p> <ul style="list-style-type: none"> • 2 on disciplinary grounds • 0 as a result of service restructures • 4 for sickness absence • 0 during probationary period • 0 Step 3 grievance resolution cases • 0 Appeals against dismissal with the dismissal decision upheld in each case. • 1 Dismissal by mutual consent <p>1 employee was suspended.</p>		
4.	<p>Overall sickness levels for the council showed an average 12.49 days per employee (5.35%). The sector “average” is 8.5 days. Short term absence accounts for 92% of the overall absence occurrences, whilst long term sickness accounts for 8% of the overall absence occurrences. Levels of</p>		

	absence remain an ongoing concern and improved reporting and data for managers has been put in place for 2019/20 alongside workshops for managers to ensure they understand and fulfil their role in absence management and conduct robust return to work meetings.	
5.	The HR Service provide managers with monthly absence data and detail and look to identify and address “hot spots” and underlying issues against which to target interventions including information, support, occupational health appointments, phased return and in some cases, dismissal.	
6.	The HR advisory team are working with managers in areas of high sickness absence to look at specific causes and trends and identify interventons which can be considered to help improve absence and bring forward return to work dates.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
7.	None.	
<u>Property/Other</u>		
8.	None.	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
9.	None.	
<u>Other Legal Implications:</u>		
10.	None.	
RISK MANAGEMENT IMPLICATIONS		
11.	None.	
POLICY FRAMEWORK IMPLICATIONS		
12.	None.	
KEY DECISION?		Yes/No
WARDS/COMMUNITIES AFFECTED:		
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Q4 HR table of data (Summary)	
2.	Q4 Sickness absence data (Summary)	
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.		Yes/No
Data Protection Impact Assessment		

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		Yes/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.		
2.		

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Southampton City Council - Quarterly Governance Stats

Quarter 4 (Jan. '19 - Mar. '19)																
Service Area	Disciplinarys			Dismissals							Resolutions	Suspensions		Appeals		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Length of Suspensions	Number	Number upheld
Adults, Housing & Communities	0	0	0	3	0	1	2	0	0	0		0	0		0	0
Children & Families	0	0	0	1	0	1	0	0	0	0		0	0		0	0
Digital & Business Operations	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Finance & Commercialisation	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Growth	0	0	0	1	0	0	0	0	0	1		0	0		0	0
Human Resources & Org Development	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Intelligence Insight & Communications	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Public Health	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0		0	0
Transactions & Universal Services	0	0	0	2	0	0	2	0	0	0		0	1	05.12.18 - 27.02.19	0	0
Southampton City Council (Total)	0	0	0	7	0	2	4	0	0	1		0	1		0	0

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Select Report: **SCC**
 Status

Target = < 8.5 days = Green, 8.5 - 10 days = Amber, > 10 days = Red

Team	Metric	Sickness Absence Days Per Employee	Sickness Absence Days Per Employee (Leavers Exc.)	Movement (Month on Month)	Sickness Absence Hours	FTE Days Lost
	Target	8.5				
	Status					
SCC		12.49	11.99	0.14%	236,786	36,242
Adults, Housing & Communities		15.47	14.60	0.17%	96,931	14,942
Children & Families		12.33	11.84	0.23%	44,117	6,834
Digital & Business Operations		9.26	9.67	-0.04%	10,319	1,494
Strategic Finance & Commercialisation		8.80	8.67	0.40%	9,056	1,374
Growth		5.57	4.82	0.00%	9,759	1,619
Human Resources & Org Development		0.94	0.72	0.02%	122	24
Intelligence Insight & Communications		2.94	2.75	-0.20%	1,039	150
Legal & Governance		6.36	5.86	0.41%	2,573	396
Public Health		0.36	0.36	0.00%	19	3
Quality & Integration		7.33	7.86	-0.56%	2,492	345
Transactions & Universal Services		15.69	15.60	0.02%	60,240	9,042

Metric
Sickness Absence Days Per Employee
Sickness Absence Days Per Employee (Leavers Exc.)
Movement (Month on Month)
Sickness Absence Hours
FTE Days Lost
No. of Employees with 5 or more occurrences of sickness absence
No. of Employees with 10 or more days sickness absence
Total No. of Employees who hit a Trigger Point
Total Staff who hit a Trigger Point in the last month
Short Term Sickness Absence %
Long Term Sickness Absence %

Definition
Total number of days lost to sickness absence/Total number of employees (Over a rolling 12 months). This metric includes leavers within the rolling 12 months.
Total number of days lost to sickness absence/Total number of employees (Over a rolling 12 months). This metric excludes leavers.
Sickness absence (current month) - Sickness absence (previous month). A negative percentage indicates that the absence rate has reduced, whereas a positive percentage shows the absence rate has increased.
Total number of hours lost to sickness absence over the last 12 months. This metric includes leavers.
Total number of days lost to sickness absence over the last 12 months. This metric includes leavers.
Total number of employees who have had 5 or more occasions of sickness absence in the last rolling 12 months. This metric includes leavers within the rolling 12 months.
Total number of employees who have had 10 or more days of sickness absence in the last rolling 12 months. This metric includes leavers within the rolling 12 months.
Total number of employees who have hit either 5 or more occasions of absence or have had 10 or more days sickness in the last rolling 12 months. This metric includes leavers within the rolling 12 months.
This is the total number of employees who hit a trigger point within the last month
The % of sickness absence which is considered 'short term'. (20 days or less)
The % of sickness absence which is considered 'long term'. (More than 20 days)

- Please note the structure of the teams is extracted from Resource Link. If this is incorrect, please liaise with HR Pay to correct this.

Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2018/19		
DATE OF DECISION:	10 JUNE 2019		
REPORT OF:	Interim Service Director Finance and Commercialisation (S151)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Steve Harrison	Tel: 023 8083 4153
	E-mail:	steve.harrison@southampton.gov.uk	
Director	Name:	John Harrison	Tel: 023 8083 4897
	E-mail:	john.harrison@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 2018/19 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 20 February 2019.	
	(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 2018/19 were £1.67M at an average rate of 4.05%.	
	(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 3.36%, is lower than that budgeted and slightly higher than last year (3.31%), this is as a result of a rise in base rates during 2018/19 resulting in an increase in variable rate debt, this was offset by a corresponding increase in variable interest on investments. This includes £40M of short term debt which was taken during the year. No new long term loans were taken during the year in line with the current Treasury Strategy to continue using short term debt whilst interest	

		rates are predicted to remain relatively low. It is the intention to continue to borrow in the short term markets during 2019/20 to take further advantage of the current interest environment.
	(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 decreased during 2018/19 from £252M to £248M (£4M) as detailed in paragraph 15.
	(vii)	There has been full compliance with the Prudential Indicators approved by Full Council on 20 February 2019
RECOMMENDATIONS:		
It is recommended that Governance committee:		
	(i)	Notes the Treasury Management (TM) activities for 2018/19 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 2018/19 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 2018/19 was approved by full Council on 21 February 2018. These were subsequently reviewed and revised as part of the Council's Treasury Management Strategy Statement for 2019/20 at full Council on 20 February 2019.
8.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9.	This report:
	a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c) reports on the risk implications of treasury decisions and transactions;
	d) gives details of the outturn position on treasury management transactions in 2018/19; and
	e) confirms compliance with treasury limits and Prudential Indicators.
10.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2018/19.
BORROWING REQUIREMENT AND DEBT MANAGEMENT	
11.	On the 31 st March 2019, the Authority had a net borrowing need of £118M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below.
12.	As detailed in paragraphs 19 to 27 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 which has resulted in an increase of our internal borrowing of £23M.

Table 1 – Balance Sheet Summary

	31-Mar-18 Actual £M	Movement Forecast £M	31-Mar-19 Actual £M
General Fund CFR	322.03	11.99	334.02
Housing CFR	157.92	4.81	162.73
Total CFR	479.95	16.80	496.75
Less Other Debt Liabilities*	(73.21)	2.14	(71.07)
Loans CFR	406.74	18.95	425.69
Less External Borrowing**	(251.16)	4.47	(246.69)
Internal (over) Borrowing	155.58	23.42	178.99
Less Usable Reserves	(146.28)	(8.00)	(154.28)
Less Working Capital Surplus	83.35	9.59	92.94
Net Borrowing or (Investments)	92.65	25.01	117.66

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

13. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was last updated in February 2019, the CFR for 31 March 2019 was estimated at £510.6M, the Council's actual CFR at the end of the year was £496.7M. This decrease was due to slippage in the capital programme, £5.0M on the General Fund and £8.9M on HRA. Actual Movement in year is shown in the following table.

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	31/03/2018 Actual £M	31/03/2019 Forecast £M	31/03/2019 Actual £M	31/03/2019 Variance £M
Balance Brought forward	322.62	322.03	322.03	0.00
New Borrowing	4.41	24.47	19.41	(5.06)
MRP	(7.13)	(5.65)	(5.65)	0.00
Appropriations (to) from HRA	0.56	0.00	0.00	0.00
Movement in Other Liabilities	(3.78)	(2.47)	(2.33)	0.14
MRP Holiday	5.35	0.55	0.56	0.01
Total General Fund Debt	322.03	338.93	334.02	(4.91)
HRA	157.92	171.67	162.73	(8.94)
Total CFR	479.95	510.60	496.75	(13.85)

14. 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.

15. **Table 3: Borrowing and Investment Position**

	31-Mar-18 Balance £M	Movement In Year £M	31-Mar-19 Balance	31-Mar-19 Average Yield/ Rate %	31-Mar-20 Estimated Balance £M
External Borrowing:					
Public Works Loan	208.81	(11.47)	197.34	3.30	160.87
LOBO Loans from Banks	9.00	0.00	9.00	4.86	9.00
Long Term Borrowing	217.81	(11.47)	206.34	3.36	169.87
Short Term Borrowing					
Fixed Rate – Market	33.35	6.65	40.00	0.75	121.71
Total External Borrowing	251.16	(4.82)	246.34	3.30	291.58
Other Long Term Liabilities					
PFI Schemes & Leases	58.84	(1.96)	56.88	8.82	60.42
Deferred Debt Charges (HCC)	14.56	(0.01)	14.55	2.74	14.55
Total Gross External Debt	324.56	(6.79)	317.77	4.08	366.55
Investments:					
Managed In-House					
Other Local Authorities	(10.00)	1.00	(9.00)	0.79	
Cash (Instant access)	(22.48)	(3.58)	(26.06)	0.77	(10.00)
Cash (Notice Account)	(3.00)	3.00			
Short Term Bonds	(3.14)	1.54	(1.60)	1.21	
Long Term Bonds	(6.80)	0.77	(6.03)	3.15	(3.00)
Managed Externally					
Pooled Funds (CCLA)	(27.00)	0.00	(27.00)	4.40	(27.00)
Total Treasury Investments	(72.42)	2.73	(69.69)	4.03	(40.00)
Net Debt	252.14	(4.06)	248.08		326.55

16. **Table 4: Movement in Borrowing during the year**

	Balance on 01/04/2018 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance on 31/03/2019 £M	Increase/ (Decrease) in Borrowing for Year £M	Average Life of Loans Life
Short Term Borrowing	33	(33)	40	40	7	9 Months
Long Term Borrowing	218	(12)	0	206	(12)	20 Years
Total Borrowing	251	(45)	40	246	(5)	

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

17. The maturity analysis of the Council's debt at 31 March 2019 is further analysed below. Debt due in one year includes both short term and long term loans due in year, LOBO loans are shown as uncertain as although they are within the call option they are unlikely to be called in the current interest environment.

18.	Table 5: Maturity Structure of Borrowing						
		Lower Limit	Upper Limit	Actual Debt as at 31/12/2018	Average Rate as at 31/12/2018	% of Debt	Compliance with set Limits?
	Debt	%	%	£M	%		
	Under 12 months	0	45	76.47	1.96	31	Yes
	12 months and within 24 months	0	45	19.28	2.87	8	Yes
	24 months and within 5 years	0	50	2.75	3.38	1	Yes
	10years and within 20 years	0	55	10.00	4.68	4	Yes
	20 years and within 30 years	0	65	5.00	4.60	2	Yes
	30 years and within 40 years	0	75	92.60	3.77	38	Yes
	40 years and within 45 years	0	75	31.25	3.56	13	Yes
	Uncertain			9.00	4.86	4	
				246.35	3.30	100	
19.	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.						
20.	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.						
21.	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 2019/20 with the need to resource an increasing capital programme.						
Loans at Variable Rates							
22.	Included within the debt portfolio is £35M of PWLB variable rate loans which during 2018/19 averaged a rate of 0.83% 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							
23.	Given the pressures on the revenue budget and significant reduction in revenue support grant, the strategy followed was to minimise the cost of TM						

	by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
24.	As at the 31 March 2019 the Council used £179M 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. Additional borrowing will also be required in 2019/20 to cover the refinancing of existing maturing debt, the externalising of internal debt to cover the expected fall in balances and to support the capital programme.
25.	As short-term interest rates have remained low, and are likely to remain low at least over the forthcoming year it is more cost effective in the short-term to use internal resources rather than borrowing.
26.	The benefits of this were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Our advisors assist with this 'cost of carry' and breakeven analysis.
27.	The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.
<u>Lender's Option Borrower's Option Loans (LOBOs)</u>	
28.	The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council 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.
<u>Debt Rescheduling</u>	
29.	The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
<u>Other Debt Activity</u>	
30.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The balance at the end of the year, after allowing for repayment in year of £1.96M is £56.88M.
31.	In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £14.2M. This is being repaid over 50 years at £0.4M per annum.

INVESTMENT ACTIVITY

32.	Both the CIPFA and DCLG's Investment Guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income returns.																																																															
33.	The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the council's investment balances have ranged between £52.8M and £98.7M. Movement in year is summarised in the table below:																																																															
34.	<p>Table 6: Investment activity during the year</p> <table border="1"> <thead> <tr> <th></th> <th>Balance on 01/04/2018</th> <th>Investments Repaid</th> <th>New Investments</th> <th>Balance on 31/03/2019</th> <th>(Increase)/ Decrease in Investment for Year</th> <th>Average Life of Investments</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>Life</th> </tr> </thead> <tbody> <tr> <td>Notice Account</td> <td>(3)</td> <td>3</td> <td>0</td> <td>0</td> <td>3</td> <td></td> </tr> <tr> <td>Covered Bonds (secured)</td> <td>(7)</td> <td>2</td> <td></td> <td>(5)</td> <td>2</td> <td>105 days</td> </tr> <tr> <td>Multi - National Bonds (not subject to bail in)</td> <td>(3)</td> <td></td> <td></td> <td>(3)</td> <td>0</td> <td>3.47 years</td> </tr> <tr> <td>Money Market Funds and Call Account</td> <td>(22)</td> <td>355</td> <td>(359)</td> <td>(26)</td> <td>(4)</td> <td>1 day</td> </tr> <tr> <td>Government & Local Authority</td> <td>(10)</td> <td>10</td> <td>(9)</td> <td>(9)</td> <td>1</td> <td>10 days</td> </tr> <tr> <td>Pooled Funds (CCLA)</td> <td>(27)</td> <td></td> <td></td> <td>(27)</td> <td>0</td> <td>Unspecified</td> </tr> <tr> <td>Total Investments</td> <td>(72)</td> <td>370</td> <td>(368)</td> <td>(70)</td> <td>2</td> <td></td> </tr> </tbody> </table>		Balance on 01/04/2018	Investments Repaid	New Investments	Balance on 31/03/2019	(Increase)/ Decrease in Investment for Year	Average Life of Investments		£M	£M	£M	£M	£M	Life	Notice Account	(3)	3	0	0	3		Covered Bonds (secured)	(7)	2		(5)	2	105 days	Multi - National Bonds (not subject to bail in)	(3)			(3)	0	3.47 years	Money Market Funds and Call Account	(22)	355	(359)	(26)	(4)	1 day	Government & Local Authority	(10)	10	(9)	(9)	1	10 days	Pooled Funds (CCLA)	(27)			(27)	0	Unspecified	Total Investments	(72)	370	(368)	(70)	2	
	Balance on 01/04/2018	Investments Repaid	New Investments	Balance on 31/03/2019	(Increase)/ Decrease in Investment for Year	Average Life of Investments																																																										
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35.	<p>Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2018/19. The council 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.</p> <table border="1"> <thead> <tr> <th></th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>Portfolio average credit rating</td> <td>A</td> <td>AA-</td> </tr> </tbody> </table>		Target	Actual	Portfolio average credit rating	A	AA-																																																									
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36.	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.																																																															
37.	The table below summarises the Council's investment portfolio at 31 March 2019 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:																																																															

Table 7: Credit ratings of Investments held at 31st March 2019

Credit Rating	Long Term		Short Term	
	2018 £000	2019 £000	2018 £000	2019 £000
AAA	7,863	3,015	149	4,764
AA+			13,359	0
AA			6,911	9,021
AA-			11,203	17,001
A+			7,453	7,000
A				2,124
A-				
Shares in unlisted companies	45	45		
Unrated pooled funds	27,031	27,451	291	301
Total Investments	34,939	30,511	39,366	40,211

Credit Developments and Credit Risk Management

38. Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.
39. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
40. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
41. **Credit Rating developments:** There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.
42. **Benchmarking:** Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authority's, this shows that on average we have a higher credit rating and have less exposure to Bail- in which reflects our change in strategy since 2015. Details can be seen in Appendix 3. It also shows that on average the return on our internal investments at 1.13% is higher than the average of 0.85% and our overall return including the LAPF fund is 3.02% as opposed to the average of 1.43%. This has been achieved without impacting on our average credit rating which at AA- is in line with both other Local Authorities and Unitary Authorities.

Liquidity Management	
43.	In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
Externally Managed Funds	
44.	The Council has invested £27M 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.
45.	During 2018/19 this investment returned an average yield of 4.40% against the initial investment, but made a notional "gain" at year end of £0.45M being valued at £27.45M. Any gain would only be realised at the point the investment is sold.
46.	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, further investment in these funds is a possibility in the future.
Non – Treasury Investments	
47.	The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
48.	Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties. Details of the properties purchased are shown in the table 6 below. The rate of return on these investment in 2018/19 was 5.95% gross and 2.05% net (after borrowing costs of £1.16M were incurred), which therefore represents a contribution to the revenue account of around £0.61M. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases.

49.	Table 8: Property Investment Fund						
	Property	Actual	31.03.2018 Actual		31.03.2019 Actual		Outstanding Debt 31.03.2019
		Purchase Cost £M	Value in Accounts	Gain or (Loss)	Value in Accounts	Gain or (Loss)	£M
	Property 1	6.47	6.03	(0.44)	6.27	0.24	5.98
	Property 2	14.69	13.79	(0.90)	13.87	0.08	13.68
	Property 3	8.53	8.08	(0.45)	8.17	0.09	8.01
		29.69	27.90	(1.79)	28.31	0.41	27.67

COMPLIANCE WITH PRUDENTIAL INDICATORS

50.	It can be confirmed that the Council has complied with its Prudential Indicators for 2018/19, approved by Full Council on 20 February 2019.		
51.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2018/19. 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, further details can be seen in appendix 3.		
52.	Table 9: Key Prudential Indicators		
	Indicator	Limit	Actual at 31 March 2019
	Authorised Limit for external debt £M	£860M	£318M
	Operational Limit for external debt £M	£780M	£318M
	Maximum external borrowing in year		£251M
	Limit of fixed interest debt %	100%	82.1%
	Limit of variable interest debt %	50%	17.9%
	Limit for Investments greater than a year £M	£40M	£33M
	GF Ratio of Financing costs to Net Revenue Stream	10%	6.23%

RESOURCE IMPLICATIONS

Capital/Revenue

53.	This report is a requirement of the TM Strategy, which was approved at Council on 20 February 2019.
54.	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 £7.89M in 2018/19. 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.
55.	In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2018/19 £1.67M was earned which was higher than budgeted mainly due to continuing investment in bonds and LAPF.
56.	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 £0.24M in 2018/19 compared to an estimate of £0.25M. This is mainly as a result of a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing a further year resulting in a saving on commission paid in year.
<u>Property/Other</u>	
57.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
58.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<u>Other Legal Implications:</u>	
59.	None.
RISK MANAGEMENT IMPLICATIONS	
60.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
61.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	NONE

<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	2018/19 Economic Background	
2.	Southampton Benchmarking 31 st March 2019	
3.	Compliance with Prudential Indicators	
4.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None.	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	

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External Factors Impacting on Treasury During 2018/19

A summary of the external factors in 2018-19 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

Economic background; after spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament and an extension has been given to the end of October 2019. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury

yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Outlook for 2019/20: The 6-month delay to Brexit has removed the near-term risk of a no-deal situation but the potential for divergent paths for UK monetary policy beyond October remains. The timing of the new leave date and expectation that Brexit negotiations are likely to continue until that date has prompted us push back forecast rises in Bank Rate.

We believe the MPC bias towards tighter monetary policy remains, but Brexit uncertainty and slower global and UK growth/inflation outlook continue to weigh on expectations. Policymakers are unlikely to raise Bank Rate unless there is a withdrawal arrangement and the prospect of a transitional period.

There is potential for stronger growth following a long-term extension to Article 50 or a withdrawal agreement as business investment/general confidence recovers. Despite this and a no-deal Brexit seeming less likely, we maintain the downside risks to our forecasts. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

The UK economic environment appears relatively soft. The strong labour market has provided some support to household consumption, offsetting the Brexit-related downturn in business investment. Our view is that the UK economy faces a challenging outlook as the country exits the European Union and Eurozone/global economic growth softens, notwithstanding a possible short term bounce in activity should a Brexit deal finally be agreed.

Cost pressures have eased due to a fall in oil prices, although rises in energy prices and weaker sterling may feed through into higher inflation. The apparent tight labour market risks longer term domestically-driven inflationary pressure whatever the external inflation effects, although labour market demographics may dampen wage growth compared to historical norms.

Global economic growth has eased and the economic/political outlook has prompted central banks to significantly reduce expectations for on-going monetary tightening. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

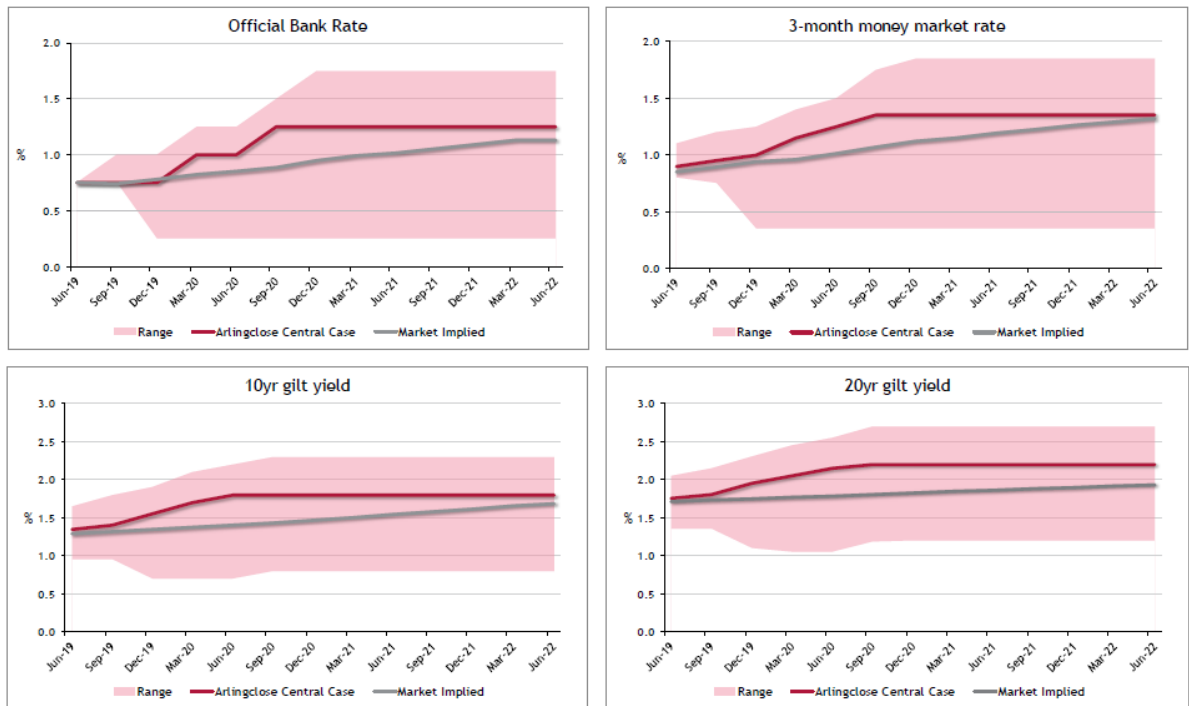
Forecast interest Rates

The following forecast interest forecast are set against a background of:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case incorporates the likelihood of the MPC raising rates in the first quarter of 2020 following exit from the EU in October 2019.
- The forecast range encompasses the interest rate responses for various Brexit outcomes, from a no-deal Brexit to remaining in the EU.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on a Brexit transitional period. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Official Bank Rate													
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.20	0.25	0.25	0.25	0.25	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.90	0.95	1.00	1.15	1.25	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.10	0.20	0.65	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
1yr money market rate													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.10	1.15	1.25	1.40	1.45	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55
Downside risk	0.10	0.20	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.30	0.35	0.35	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.95	1.00	1.25	1.30	1.45	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Downside risk	0.35	0.35	0.75	0.80	0.95	0.95	0.90	0.90	0.90	0.90	0.90	0.90	0.90
10yr gilt yield													
Upside risk	0.30	0.40	0.35	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.35	1.40	1.55	1.70	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
Downside risk	0.40	0.45	0.85	1.00	1.10	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.30	0.35	0.35	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.75	1.80	1.95	2.05	2.15	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Downside risk	0.40	0.45	0.85	1.00	1.10	1.02	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.30	0.35	0.35	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.70	1.75	1.90	2.00	2.10	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Downside risk	0.40	0.45	0.85	1.00	1.10	1.02	1.00	1.00	1.00	1.00	1.00	1.00	1.00

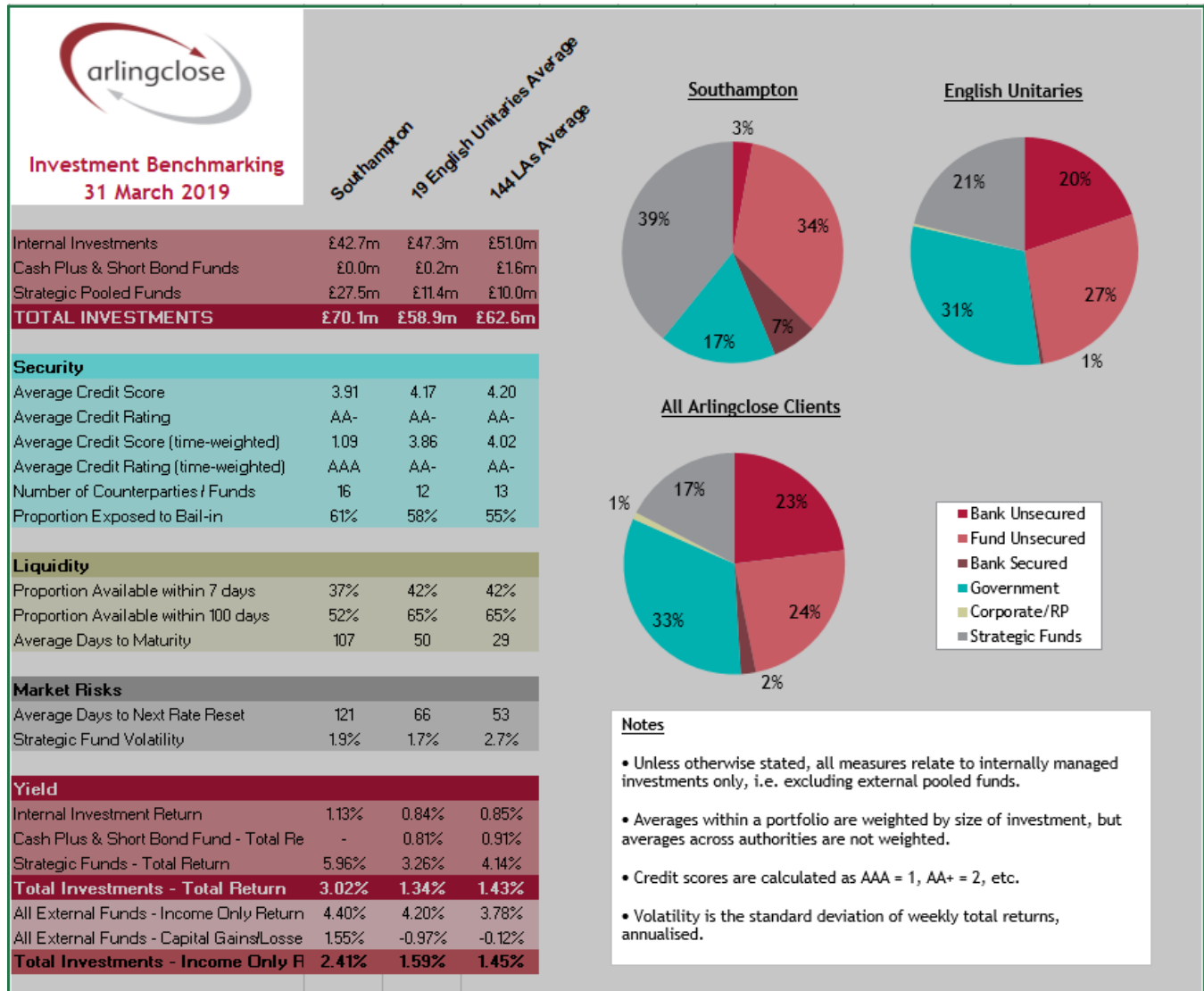
Charts show the Arlingclose central case along with upside and downside risks:
Arlingclose judges that there is currently a higher risk of outcomes to the downside



PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80% PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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Southampton Benchmarking Scores 31st March 2019



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COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2018/19

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 a number of indicators that must be set and monitored each year.

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

1. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2018/19, 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 and actual debt position at the 31st March 2019, details of movement on the CFR can be seen in the main report paragraph 13, table 2.

This shows that we borrowed £25.7M less than expected, which was mainly due to slippage in the capital programme of £33.46M, including £13.9M of expected borrowing, this also resulted in higher than expected cash flows. Further details can be seen in the General Fund and HRA capital Outturn reports being reported to Council in July.

Gross Debt	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2019 Actual £M	31/03/2019 Variance £M
Borrowing (Long Term GF)	74.90	68.93	68.93	0.00
Borrowing (Long Term HRA)	142.91	137.41	137.41	0.00
Borrowing (Short Term)	33.35	66.17	40.35	(25.82)
Total Borrowing	251.16	272.51	246.69	(25.82)
Finance leases and Private Finance Initiatives	58.84	56.74	56.88	0.14
Transferred Debt	14.55	14.19	14.19	0.00
Total Other Debt	73.39	70.93	71.07	0.14

Total Debt	324.56	343.44	317.76	(25.68)
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2. Authorised Limit and Operational Boundary for External Debt

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

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

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2018/19; borrowing at its peak was £251.16M plus other deferred liabilities of £73.4M.

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

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

	Limits for 2018/19 (%)	Maximum during 2018/19 (%)
Upper Limit for Fixed Rate Exposure	100	82.5
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	19.8
Compliance with Limits:	Yes	Yes

4. Total Principal Sums Invested for Longer Than a Year

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £40M. In 2018/18 the actual principal sum invested peaked at £34M, (compared to £41M in 2017/18). This reflects the withdrawal from the Bonds market where the return is no longer attractive and to only borrow when cash flow dictate.

5. 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 (including 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. 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	2017/18 Actual	2018/19 Forecast	2018/19 Actual	2018/19 Variance
	%	%	%	%
General Fund	6.23	6.28	6.23	(0.05)
HRA	14.69	14.78	14.69	(0.09)
Total	10.35	10.52	10.35	(0.17)

6. HRA Limit on Indebtedness

Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level incorporating affordability and prudence. As such it has been agreed that the limit will remain for existing stock and that as part of the new build strategy relevant Prudential Indicators will be agreed. All spend to date relates to existing stock.

HRA Limit on Indebtedness	2017/18 Actual	2018/19 Forecast	2018/19 Actual	2018/19 Variance
	£M	£M	£M	£M
Brought Forward	163.18	157.92	157.92	0.00
Voluntary Repayment of Debt	(5.51)	(5.50)	(5.50)	0.00
New borrowing	0.81	19.25	10.31	(8.94)
Appropriations (to) from HRA	(0.56)	0.00	0.00	0.00
Carried forward	157.92	171.67	162.73	(8.94)
HRA Limit on Debt for Existing Stock	199.60	199.60	199.60	0.00
Headroom	41.68	27.93	36.87	8.94

7. Summary

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

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GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit):

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

Balances and Reserves:

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

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'.

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.

Capital Expenditure:

Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR):

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.

CD's:

Certificates of Deposits with banks and building societies

Capital Receipts:

Money obtained on the sale of a capital asset.

Constant Net Asset Value (CNAV)

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.

Corporate Bonds:

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Cost of Carry:

The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Covered Bond:

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 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.

Diversify /diversified exposure:

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

Federal Reserve:

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

FTSE 100 Index:

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

company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

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

Gilts:

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

Gross Domestic Product (GDP):

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

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.

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.

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.

Regularity Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

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.

Temporary Borrowing:

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

Treasury Management Code:

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

Treasury Management Practices (TMP):

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

Unsupported Borrowing:

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

Variable Net Asset Value (VNAV):

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

Yield:

The measure of the return on an investment instrument.

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		DRAFT FINANCIAL STATEMENTS FOR 2018/19	
DATE OF DECISION:		10 JUNE 2019	
REPORT OF:		INTERIM SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Stephanie Skivington	Tel: 023 80832692
	E-mail:	Stephanie.Skivington@southampton.gov.uk	
Director	Name:	John Harrison	Tel: 023 80834897
	E-mail:	John.Harrison@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2018/19 were signed by the Section 151 (S151) Officer on 15 May 2019 which is earlier than the statutory requirement to have the statements signed by the 31 May 2019. 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 LLP, commenced on 20 May 2019 and is due to be completed by 28 June 2019. Any major changes to the Financial Statements arising from the annual audit will be reported to the 29 July 2019 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	Notes that the Draft Financial Statements 2018/19 have been signed by the S151 Officer and are now brought to Committee for comment.	
	(ii)	Notes that the audited Financial Statements 2018/19 will be presented to the Committee on 29 July 2019 for approval.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is a legal requirement that the S151 Officer signs the Financial Statements by 31 May 2019 and certifies that they present ‘a true and fair position of the financial position of the authority at the end of the year to which it relates and of that authority’s income and expenditure for that year’. It should be noted that this has again been completed earlier than required, allowing an early start to the annual audit of the accounts.		
2.	The draft statements have been brought to the June committee in order to give members plenty of opportunity and time to comment on them before final approval in July. 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 (if necessary). A full report on the outturn compared to revised budget will be presented to Council in July 2019.		

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The Financial Statements have been prepared in accordance with statutory requirements. 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 31 May.
DETAIL (Including consultation carried out)	
	FINANCIAL STATEMENTS
4.	The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.
	GENERAL FUND REVENUE EXPENDITURE AND INCOME
5.	Within the Financial Statements, the Comprehensive Income and Expenditure Statement (CIES) presents the income and expenditure of the Council in a statutory format which includes notional costs that have no impact on the Council Tax charge. The table on page 11 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. The Council did complete the year with a balanced position and was able to contribute £4.72M to reserves. This was an improvement of £4.14M compared to the position reported in the quarter 3 revenue financial monitoring report.
6.	This position incorporates requests from service areas to carry forward £2.92M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2018/19 that will go to Council on 17 July 2019.
	GENERAL FUND BALANCE AND RESERVES
7.	The General Fund balance has reduced to £10.07M, which is the approved minimum level per the February 2019 Medium Term Financial Strategy (MTFS).
8.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.
9.	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 and a further review undertaken in preparation for the 2020/21 MTFS. Full details can be found on page 16 of the Financial Statements.
	HOUSING REVENUE ACCOUNT (HRA)
10.	The table on page 13 of the Financial Statements presents the HRA expenditure and income in a format that shows the net expenditure compared to budget. The budget for the year was set to break even, which was the actual outturn position for the year. The HRA balance at 31 March 2019 remains at £2.0M.
	CAPITAL EXPENDITURE
11.	In 2018/19 the Council spent £91.39M on capital projects, (£48.16M General Fund expenditure, and £43.24M HRA expenditure). This was £33.46M less than the latest approved estimates, largely due to re-phasing and slippage of expenditure which will now be incurred in 2019/20.

12.	The capital outturn position for 2018/19 will be reported to Council in July. This report will contain further details of variances, including setting out how the expenditure has been financed.																					
	THE COLLECTION FUND																					
13.	There is an overall surplus on the Collection Fund of £6.84M to be carried forward into 2019/20, which is an improvement of £1.35M compared to the revised budget (and an improvement of £1.47M in the share attributable to the Council).																					
	Table 1 – Collection Fund Outturn 2018/19																					
	<table border="1"> <thead> <tr> <th></th> <th>Budget £M</th> <th>Actual £M</th> </tr> </thead> <tbody> <tr> <td>NDR (Surplus)/Deficit for Year</td> <td>0.44</td> <td>(1.82)</td> </tr> <tr> <td>Council Tax (Surplus)/Deficit for Year</td> <td>0.00</td> <td>0.91</td> </tr> <tr> <td>Collection Fund (Surplus)/Deficit in 2018/19</td> <td>0.44</td> <td>(0.91)</td> </tr> <tr> <td>Collection Fund Surplus B/Fwd from 2017/18</td> <td>(5.93)</td> <td>(5.93)</td> </tr> <tr> <td>Collection Fund Surplus C/Fwd to 2019/20</td> <td>(5.49)</td> <td>(6.84)</td> </tr> <tr> <td>Southampton City Council share</td> <td>(4.04)</td> <td>(5.51)</td> </tr> </tbody> </table>		Budget £M	Actual £M	NDR (Surplus)/Deficit for Year	0.44	(1.82)	Council Tax (Surplus)/Deficit for Year	0.00	0.91	Collection Fund (Surplus)/Deficit in 2018/19	0.44	(0.91)	Collection Fund Surplus B/Fwd from 2017/18	(5.93)	(5.93)	Collection Fund Surplus C/Fwd to 2019/20	(5.49)	(6.84)	Southampton City Council share	(4.04)	(5.51)
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Southampton City Council share	(4.04)	(5.51)																				
	RETIREMENT BENEFITS																					
14.	In 2018/19 the Council paid an employer's contribution of £29.90M into the Hampshire County Council Pension Fund. The employer's rate set for 2018/19 was 15.1% 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.																					
15.	The Council's share of the assets of the Hampshire County Council Pension Fund at 31 March 2019 was £874.96M, compared to its estimated liabilities of £1,319.80M, giving an estimated deficit on the Fund of £444.84M (£464.29M in 2017/18). The reduction is due to an increase in the value of assets, together with changes in the actuarial assumptions used in relation to demographics, financial and experience.																					
16.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.																					
17.	Two pension contingent liabilities have been disclosed within the Financial Statements. Firstly, if the government is unsuccessful in appealing the 'McCloud/Sargeant' judgement this is expected to increase the Council's pension liability by around £2.2M to £4.4M. Secondly, the estimated pension liability for the Council of full Guaranteed Minimum Pension indexation and equalisation for members reaching State Pension Age from 6 December 2018 is in the region of £1.33M.																					
	ACCOUNTING AND OTHER POLICIES																					
18.	The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK, which is recognised by statute as																					

	representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.
19.	<p>The Accounting Policies are described in detail on pages 30 to 42 of the Financial Statements and cover such items as:</p> <ul style="list-style-type: none"> • Property, Plant and Equipment • Employee Benefits • Financial Instruments • PFI contracts <p>There have been two significant changes to the Accounting Policies in 2018/19, with IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenue from Contracts with Customers</i> coming into effect from 1 April 2018.</p> <p>IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a 'forward looking' 'expected loss' model for impairment rather than the previous 'incurred loss' model.</p> <p>IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.</p> <p>Both of these changes have been considered as part of the preparation of the Council's Financial Statements for 2018/19 and neither have had a material impact on the accounts. Additional disclosures have been included where necessary.</p>
20.	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>	
21.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
<u>Property/Other</u>	
22.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
23.	Accounts and Audit Regulations 2015.
<u>Other Legal Implications:</u>	
24.	None
RISK MANAGEMENT IMPLICATIONS	
25.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
26.	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 2018/19.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2018/19.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes/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

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DECISION-MAKER:		Governance Committee	
SUBJECT:		Annual Governance Statement	
DATE OF DECISION:		10 th June 2019	
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:	John Harrison	Tel: 023 8083 4897
	E-mail:	john.harrison@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>The Governance Committee is responsible for receiving, reviewing and approving the draft AGS.</p>			
RECOMMENDATIONS:			
	(i)	To review the draft 2018-19 AGS (Appendix 1); and	
	(ii)	To note the status of the 2017-18 AGS Action Plan (Appendix 2).	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.		
2.	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.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.		
DETAIL (Including consultation carried out)			
4.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.		

5.	The purpose of the AGS, which is published with the Statement of Accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6.	The draft AGS, which has been developed in accordance with the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)’, reflects the seven core principles of good governance which are referred to in the council’s Code of Corporate Governance.
7.	The AGS is produced following a review of the systems and processes that comprise the Council’s governance arrangements. 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.
8.	<p>The draft 2018-19 AGS has been developed by the council’s ‘Controls Assurance Management Group’ comprising the Section 151 Officer (Service Director - Finance and Commercialisation), Monitoring Officer (Service Director - Legal and Governance), Chief Internal Auditor, Deputy Chief Executive and the Chair of Governance Committee. This reflects CIPFA/ Solace guidance which confirms that authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to:</p> <ul style="list-style-type: none"> • Consider the extent to which the authority complies with the principles of good governance; • Identify systems, processes and documentation that provide evidence of compliance; • Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified; • Identify issues that have not been addressed in the authority and consider how they should be addressed; and • Identify the individuals who would be responsible for undertaking the actions that are required.
9.	The draft AGS has also been presented and discussed at the Council’s Management Team.
10.	The AGS must be current at the time it is published so the final version of the 2018-19 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 Interim Chief Executive respectively.

RESOURCE IMPLICATIONS

Capital/Revenue

11. None

Property/Other

12. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

13.	The Accounts and Audit (England) Regulations 2015 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.	
Other Legal Implications:		
14.	None	
RISK MANAGEMENT IMPLICATIONS		
15.	Failure to develop and publish an Annual Governance Statement would result in a failure of the organisation to meet a statutory requirement.	
POLICY FRAMEWORK IMPLICATIONS		
16.	None	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		n/a
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Draft Annual Governance Statement 2018-19	
2.	2017-18 Annual Governance Statement – Action Plan	
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
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) 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	

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Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

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

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘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-feb-2019_tcm63-396028.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 2019 and up to the date of approval of the statement of accounts.

Annual Governance Statement

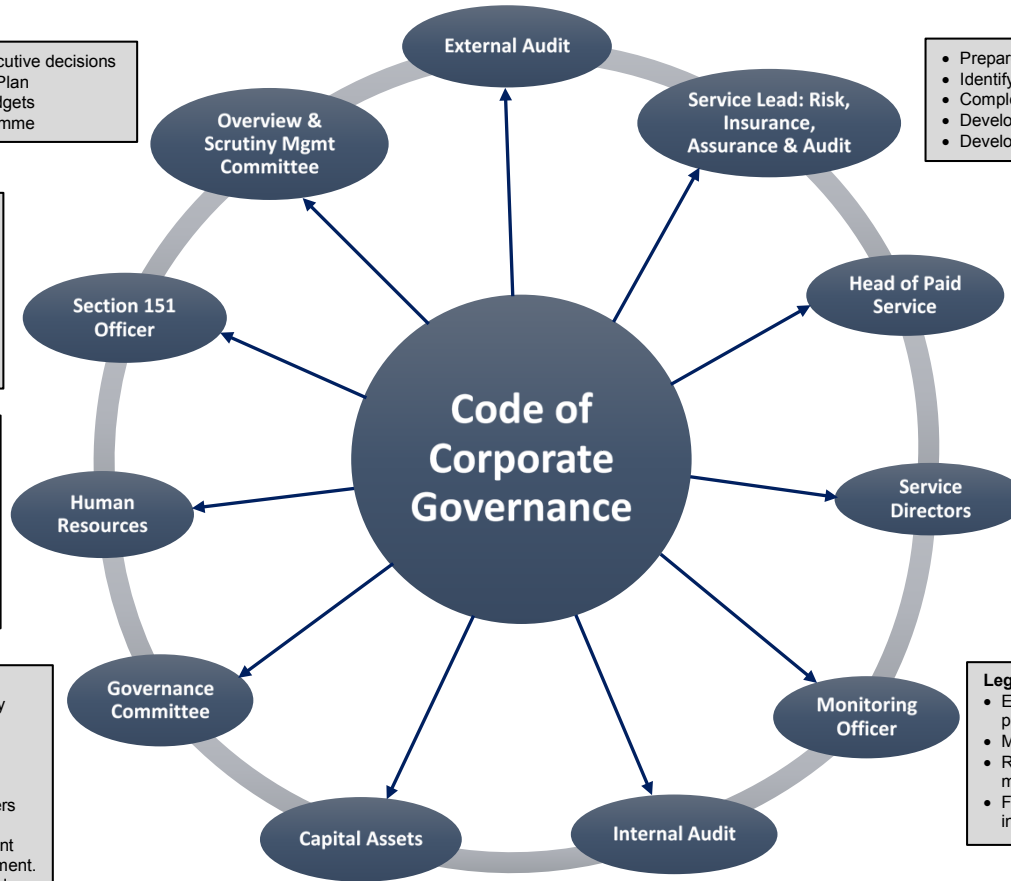
GOVERNANCE ROLES & RESPONSIBILITIES

- Provide Annual Audit Letter and Audit Results Report – ISA260
- Undertake Financial Statement Audit
- Develop and Publish a Value for Money Conclusion
- Develop and deliver Audit Programme

- Exercise power to call-in executive decisions
- Scrutinize items on Forward Plan
- Monitor performance and budgets
- Agree scrutiny inquiry programme

- Prepare Annual Governance Statement
- Identify and collate sources of assurance
- Complete 'Assurance Framework' document
- Develop and maintain Risk Management Policy
- Develop and manage Strategic Risk Register with CMT

- Financial Management**
- Develop Medium Term Financial Strategy that is aligned with strategic priorities and outcomes
 - Safeguard public monies
 - Promote, support and deliver good financial management
 - Provide financial input on all major decisions



- Corporate Management Team**
- Lead the Council Management Team in driving forward strategic agenda
 - Organise and manage service delivery
 - Develop and deliver Council Strategy

- Facilitate staff recruitment & selection
- Develop and provide Learning & Development opportunities including induction
- Develop and maintain range of HR policies including Performance Appraisal, Codes of Conduct, grievances, Conditions of Service etc

- Service Delivery**
- Develop Business Plans that are aligned with key outcomes and priorities
 - Review and manage performance
 - Manage and mitigate risk
 - Respond to inspection and other assurance type reviews or reports
 - Complete 'AGS Annual Self-Assessment Statement'

- Standards, Assurance / Ethics**
- Oversee standards of ethics and probity
 - Promote openness, accountability and probity
 - Advise on declarations of Members' Interests
 - Investigate alleged breaches of Members Code of Conduct.
 - Seek assurance on the risk management framework and internal control environment.
 - Ensure that assets are safeguarded and proper accounting records maintained
 - Ensure independence of audit;
 - Monitor financial and non-financial risks (including measures to protect and respond to fraud).

- Legal & Ethical Assurance**
- Ensure compliance with established policies, procedures, laws and regulation
 - Monitor ethical standards
 - Report actual or potential breaches of the law, or maladministration
 - Facilitate annual review of Council Constitution including Scheme of Delegation.

- Asset Management**
- Manage and maintain Property Asset database
 - Manage property acquisitions and disposals
 - Undertake condition surveys
 - Develop property investment strategy

- Assurance**
- Develop and maintain Internal Audit Charter
 - Produce and deliver Internal Audit Annual Plan
 - Review, evaluate and report on internal controls
 - Report to Governance Committee including the 'Annual Report and Opinion'
 - Develop and maintain Anti-Fraud and Corruption Policy and associated policies

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. The Constitution is published on the council's website at:

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

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states 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 the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the Council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are crime, fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy'. This policy applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its Members and staff. It also covers contractor, supplier, partner, agents, intermediaries and service users. The Council also has in place an 'Anti-Money Laundering' policy which sets out both the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. The policy sets out the procedures which must be followed (for example reporting of suspicions of money laundering activity) to enable the Council and staff to comply with their legal obligations. All such policies are subject to periodic review.

Investigations and special reviews into suspected fraud or irregularities are overseen by an Investigation Steering Panel, comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

A formal Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' is in place which is published on the Council's website. This document, which sets out how customers may wish to share their experiences of using council services, is subject to annual review. In accordance with legislation there is a separate Children and Families Complaints Policy in place. Complaints about Members are dealt with under the Members' Code of Conduct complaints procedure.

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 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 has information on:

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

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 budget report for 2018-19. 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, was commissioned by Southampton Connect and the Police, Council and NHS, and was intended to capture and help understand the views of local residents. The survey exercise was repeated in the summer of 2018 when a telephone city survey of residents of was undertaken. This survey is used to monitor the success of key council strategies and to prioritise activity.

The Council has in place a 'People's Panel' which now has a membership of over 2,000 people. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

A 'Tenants Tell Us' Group is also in place comprising Southampton social housing residents who take part in monthly online surveys to express their views on council housing services. Feedback is then used to influence how services are delivered, highlight issues, and help shape housing services across the city.

There is a strong focus on youth participation in the city with 'Youth Forum Southampton' providing 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' is also intended to provide children and young people with 'a voice and a choice' explains how young people can get involved to help make the city a better place. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

The Councils 'Children in Care Council' groups provides an opportunity for those children in care to share their views and experiences with a view to improving things for themselves and others.

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

The Southampton City Council Strategy 2016-2020 ('Council Strategy') is a key document that sets out the council's strategic vision until 2020 and reflects the on-going commitment to ensure that the Council works to put residents and the customers at the heart of everything that it does and to reflect the city's diversity. The Council Strategy identifies the following four key outcomes that make up the vision:

Annual Governance Statement



Southampton has strong and sustainable economic growth



Children and young people get a good start in life



People in Southampton live safe, healthy, independent lives



Southampton is an attractive modern city, where people are proud to live and work

In order to achieve these outcomes it is recognised that the council has to be a modern, sustainable organisation - which is the fifth outcome. For each outcome there are associated priorities and information on how success will be measured. In addition, against each outcome there is a 'Leader's Focus' that reflects the council's commitments to residents and customers. There is a 'golden thread', through the performance management framework and annual performance reviews, that makes clear links between objectives set for staff and the council's priority outcomes.

There are a number of key strategies, policies and plans which impact on direction of the Council and the day to day operations as follows:



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'*. Southampton Connect is an overarching strategic partnership body that has senior level representation from key agencies and sectors covering private, public and voluntary sectors within the City. This independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

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 twelve South Hampshire local authorities including the unitary authorities of Southampton, Portsmouth and Isle of Wight, and Hampshire County Council. PUSH is focused on developing, supporting and improving the economic performance of the sub-region and works collaboratively with partner agencies in the sub region as well as key Government Departments. PUSH proactively engages with business leaders, universities and the voluntary sector through the Solent LEP in support of activities that facilitate sustainable economic growth.

Solent LEP is a partnership organisation between the business community, the Further Education and Higher Education sector, the local authorities represented on PUSH and actively works together to secure a more prosperous and sustainable future for the Solent area. The Solent LEP is the key interface and lead for economic development in the region and has six priority areas for investment, namely: Skills, Business Support, Innovation, Infrastructure, Strategic Sectors and Inward Investment & International Trade.

Annual Governance Statement

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. An updated MTFS for the period 2019/20 to 2022/23 was approved by Full Council in February 2019.

The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's outcomes. The Strategy is based around 6 key aims:

- *To provide financial parameters within which budget and service planning should take place;*
- *To ensure the council sets a balanced and sustainable budget;*
- *To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources, ensuring services are defined on the basis of a clear alignment between priority and affordability;*
- *To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;*
- *To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and*
- *To ensure that the council's long term financial health and viability remain sound.*

The MTFS takes into account a number of other strategies, policies and plans that impact on the direction of the Council and the day to day operations 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 and improve the experience and outcomes for the service users. The Better Care Fund, which commenced in 2015, pools and aligns 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.

Outcome Based Planning and Budgeting (OBPB) was introduced in 2017-18 and is the practice of developing budgets based on the relationship between funding and expected outcomes. OBPB is intended to provide clarity between the outcomes that we want to achieve and how we prioritise resource allocation. A further element has been introduced in the 2019/20 budget setting process to incorporate business academies, and begin to embed commercialisation across the Council. The business academy process is designed to help develop service business plans that are aligned to the key outcomes with the output fed into the budget process. OBPB gives certainty to residents, businesses and service users that service provision has been prioritised and funded for 2019/20, within a stable financial framework. The OBPB process will be further reviewed and refined in 2019/20 to ensure that the budget gap in 2020/21 and future years can be mitigated.

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 together with a details (including consultation carried out) section. The template also includes separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for, 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.

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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 the attention of Inquiry Panel members.

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key outcomes and areas of focus as set out in the Council Strategy. These plans identify the key challenges and opportunities associated with the delivery of the respective key priority and outcomes and how they can be addressed. Progress in respect of achieving key targets, for measures linked to the Council's key outcomes and priorities, is subject to regular and robust review by both the Council Management Team. In addition, CMT receives a Monthly Operating Performance ('MOP') on a monthly basis. The MOP contains key service measures including:

- *Workforce statistics such as absence and staff turnover*
- *A number of financial metrics such as Council Tax collection and the MTF5 budget gap*
- *Complaint numbers*
- *Ofsted ratings for schools*
- *Compliance to mandatory learning*
- *Data breaches and accidents / incidents*
- *Key results in the last month, messages, decisions and announcements*

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 it

The Council has in place a Workforce Strategy which is intended to enable the Council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. The Council's Workforce Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- *Recognised as an employer of choice;*
- *A high performing workforce;*
- *Good management across the Council;*
- *Evidenced based decision making, planning and delivery;*
- *A highly motivated and engage workforce;*
- *Staff empowered to make decisions;*
- *An effective Member Development programme for councillors; and*
- *Demonstrable valuing of diversity and equality.*

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The Workforce Strategy sits alongside the both the Medium Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall Council budget. It is used to inform resource allocation decisions, drive positive change and deliver agreed outcomes.

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

The Council has in place a 'Risk Management Policy 2017-2020' that 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. This policy is intended to support the application of robust risk management principles and practices across all service areas.

A key document is the Council's Strategic Risk Register which reflects the key strategic keys that have been identified as needing to be managed in order to support the delivery of the key outcomes and priorities. The Strategic Risk Register is developed and managed by the Council Management Team and is reviewed and updated on a quarterly basis. In addition, Cabinet Members are also provided with information in respect of the risks relevant to their respective portfolios.

The Council's Governance Committee 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. It receives a range of periodic reports relating to both the internal control environment and financial management. The Committee receives regular update reports in respect of the delivery of the annual internal audit plan and the outcome of individual audit reviews. It also receives reports in respect of risk management and a range of reports relating to financial issues including receiving the draft Statement of Accounts.

Performance against the key indicators in the Council Strategy is actively monitored and published each quarter on the council website in the form of a Council Strategy Scorecard Summary. The Council Management Team also receives a quarterly scorecard which reports progress in achieving key targets for measures linked to the Council priorities. A Monthly Operating Performance (MOP) dashboard is reviewed by the Council Management Team on a monthly basis and contains key service measures as well as:

- Workforce statistics such as absence and staff turnover
- Financial metrics such as Council Tax collection and the MTFS budget gap
- Complaint numbers
- Ofsted ratings for schools
- Compliance with mandatory learning
- Data breaches and accidents / incidents
- Textual information – Key results in the last month, messages, decisions and announcements
- Key improvement activity around Children's and Adult's Social Care

All significant commercial partnership working arrangements also have a range of performance indicators which are used to verify and manage service performance. The Council is committed to achieving best value from its contracts and ensuring that goods, services and works are procured and contract managed 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, these outsourced contracts are managed by a Supplier Management Team or an Integrated Commissioning Unit which provide senior management interfaces 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 reports directly to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned

Annual Governance Statement

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.

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 in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access a range of information that is published in accordance with the Local Government Transparency Code (2015). This includes a link to both the current and previous Statement of Accounts together with relevant audit certificates. These documents shows how public money has been used.

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 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.

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 Council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. 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).

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 - Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Deputy Chief Executive, Service Director – Legal & Governance (Monitoring Officer) and the 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 and highlights any significant risk exposure and control issues, including fraud and governance risks. Where an individual audit receives an overall level of 'No Assurance' then the exceptions are reported in

Annual Governance Statement

their entirety to the Governance Committee along with the Service Director's comments. Where appropriate, the relevant Service Director may be required to attend a meeting to update the Committee regarding progress and actions;

- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment. The Chief Internal Auditor's opinion for 2018-19 was that *****to be completed***** assurance can be provided that the framework of governance, risk management and control at Southampton City Council is effective;
- The Internal Audit Charter and delivery of the annual Internal Audit plan;
- The work of the Service Directors and Service Leads who have responsibility for the development and maintenance of the governance environment;
- The completion of 'Self-Assessment Statements' by Service Directors that 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;
- 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

Lack of consistent approach regarding formal succession planning for key posts and/or arrangements in place to ensure that there is an appropriate spread of skills in order to avoid over reliance on any particular individual.

Planned Action: *An important part of the 2019-25 corporate business planning process is the requirement for service areas to identify and consider future organisational development requirements. This is intended to capture the future required structure, skills mix and training together with consideration of the resilience of the service. This will inform the wider resourcing review of the council's leadership and the centrally led leadership development plans. The overall framework and plans will be in place during 2019 for commencement of key programmes. An additional outcome will be an increase in apprentice training (new starts and existing staff looking for higher level qualifications).*

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Responsible Officer: Service Director Human Resources & Organisational Development
Target for completion: January 2020

2. Governance Issue

The 'annual performance appraisal' ("APR") process is still not fully embedded with some inconsistencies across service areas in terms of compliance with the process.

Although compliance has increased, the HR Log of completed staff APRs is incomplete as not all forms were submitted on-line.

Completed Action: *A more streamlined APR process is in place for 2019/2020 under a new HR Lead and informed by feedback on previous forms and process.*

Managers have been reminded of the importance of the APR process and the need to use the on-line "auto submit" tool or to provide confirmation of completion where on-line facilities are not part of the service provision (front-line). HR will oversee and report on compliance with the process to ensure that all staff have the correct supervision and annual appraisal meetings.

Responsible Officer: Service Director Human Resources & Organisational Development

3. Governance Issue

The follow-up reviews undertaken by Internal Audit in respect of 'limited' or 'no assurance' audit reports issued in 2017-18 (and including any 'Priority Levels' that were assessed as being 'high risk' in other audit reports) has identified that, at the date of the follow up review, 58% of the 'agreed management actions' had not been progressed.

The foregoing is reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and in the Chief Internal Auditors Annual Report and Opinion.

Completed Action: *Internal Audit to provide reports, normally on a quarterly basis, to the Council's Executive Management Board (comprising the Chief Executive, Deputy Chief Executive, Chief Operating Officer and Section 151 Officer) in respect of follow up reviews on any 'limited' or 'no assurance' audit reports (or where there are critical or high risk exceptions) where the review has identified that the agreed management actions have not been implemented or otherwise satisfactorily progressed.*

Responsible Officer: Service Director Finance & Commercialisation

4. Governance Issue

Whilst a number of actions have been implemented in order to improve officer compliance with the Council's procurement policies, and there is some evidence that they are having a positive effect, it is too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. It is also recognised that some further actions are planned for implementation in 2019.

Planned Action: *Internal Audit to undertake a review of contract framework and procurement in 2019 as part of the 2019/20 Internal Audit Annual plan. This audit review will look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies. The Supplier Management Team will also be carrying out ongoing monitoring and reporting to Governance Committee.*

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Responsible Officer: : *Service Director Finance & Commercialisation*

Target for completion: *December 2019*

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

.....
Sandy Hopkins

Chief Executive

on behalf of Southampton City Council

.....
Councillor Christopher Hammond

Leader of the Council

ANNUAL GOVERNANCE STATEMENT 2017/18

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 2017-18:

1.	Governance Issue	Planned Action	Status	Comments
Page 79	<p>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 still inconsistent. This is notwithstanding that a suite of 'Essential Stuff' documents has been created which provide summarised versions of key policies that staff may need to have an awareness of. There are separate 'Essentials' documents in respect Anti-Fraud and Anti-Corruption, Anti-Money Laundering, Bribery Act and Whistleblowing'.</p>	<p>It is intended create e-learning modules that staff have to complete so that managers can be assured that their staff are aware.</p>	<p>Revised Action COMPLETED</p>	<ul style="list-style-type: none"> • The guidance developed is included on web pages and is signposted for new starters. This was seen as a more cost effective option than the development of series of bespoke e-learning modules; • In addition there are annual reminders of key policies to the Leadership team.
	<p>Responsible Officer: Service Director: Human Resources & Organisational Development</p>		<p>Target Date: Mar 2019</p>	
2.	<p>Whilst the Workforce Strategy provides the framework in terms of the development the council's current and future workforce in terms of required skills and behaviours there is need for a robust and consistent approach to succession planning for key posts and/or a spread of skills to avoid over reliance on any particular individual.</p>	<p>Service Director, HR&OD to work with CMT to identify key posts or roles where succession planning may be required as part of the council's process for outcomes based planning and budgeting and business planning.</p>	<p>Revised and amended action reflected on 18-19 AGS</p>	<ul style="list-style-type: none"> • The new Chief Executive has commenced a 'Resources Review' which will be informed by the output from the 2019-25 corporate business planning process. An important part of this process is the requirement for service areas to consider future organisational development requirements which will, in turn, inform the wider resourcing review of the council's leadership and the centrally led leadership development plans based on the Institute of Directors Competency framework. The overall framework and plans will be in

			<p>place during 2019 for commencement of key programmes.</p> <ul style="list-style-type: none"> • Further planned actions are reflected on the 18-19 AGS
Responsible Officer: Service Director, Human Resources & Organisational Development		Target Date: Original Sept 2018 Revised to May 2019	
<p>3. A new Performance Management Framework was approved and implemented in 2017 which was intended to provide a consistent framework for Annual Performance Reviews (APRs). There are however still some significant inconsistencies across service areas in terms of compliance with the APR process.</p> <p>The APR template was reviewed in early 2018 following feedback which suggested that the template and associated process could be much more straightforward to enable the emphasis to be on more meaningful dialogue rather than the process itself.</p>	<p>A redesigned Annual Performance Review template has been issued and includes an on-line “button” to auto submit / record that APRs are completed. This is intended to help managers, with support from the HR team, to track an overall picture so that they are able to take appropriate action where this is not being done. HR Advisors will be asking for feedback on the new template and will be checking for overall compliance to ensure that APRs are being held at all levels.</p>	COMPLETED	<ul style="list-style-type: none"> • Compliance did increase during the period however the HR Log of completed APRs was incomplete as not all forms were submitted on-line. • Review and stream lining of process in place for 2019 APRs under new HR Lead and informed by feedback on previous forms and process to improve completion and recording across all areas; • The expectation was that new employee records would allow for completed APRs to be logged from April 19 onwards however this was affected by the delay in the implementation of Business World and will be reviewed in the Autumn. • This is still considered to be an important governance issue and further planned actions are reflected on the 18-19 AGS to improve both process and recording.
Responsible Officer: Service Director, Human Resources & Organisational Development		Target Date: March 2019	
<p>4. There are a range of controls in place to manage the risk of a cyber security incident and in the event of successful cyber-attack the council's Major Incident process would be followed. It is recognised however that there is a need to test the corporate response in the event of such an</p>	<p>A draft 'Cyber Response Plan' is in development and will appear as an annex to the Corporate Business Continuity Plan. An appropriate desktop exercise to be identified and delivered in consultation with key stakeholders.</p>	COMPLETED	<ul style="list-style-type: none"> • Cyber Response Plan was approved by the Council Management Team in July 2018 and now appears as an annex to the Corporate Business Continuity Plan. • A desk top Cyber Security Briefing and Table Top Exercise, organised by the South East Regional Organised Crime Unit, was undertaken in January 2019. Feedback

	incident in order to identify any significant gaps or weaknesses.			<i>from this exercise will feed into the Local Resilience Forum exercise (planned for Q2-2019) which will partly be based on a cyber scenario.</i>
Responsible Officer: Service Director, Digital and Business Operations		Target Date: Oct 2018		
Page 81	5. For 2017-18, the number of internal audit reviews where the overall level of assurance has been assessed as 'limited' (and in a small number of cases assessed as 'no assurance') has increased compared with 2016-17. It is considered that this reflects a change in the delivery of the internal audit function which is now provided by an in-house audit team including a shared Chief Internal Auditor with Portsmouth City Council. The service has been repositioned in terms of its visibility and profile within the organisation and has developed and delivered a more directed and focussed audit programme.	Internal audit will undertake follow-up reviews of all 'limited' and 'no assurance' reports as part of the 2018-19 Internal Audit plan. This will not only assess the status and effectiveness of agreed actions relating to the individual audit reports but will also provide an overview in terms of overall management response to risk and controls. The foregoing will be reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and eventually in the Chief Internal Auditors Annual Report and Opinion.	COMPLETED	<ul style="list-style-type: none"> • <i>The follow-up reviews undertaken by Internal Audit in respect of 'limited' or 'no assurance' audit reports issued in 2017-18 (and including any 'Priority Levels' that were assessed as being 'high risk' in other audit reports) has identified that, at the date of the follow up review, 58% of the 'agreed management actions' had not been progressed.</i> • <i>The foregoing is reflected in the Internal Audit Progress Report presented to the Governance Committee throughout the year and in the Chief Internal Auditors Annual Report and Opinion.</i> • <i>Further planned actions are reflected on the 18-19 AGS</i>
Responsible Officer: Service Director Finance & Commercialisation		Target Date: March 2019		
	6. Whilst the H&S policy, arrangements, safe working procedures (including H&S training), management training, provide the framework in terms of the requirement to identify and deliver training to ensure staff H&S competency, there is a further need for guidance around application of training against roles.	Develop generic training matrices which may thereafter be amended and refined by service managers against local and specific need.	COMPLETED	<ul style="list-style-type: none"> • <i>A Health, Safety and Wellbeing Training matrix has been developed which is available to download online and forms part of the essential H&S training for managers.</i> • <i>In addition the APR process is intended to ensure that training needs are identified and allows for managers to pick up competency issues.</i>
Responsible Officer: Service Director, Human Resources & Organisational Development		Target Date: August 2018		

7.	<p>Whilst 'Contract Procedure Rules' are in place that require all council buying to be undertaken in line with legislation and to achieve best value, there is evidence of areas of non-compliance particularly in respect of those procurements where the Procurement Service Team has not been directly engaged in the process.</p>	<p>The actions to address this issue are to be progressed via the council's Strategic Risk Register. This reflects the significance of the issue noting that the Strategic Risk Register identifies and captures the key strategic risks that need to be managed and is directly overseen by the Council Management Team ('CMT'). The Strategic Risk Register is reviewed and reported to the Council Management Team on a quarterly basis. This review process will consider and, where necessary, challenge the status of the mitigating actions.</p>	<p>COMPLETED</p>	<ul style="list-style-type: none"> • <i>A new risk entitled 'Service areas fail to adhere to and comply on a consistent basis with the council's Contract Procedure Rules' was added to the Council's Strategic Risk Register in July 2018 and has been subject to Service Director review and oversight.</i> • <i>A comprehensive action plan is in place and substantial progress has been made in completing the actions. This matter is subject to a separate detailed report to Governance Committee on 11th February 2019</i> • <i>Further planned actions are reflected on the 18-19 AGS</i>
<p>Responsible Officer: Service Director, Digital and Business Operations</p>		<p>Target Date: December 2018</p>		

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT 2018-19	
DATE OF DECISION:		10th JUNE 2019	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	John Harrison	Tel: 023 8083 4897
	E-mail:	John.Harrison@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"> • Progress made against the agreed annual audit plan. • Results of audit activities and • Management’s response to risk that in the CIA’s judgement maybe unacceptable to the Authority <p>All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>Internal Audit Progress for the period 1st April to 30th May 2019 is covered in the attached Appendix 1.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 1 st April to 30 th May 2019.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	None		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None		

<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state ‘a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
9.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit Progress Report for the period 1 st April to 30 th May 2019.
2.	Mobile Devices Audit Report

Documents In Members’ Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

Other Background documents available for inspection at: Internal Audit Office, Civic Centre, Municipal, 1st floor, Rm 219.

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

30th May 2019

Elizabeth Goodwin - Chief Internal Auditor

Introduction

The Internal Audit function is a statutory function for all Local Authorities. Southampton City Council Internal Audit service has an in-house team and a shared Chief Internal Auditor with Portsmouth City Council (PCC). The in house audit team is supported by audit & counter fraud staff from PCC under a collaborative working arrangement.

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

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

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

Purpose of report

The purpose of this report is to update the committee on the progress of the 2018/19 Audit Plan as at 31st March 2019 and to highlight any significant risk exposure and control issues, including fraud and governance risks. Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives. Assurance opinions are categorised as follows:

Overall Assurance Levels:	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

NOTE: Where the audit receives an overall level of 'No Assurance' then the exceptions are be reported in their entirety to the Governance Committee along with the Directors comments.

The following table outline the exceptions raised in audit reports and are reported on in priority order.

Exception Priority Level	Description
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.
Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation’s objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.

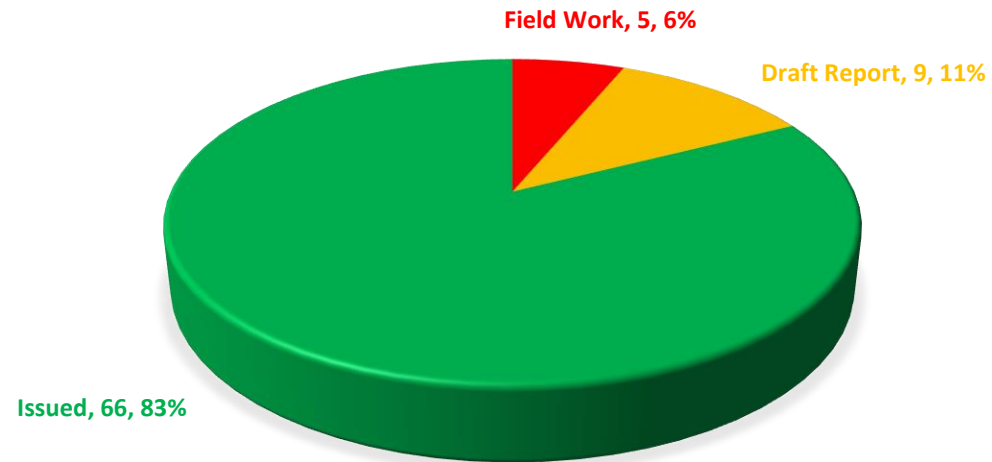
NOTE: Any critical exceptions found the exceptions will be reported in their entirety to the Governance Committee along with the Directors comments.

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	No action has been taken on agreed action.
Pending	Actions cannot be taken at the current time but steps have been taken to prepare.
In Progress	Progress has been made on the agreed action however they have not been completed.
Implemented but not Effective	Agreed action implemented but not effective in mitigating the risk.
Closed - Verified	Agreed action implemented and risk mitigated, verified by follow up testing.
Closed – Not Verified	Client has stated action has been completed but unable to verify via testing.
Closed – Management Accepts Risk	Management have accepted the risk highlighted from the exception
Closed – No Longer Applicable	Risk exposure no longer applicable.

Audit Plan Progress:

AUDIT PLAN PROGRESS TO 30TH MAY 2019



94% of the Audit Plan has been completed or is in draft report stage as at 30th May 2019. This is based on 80 audits, which includes follow up reviews.

Breakdown of Progress:

Status	Number of Audits
Identified	0
Field Work	5
Draft Report	9
Issued Report	66

Unplanned Work:

- No Unplanned work has been undertaken since the last progress report.

Audit Plan Status/Changes:

There have been no changes made to the plan since the last progress report.

Areas of Concern:

1. Mobile Devices – Summarised in the main body of the report, See Appendix 2 for full audit report.

Completed Audits between 1st April to 30th May 2019

Project Name	Hub	Overall Opinion	Total No. of Issues/Exceptions	Critical Risk	High Risk	Medium Risk	Low Risk Improvement
ICU Contract Management	Strategy (SD Quality & Integration)	Assurance	-	-	-	-	-
Scope of Audit:	Appropriate governance, guidance for the management of contracts, letting of contracts, due diligence for prospective and selected providers, contracts are monitored, self-verification.						
Testing was conducted on the processes for Integrated Commissioning Unit Contract Management, and a review of one contract. Based on this testing Internal Audit can give assurance that Integrated Commissioning Unit Contract Management is of low risk to the Authority.							
Stock Condition	Operational (SD Growth)	Assurance	-	-	-	-	-
Scope of Audit:	Maintenance of Housing assets, policy & procedures, housing standards, inspection surveys, repairs & maintenance, planned maintenance schedules.						
Testing was conducted on the processes for the management of Stock Condition within the authority, including Stock Condition Surveys. Based on this testing Internal Audit can give assurance that Stock Condition is of low risk to the Authority.							
Homelessness and Prevention	Operational (SD Adults Housing & Communities)	Assurance	-	-	-	-	-
Scope of Audit:	Homelessness strategy, Homelessness Act 2002 & Reduction Act 2017, free information and advice, assessments for eligible applicants, review of homeless cases in temporary accommodation.						
From examination of the various documentation and on the cases tested and findings identified Internal Audit can give assurance that Homelessness & Prevention arrangements are of low risk to the authority.							
Health & Wellbeing Board	Strategy (SD Quality & Integration)	Assurance	-	-	-	-	-
Scope of Audit:	Health and Wellbeing governance and terms of reference, strategy is current with roles and responsibilities appropriately agreed, meets are advertised and supported by full documentation.						
Based on the results of testing, Internal Audit can give assurance that the Health and Wellbeing Board is of low risk to the authority.							
Annual Governance Statement	Strategy (SD Finance & Commercialisation)	Reasonable Assurance	-	-	-	-	-
Scope of Audit:	A review of the Annual Governance Statement responses provided by Service Directors in their AGS Self-Assessment returns, which are used to inform development of the AGS.						

The results of the audits would indicate that Internal Audit is in agreement with the majority of the Service Directors self-assessments there is evidence from audits undertaken through the year that challenges the assessment of others. Concerns have been raised with the reasonable assurance opinion of internal controls, staff awareness of policies and the 'Gifts and Hospitality Procedure'.							
Community Infrastructure Levy	Operational (SD Growth)	Reasonable Assurance	2	-	-	2	-
Scope of Audit:	CIL funds are used in line with regulation, planning applications, exemptions awarded, demand notices, subsequent charges, CIL income and expenditure, unpaid demand notices.						
The first medium risk relates to there being a lack of an audit trail or direct evidence of how Adobe acrobat calculates the CIL chargeable figure from the detailed plans provided. The second medium risk relates to a 24k discrepancy between the main CIL code setup in Agresso and the CIL expenditure listed on the authority's website, it was discovered that this was due to a misallocation from grant funding.							
Solicitor Fees	Strategic (SD Legal & Governance)	Reasonable Assurance	2	-	-	2	-
Scope of Audit:	SCC Legal Services are contacted in the first instance for external solicitors, clear decision making process as to why external solicitors are used, spend is monitored by Legal Services.						
The first high risk exception relates to two cases where teams failed to demonstrate adequate procurement procedures initially by contacting Legal Services however in both cases Legal later became involved in the process. The second medium risk relates to one invoice for £8,250 not having been reviewed and signed by Legal Services as per internal authorisation procedures.							
Petty Cash	Strategy (SD Finance & Commercialisation)	Limited Assurance	3	-	2	-	1
Scope of Audit:	Petty cash used for business purposes, VAT receipts obtained and preserved, annual returns, petty cash accounts held securely and regular reconciliations of accounts.						
The first high risk exception relates to a petty cash transaction for £1,200 rent and deposit fees not having a receipt because the cash had not been utilised and was sitting in a separate safe. The second high risk relates to the annual statement recording an amount of £3,640 in the cash deposit box which was only £972.66 when it was counted. The low risk relates to a lack of up to date documentation regarding what can and cannot be processed via petty cash claims.							
Learning & Development	Strategy (SD HR & OR)	Limited Assurance	4	3	1	-	-
Scope of Audit:	Mandatory training, courses provided are cost effective, in house or external training, feedback is sought on both internal/external courses and courses created or procured fulfil a genuine need.						
The first high risk exception relates from 3,341 members of staff, 910 had completed the fire safety training in the last year and 470 had completed the general health and safety e-learning. Furthermore, there was no formal monitoring of compliance of staff within Children's and Families having completed a level two course in Safeguarding Children. The second high risk relates to there being no tracking of internal costs for creating and running a course compared too externally to evaluate which is the most cost effective. The third high risk relates to							

there being no structured, consistent documented process in place for consulting Directorates on their training needs ahead of each training year. The medium risk relates to there being an inconsistent approach to recording feedback, therefore training cannot be easily comparable.						
Mobile Devices	Operational (SD Digital & Business Operations)	No Assurance	4	3	1	-
Scope of Audit:	<i>Policy on device usage, user access is restricted to control third party application downloads, monitoring of device usage, invoices are checked for accuracy, inventory of mobile devices is suitably maintained.</i>					
<p>The first high risk exception relates to 1,271 of the 2,898 mobile devices not being noted within the inventory and 931 devices (costing £10.8k a quarter) not being able to match an employee. Furthermore from the list of 931 devices, 272 had no usage at all (costing £3.2k a quarter), 124 were data only devices which didn't use any data (costing £744 a quarter) and the remaining 535 had some form of usage. The second high risk exception relates to there being no evidence of monitoring or general awareness of the 5 largest mobile devices with the largest amount of additional charges by Line Managers / Service Leads / Directors. The third high risk relates to their being no formal or informal responsibility present amongst departments for verifying that the charges from the network provider remain in line with the contract each quarter. The medium risk relates to the Mobile Phone Policy being due a review in May 2018 which was yet to be completed.</p> <p>The full "no assurance" mobile devices audit report can be found attached as appendix 2.</p>						

Completed Follow up Audits between 1st April to 30th May 2019

Project Name	Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risks	Medium Risk	Low Risk Improvement
CCTV	Reasonable Assurance	Limited Assurance	2	-	1	0	1
Actions Outstanding:	One high and one low risk remain in progress.			Percentage Closed:		0%	
Summary of Follow Up:	The initial audit highlighted a high risk due to a mix of 51 locations not having a current Data Protection Impact Assessment (DPIA) in place. A low risk exception was also raised as eight sites and two tower blocks required an increase in signage provisions. Follow up testing showed progress had been made as 83% of sites had completed DPIAs while 14% were in progress and 8% had yet to commence. Following the conclusion of the audit all outstanding DPIAs have been completed.						
Housing Rents & Debt Management	Reasonable Assurance	Limited Assurance	7	-	4	3	-
Actions Outstanding:	One high and one medium risk remain in progress. One medium risk remains open.			Percentage Closed:		60%	
Summary of Follow Up:	Follow up testing was able to close and verify three of the high risk exceptions due to the progress made with current arrears monitoring, casework allocation, direct debit corrections and write off authorisations. However issues remain in reconciling iWorld payments into Northgate, the number of pending write offs and the new arrears recovery processes needing further time to imbed.						
Leisure Contract	Reasonable Assurance	Limited Assurance	3	-	2	1	-
Actions Outstanding:	One high risk remains in progress.			Percentage Closed:		67%	
Summary of Follow Up:	The high risk relating to a lack of monitoring of risk assessment completions has been closed as a full list of risk assessments, by venue, has been included within the quarterly performance report discussed as a standard agenda item. The second high risk relates to the non-completion of urgent building structure works, currently the responsibility for the asset is being investigated. The medium risk relates to the lack of penalty clauses within the contract for under performance, KPI's are now in place however no action will be taken against the contractor.						
Home to School Transport	Limited Assurance	Limited Assurance	4	-	3	-	1
Actions Outstanding:	One high and one low risk remain in progress.			Percentage Closed:		50%	

Project Name	Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risks	Medium Risk	Low Risk Improvement
Summary of Follow Up:	The two high risk relating to the publishing of a revised transport policy have been completed. A high risk and low risk remain in progress due to there still be an insufficient management and documentation to verify transport decisions were made in line with published guidance.						
Tower Blocks	Limited Assurance	Limited Assurance	3	-	3	-	-
Actions Outstanding:	One high risk remains open.			Percentage Closed:		67%	
Summary of Follow Up:	During the original audit three high risk exceptions were raised as a result of audit testing. The first high risk, now closed and verified related to the fire risk assessment action plans being closed down on the system despite some of them not being adequately completed. The second high risk, now closed and verified, related to gas & electricity statutory checks for tower blocks. One high risk remains open as 8/17 (47%) Tower Blocks have Fire Risk Assessment's that have passed their stipulated review date. The longest overdue FRA is 369 days past the review date.						
Appointeeships	Reasonable Assurance	No Assurance	10	-	8	2	-
Actions Outstanding:	One high and one low risk remain in progress.			Percentage Closed:		70%	
Summary of Follow Up:	During the original audit eight high and two medium risk exceptions were raised. Follow up testing has ascertained that six high risk exceptions and one medium risk has been closed and verified and two are in progress. The first high risk in progress relates to the options appraisal which has been completed however actions identified are in progress. The second high risk relates to the holding of funds for clients who have died, follow up testing found that the clients' accounts had reduced from 45 to 37 illustrating further action is required. The medium risk in progress relates to 45 clients having had more than £16k and therefore should have been transferred to Deputyship, follow up action found that 21 clients still needed to be reviewed.						

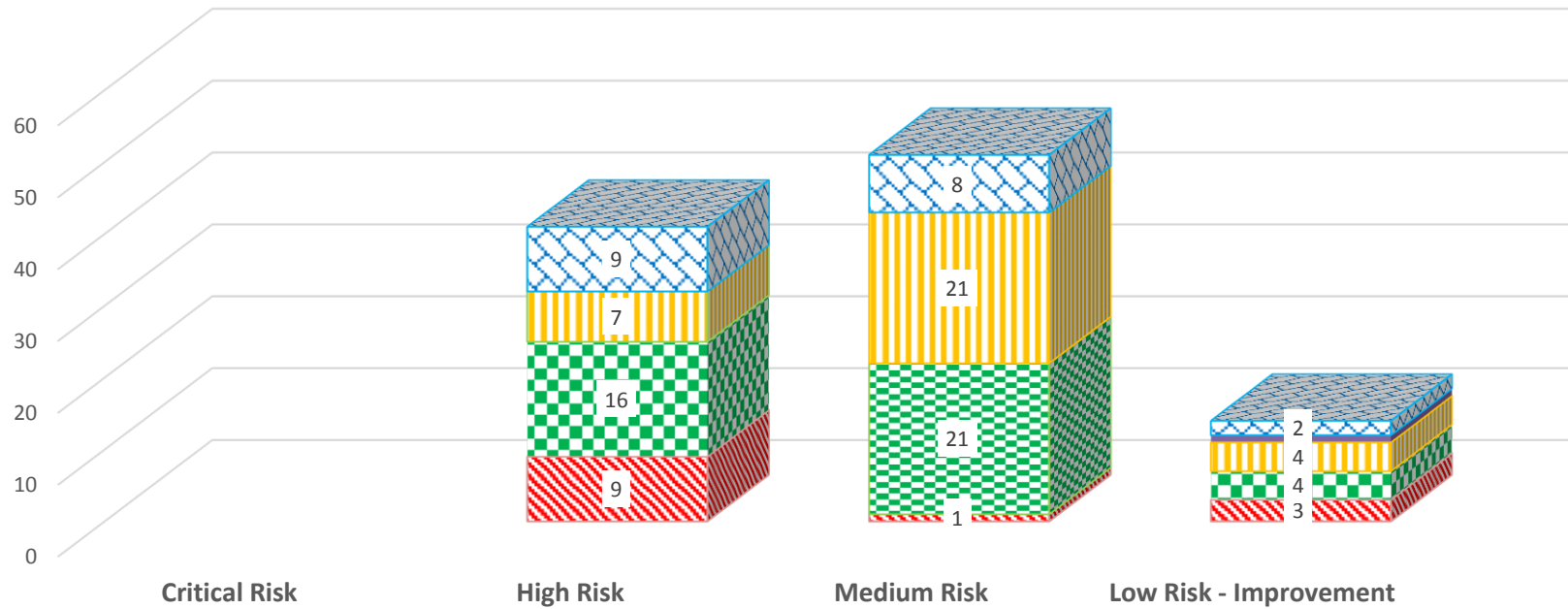
Audits in Draft Report Stage

	Project Name	Hub	Project Status	Draft Since	Projected Reporting Date	Revised Reporting Date	Comments
1.	Accounts Receivable	Strategy (SD Finance & Commercialisation)	Draft Report	27/03/2019	10/06/2019	29/07/2019	<i>Currently awaiting an agreed action from adult's social care.</i>
2.	Accounts Payable	Strategy (SD Finance & Commercialisation)	Draft Report	29/05/2019	29/07/2019		
3.	Back up and Disaster Recovery	Operational (SD Digital & Business Operations)	Draft Report	27/05/2019	29/07/2019		
4.	British Gas Contract	Operational (SD Adults Housing & Communities)	Draft Report	28/05/2019	29/07/2019		
5.	Events	Strategy (SD Intelligence & Business Insight)	Draft Report	30/05/2019	29/07/2019		
6.	Housing Depot	Operational (SD Adults Housing & Communities)	Draft Report	29/05/2019	29/07/2019		
7.	Asset Management	Operational (SD Growth)	Draft Report	24/05/2019	29/07/2019		
8.	Procurement	Operational (SD Digital & Business Operations)	Draft Report	01/05/2019	29/07/2019		
9.	Strategic Contract Framework	Operational (SD Digital & Business Operations)	Draft Report	01/05/2019	29/07/2019		

Audits in Progress

	Project Name	Hub	Project Status	Delays	Projected Reporting Date	Revised Reporting Date	Comments
1.	Asbestos	Operational (SD Transactional & Universal)	Work in Progress				
2.	Data Management	Operational (SD Digital & Business Operations)	Work in Progress				
3.	Business Support	Operational (SD Digital & Business Operations)	Work in Progress				
4.	Independent Fostering Agreements	Operational (SD Children and Families)	Work in Progress				
5.	IT Licence Management	Operational (SD Digital & Business Operations)	Work in Progress				

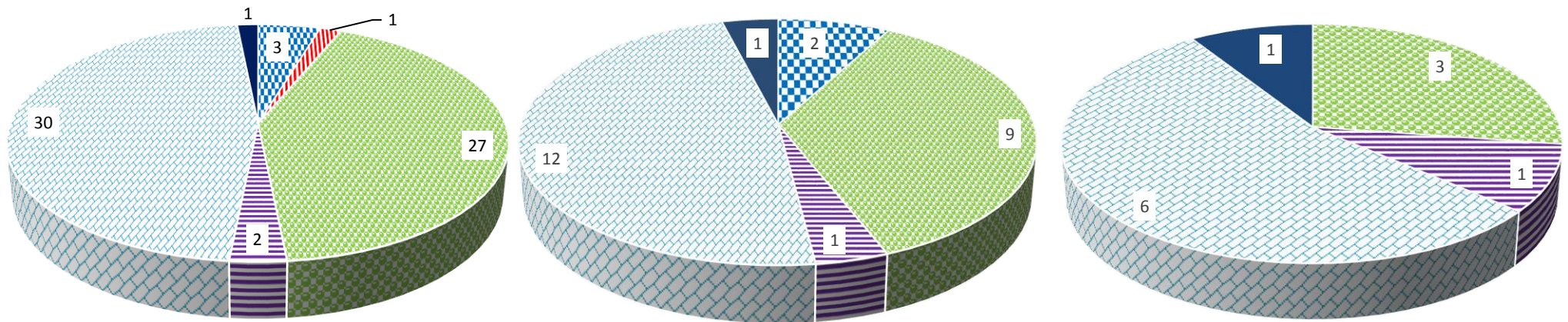
Exception Analysis to date



▨ Achievement of Strategic Objectives
 ▣ Compliance
 ▨ Effectiveness of Operations
■ Reliability & Integrity of Data
 ▣ Safeguarding of Assets

	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						0
High Risk	9	16	7		9	41
Medium Risk	1	21	21		8	51
Low Risk - Improvement	3	4	4	1	2	14
Grand Total	13	41	32	1	19	106

Follow Up Analysis



- Open
- In Progress
- Closed – Verified
- Pending
- Implemented but not effective
- Closed – Not Verified/Accepts Risk

	Open	Pending	In Progress	Implemented but not effective	Closed – Verified	Closed – Not Verified	Closed – Management Accepts Risk	Closed – No Longer Applicable
Critical Risk								
High Risk	3	1	27	2	30	1		
Medium Risk	2		9	1	12		1	
Low Risk			3	1	6		1	
Grand Total	5	1	39	4	48	1	2	

The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. These audits are followed up in the next financial year to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within 3 months due to the potential severity of the risks identified. The overall position of the exceptions followed up currently through 2018/19 shows that **48%** have been closed and verified by audit, however **52%** remain open and or are in progress.



SOUTHAMPTON
CITY COUNCIL

Internal Audit Report

SCC1819-076

DBO - Mobile Devices

Overall Assurance: No Assurance

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Exceptions Table

Author: Ryan Eayrs

Version: Final

Dated: 29/05/2019

Recipient: Mike Harris (Deputy Chief Executive) John Harrison (Interim Service Director Finance & Commercialisation) James Strachan (Service Director, Business Operations and Digital) Deborah Smart (Service Lead, Digital and Strategic IT) Paul Paskins (Head of Supplier Management) Paul Rickards (Technical Support Officer) Terry Hogan (Technical Support Officer) Lucy Kelly (Sourcing Manager) Tamim Yousefi (Finance Analyst)

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

Approved by Chief Internal Auditor, Elizabeth Goodwin:



Executive Summary

Employees utilise mobile phones and tablets in their day to day duties in order to communicate effectively and efficiently with internal and external clients and provide an end to end service. The February 2019 bill from the Authority's network provider Vodafone showed there are currently 2,899 devices being charged for. The total contract value was agreed at £369,044, this was based on having 2,733 device plans connected with the network provider.

Compliance with Policies, Laws and Regulations Assurance Level: Reasonable Assurance

The Mobile Phone Usage Policy is available on the staff intranet and states that in order for an employee to be given a mobile device an application must be made through the IS Service Desk and be approved by an appropriate senior manager to confirm it is necessary for the employee's role. The applicant must also declare that they have read and understood the policy.

A random sample of 25 (18%) was selected from a list of 137 requests for mobile phones within 2018 provided by the Technical Support Officer. Testing showed that all requests complied with internal policy and had been authorised by an appropriate senior manager and that all requestors had marked electronically that they had read and understood the internal policy.

A review of the most recent policy found that it was published in May 2016 and was due to be reviewed and updated in May 2018, at the time of testing this had not been completed despite large contractual and procedural changes having taken place. The responsibility for the review, according to the last policy, is split between Human Resources, Finance and IT Services.

A medium risk exception has been raised.

Safeguarding of Assets Assurance Level: Limited Assurance

Testing reviewed what security measures are in place to protect any corporate data accessible via the mobile devices. Audit was unable to look at any live devices, however was able to observe the set up process as demonstrated by the Network Security Analyst. This involves the mandatory installation of an application called SecureApp, which is the encryption program for corporate data. The application requires the user to set up and enter a PIN code (which is separate to the devices standard manufacturer PIN) in order to access any corporate data. Once the correct PIN is entered the device will open any documents within the SecureApp encrypted software, for example if you opened an email it would open in SecureApp's own version of the email application. Users have access to the Google Playstore which means that downloads of Third Party applications are not restricted

INTERNAL AUDIT REPORT DBO - Mobile Devices

on employee devices, although corporate data is encrypted on the device. Audit is unable to give full assurance that corporate data is safe from a breach because of malware that could be introduced via Third Party applications.

When each quarterly bill is received from the supplier Finance break the bill down into spend per cost center and a report is made available to senior managers on the network for them to use during budget monitoring discussions. Testing selected 5 users with high usage from the 337 users that had incurred charges above their allowance, on the bill generated in November 2018, the combined charges for the sample selected totaled £3,805.40 (5% of the bill total, £67,275.88). Details of the charges were forwarded to their line managers and Service Lead/ Director to enquire about any action that had been taken and if the managers had been made aware of the charges. All of the recipients responded and advised they were not aware of the charges but would now look to investigate the reason they were incurred. A high risk exception has been raised as a result.

Testing also reviewed how zero usage users are monitored to ensure that employees who were not using their devices had their lines disconnected to avoid further unnecessary charges. The Sourcing Manager in Procurement provided a report generated in August 2018 of users that had not used their devices for the previous 3 months, this process should be completed each quarter. Testing selected 5 (0.5%) of these users from a total of 889 and confirmed whether their device was still active using the most recent bill in February 2019. Testing found that, all 5 had been disconnected accordingly. Another report was ran in May 2019 that revealed 981 devices were shown to have zero usage and were eligible for termination.

A high risk exception has been raised as testing found that no checks are made to confirm the accuracy of invoices before payment. Historically it was the responsibility of Capita to review the quarterly invoices to ensure that the network were charging the authority the appropriate fees in line with the contract, this was previously done by the Technical Support Officer from IT Services but is no longer performed by any party. The Sourcing Manager advised it was the responsibility of IT to check the invoice, as a result testing cannot find any evidence that a formal responsibility exists for someone to check that the network provider is charging the correct amount in relation to the contract.

Following the end of the Authority's previous contract with Vodafone a new contract was negotiated with the same network provider in 2018, testing selected a sample of employees from a mobile number report generated by Vodafone to ensure that they were being charged in line with the contract terms. A sample of 25 (0.86%) were selected from the 2,899 on the February 2019 bill and 19 of the sample were found to be compliant with the price list set out in the new contract.

The remaining 6 of the sample were being billed at a cost of £43.50 each per quarter to the authority, this information was given to the Sourcing Manager who contacted the network provider and established that the charge was due to a Blackberry Access fee

INTERNAL AUDIT REPORT DBO - Mobile Devices

costing £12 a month, and this combined with the £2.50 a month made the total of £43.50. Blackberry Access is an application that allows the user to access the organisation's staff intranets and applications from their mobile device, however the new smartphones have this ability without the additional charge. This is supported by evidence that the Technical Support Officer is working to replace the 398 Blackberry's currently still in use. Testing compared the 6 from the sample with the Technical Support Officers inventory and found that all 6 of the devices were Blackberry's meaning the charge was correct, this also meant that the full sample of 25 were being billed correctly at the time of testing.

Effectiveness & Efficiency of Operations Assurance Level: No Assurance

The mobile phone report from the supplier detailed 2898 devices, testing used information from the internal database in order to reconcile the number of devices in circulation. The Authority's total inventory came to 1,627 devices (mobile phones, tablets and data devices) which represents 56% of the amount the Authority is being charged for quarterly by the network provider, this meant that 1,271 devices were not trackable on IT services' database. Conversations with the Technical Support Officer revealed that before the introduction of smartphones as the standard device back in March 2016 devices issued to employees were not asset tagged and this could account for the reason that many devices could not be found on the internal database.

Using a data analytic software the mobile phone report was matched with a list of all employees from Resource Link. This highlighted 931 devices which could not be matched to a current employee, audit was informed by the Service Lead for Digital & Strategic IT, Business Operations that it is an accepted management practice for mobile devices to be passed between employees when they leave however management should inform IT services when the change of ownership happens. A high risk exception has been raised and further details can be found in the main body of the report.

Completion of the audit Assurance Level: No Assurance

Testing has highlighted three high, and one medium risk exception. As a result Internal Audit can only offer No Assurance that the management of Mobile devices is of low risk to the Authority.

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

Please be aware that summaries of all exceptions are routinely reported to the Governance Committee who may call in any Audit report they wish. Where any critical exceptions are found and/or the audit receives an overall level of 'No Assurance' these will be reported in their entirety to the Governance Committee along with the Directors comments. These exceptions may also be reported to the relevant Portfolio holder.

ASSURANCE LEVELS

The overall assurance is given on the activity that has been audited.
These levels are based on the areas tested within the audit as noted with the Objectives & Scope.

Levels:	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

Objectives and Scope

This report outlines the findings from that review and highlights any exceptions considered appropriate.

The objectives of the audit were to ensure that:

Achievement of organisation's strategic objectives

- No areas tested

Compliance with Policies, Laws and Regulations

- Employees that are in possession of work devices have read and understood the council policy on device usage and that this has been recorded. Testing sampled a number of mobile device users to confirm if they had read the relevant policies.

Safeguarding of Assets

- User access is restricted to control third party application downloads, download of documents, access to devices via passcode and other security measures. Testing reviewed how devices are restricted and reported on its effectiveness.
- Appropriate monitoring procedures are in place to review device usage and investigate any abnormal use. Testing reviewed the processes in place and reported on its effectiveness.
- Invoices received are checked for accuracy before payment is made. Testing reviewed the invoice process and tested a sample of invoices to ensure the Authority was being charged in line with its contract.

Effectiveness & Efficiency of Operations

- The inventory of mobile devices is suitably maintained. Testing selected a sample of mobile devices, and evidenced who is currently in possession of the device in order to evaluate the accuracy of the inventory

Reliability & Integrity of Data

- No areas tested

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

ISS.1 - SCC-1819-076 - Mobile Devices - Mobile Phone Policy

Priority Level

Medium Risk

Exception

The Mobile Phone Usage policy was published in July 2016 and contains information on appropriate use of a mobile device and the procedures around obtaining one and returning it to the authority should the device no longer be needed, it also makes reference to the responsibilities of Capita for mobile devices which is a contract in the process of being terminated. It is available to staff via the intranet. Users must confirm they have read and understood before being allocated a mobile device.

The responsibility for review of the policy was split between Human Resources, Finance and IT services and it was due to be reviewed in May 2018 the plan to review the policy was on the agenda of the Feb Customer and Digital Board.

Risks and Consequences

Failure to ensure that internal policy is kept up to date could result in procedure not being followed by employees, if processes have changed then employees would be unaware aware of it without an up to date policy to reflect the changes. Any contractual changes that have occurred would also not be evident in the internal policy and may cause mismanagement of assets belonging to the Authority.

Agreed Action

Continue with the planned review of the mobile phone policy.

Person Responsible / Action by Date

Deborah Smart – June 2019

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**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

ISS.2 - SCC-1819-076 - Mobile Devices - Inventory

Priority Level

High Risk

Exception

A reconciliation between the mobile phone report from Vodafone (2898 devices) and the mobile device inventory on the internal database noted that 1271 devices were not noted within the inventory.

Further testing was conducted to compare the mobile phone list with a list of all employees from Resource Link in order to identify devices which are registered to individuals who are no longer employed by the Authority. This match highlighted 931 devices which could not be matched to an existing employee. The total expenditure across all 931 devices for the last quarter (Nov 18 - Jan 19) was £10,843.91

It was noted during testing that 80 devices were registered to a generic team or Authority name which further complicates identifying who is in possession of the device.

The list of 931 devices was matched with the latest usage report from Vodafone for the period November 2018 - January 2019 which showed that:

- 272 mobile phones that had no usage at all (no calls, no text messages or data use) costing £3234.25 in plan charges for the last quarter
- 124 Data Only devices (which are not capable of calls or text messages) used no data for the period costing £744 in plan charges for the last quarter
- 535 devices are being used in some capacity be it calls, text messages or data which cost £6865.66 in plan charges

Risks and Consequences

Failure to keep proper tracking of inventory could lead to financial losses within the Authority and failure to distribute resources effectively. Devices could be stolen without the Authority knowing who was last in possession of the phone or tablet. When an employee leaves the Authority if there is no record of them having a phone it is unlikely to be stopped and the Authority will continue to be charged resulting in a financial loss.

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

Agreed Action	Person Responsible / Action by Date
<p>Present at Executive Management Board audit findings and seek agreement to endorse following action</p> <ul style="list-style-type: none"> • Managers to provide list of devices against named personnel • Agreement that as staff leave the devices will be returned to IT for reallocation etc • Any SIMS or data where a named individual cannot be identified will be disconnected. <p>Ownership from all Service Directors Managers to provide IT with up to date information about who has mobile phones and tablets and return any that are not required to IT for destruction and contract termination.</p>	<p>Service Leads - June 2019</p>

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

ISS.3 - SCC-1819-076 - Mobile Devices - Monitoring

Priority Level

High Risk

Exception

Testing reviewed what procedures were in place to detect high and zero usage users in the quarterly bills generated, this was to ensure that the authority could investigate any issues with employee usage. The Finance Analyst advised that when the quarterly bill is received it is broken down into cost centres and it is stored on a network drive so it is available to the department and their corresponding finance analyst and can be discussed in their monthly budget meetings.

As a result of this 5 examples of high usage (above the allowance) were selected from the November 2018 bill as at the time of testing the February charges had not been distributed. An email was sent to each employee's manager and Service Lead/ Director to enquire if they were aware of the charges incurred in that particular bill and if they were what steps had been taken to investigate the issues.

A report was generated in August 2018 that detailed 889 devices that were listed as zero usage and were eligible for termination. Another report was generated in May 2019 that provided information for 981 devices that were listed as zero usage and were eligible for termination.

No evidence of monitoring was found as a result of testing, of the 5 line managers/ Service Leads/ Directors that were emailed none of them were aware of the charges incurred by their employees on their mobile devices and when it was highlighted they requested further information so that they could investigate it. An amount of £3,805.46 in November and £431.98 in February's bill were due to usage charges from employees, the process detailed by the Finance Analyst whereby cost centre's would review mobile devices as part of their spends on a quarterly basis was not found to be adequate.

Risks and Consequences

Failure to properly monitor employee usage can lead to additional charges to the Authority as evidenced in testing.

Agreed Action

Exceptions reports with high and unusual usage (i.e. international calls etc) will be produced and analysed and provided to the budget holder for that relevant areas for investigation and action.

Person Responsible / Action by Date

Sourcing Manager - Procurement (Lucy Kelly)

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

<p>Sourcing Manager - Procurement to make the invoice authorising officer aware of any major issues that may impact on their decision to authorise payment.</p> <p>Finance business partners to go through mobile bills with budget holders on a quarterly basis</p>	<p>Sourcing Manager - Procurement (Lucy Kelly)</p> <p>Finance Business partners - quarterly with effect from May 2019</p>
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**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

ISS.4 - SCC-1819-076 - Mobile Devices - Invoices

Priority Level

High Risk

Exception

Testing selected a sample of 25 (0.86%) from 2,898 lines present on the bill in February 2019 with a mixture of different mobile lines, this included Voice only, Voice and data and Data only lines. 6 of the samples charges could not be identified in the contract, each of these 6 devices was costing the Authority £43.50 per quarter, the remaining 19 of the sample tested were being charged in accordance with the current contract. Audit provided details of the 6 discrepancies to the Sourcing Manager who subsequently contacted the network provider who advised that the charge is for Blackberry device users and a fee of £12.00 per month for Blackberry Access, which is a software that allows users to access the organisation's intranet pages and applications from their mobile devices, this £12.00 per month coupled with the standard line cost of £2.50 totaled £43.50 for the quarter. This is a charge that will remain until the 398 Blackberry's in circulation are replaced with smartphones, this is something the Technical Support Officer is currently progressing and keeping a record of, audit also compared the users against the inventory to ensure they had Blackberry devices and it was found that they did so the charge was appropriate.

As a result the sample of 25 tested did indicate that the February 2019 invoice was issued in line with the contract and contained the correct charges.

Discussions with different officers from IT and Procurement who are employed by Capita and subsequently officers from Finance, and HR who are employed directly by the Authority identified that historically the responsibility of checking the quarterly invoices received from the network provider was that of a Technical Support Officer from the Capita IT services however since the contractual changes with Capita this was not in place at the time of testing. It was identified that there is no formal or informal responsibility present amongst the departments questioned for verifying that the charges from the network provider remain in line with the contract each quarter.

Risks and Consequences

Without checks to quarterly invoices the authority cannot give assurance that the network provider is billing them correctly in line with the contract in place and could open the authority up to a financial risk. Failure to ascertain what the Authority should be paying on a quarterly basis could lead to a discrepancy in budget and forecasting for the Authority's resources.

**INTERNAL AUDIT REPORT
DBO - Mobile Devices**

Agreed Action	Person Responsible / Action by Date
In line with the mobile phone policy review make sure the roles and responsibilities for managing the devices and contracts are clear and communicated to all. This needs to include bill checking Also actions above	Deborah Smart – June 2019

EXCEPTIONS

The following tables outline the exceptions from the recent audit and are reported in priority order. Internal Audit report regularly to the Governance Committee on findings and management actions. However, in accordance with agreed protocols, all critical exceptions are brought to the attention of the Committee.

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Priority Level	Description
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none">▪ The efficient and effective use of resources▪ The safeguarding of assets▪ The preparation of reliable financial and operational information▪ Compliance with laws and regulations And corrective action needs to be taken immediately.
High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT FEE LETTER FOR YEAR ENDING 31 MARCH 2020	
DATE OF DECISION:		10 JUNE 2019	
REPORT OF:		EXTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	DAVID WHITE	Tel: 02380 382402
	E-mail:	dwhite@uk.ey.com	
Director	Name:	HELEN THOMPSON	Tel: 02380 382099
	E-mail:	hthompson2@uk.ey.com	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 have applied for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of their accounts and certification of their housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) appointed auditors for bodies (such as Southampton City Council) that opted into the national scheme. Appointments were made for a 5 year period, covering the audits of the accounts for 2018/19 to 2022/23. EY are writing to confirm the audit work that they propose to undertake for the 2019/20 financial year at Southampton City Council under those arrangements.</p>			
RECOMMENDATIONS:			
	(i)	The Governance Committee is invited to comment on and note the External Audit Fee Letter for the Year Ending 31 March 2020 as attached	
REASONS FOR REPORT RECOMMENDATIONS			
1.	Issued in accordance with the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA Ltd, auditing standards and other professional requirements		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	The External Audit Fee Letter for the Year Ending 31 March 2020 has been provided to relevant senior managers for comment.		

RESOURCE IMPLICATIONS	
Capital/Revenue	
4.	N/A
Property/Other	
5.	N/A
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
6.	Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
Other Legal Implications:	
7.	N/A
RISK MANAGEMENT IMPLICATIONS	
8.	N/A
POLICY FRAMEWORK IMPLICATIONS	
9.	N/A
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	The External Audit Fee Letter for the Year Ending 31 March 2020
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
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at: N/A	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	N/A	
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Ms Sandy Hopkins
Chief Executive
Southampton City Council
Civic Centre
Southampton
SO14 7LY

25 April 2019

Ref: SCC/Fee Letter/19-20

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Sandy

Annual Audit 2019/20

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year for Southampton City Council.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim.

The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

The appointment of an auditor to report on the Council's housing benefit subsidy claim is no longer covered by the PSAA appointment.

Indicative audit fee

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

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.

Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee, for example:

- The preparation of group accounts;
- Additional work performed on asset valuations, including the involvement of our valuation specialists;
- Additional work performed on the valuation of the net pension liability, including the involvement of our pension specialists; and
- Additional work arising from the implementation of IFRS 16 Leases.

At this stage, the indicative fee is set at the scale fee.

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 to that of the prior year;
- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by officers;
- 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 2018/19, our audit planning process for 2019/20 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2019/20 £	Planned fee 2018/19 £	Actual fee 2017/18 £
Scale Fee	109,891	109,891	142,715
Additional fee relating to “except for” VFM conclusion, correspondence with an objector, and use of an auditor’s specialist for PPE valuations			11,418
Total Code audit fee	109,891	109,891	154,133
Housing Benefit subsidy claim certification – Scale Fee	N/A	N/A	19,524

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance. All variations to the scale fee will be subject to PSAA approval.

Billing

The scale fee will be billed in 4 quarterly instalments of £27,472.75.

Audit plan

Our plan is expected to be issued in December 2019. This will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Interim Service Director: Finance and Commercialisation and communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to the Governance Committee.

For a high level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet ‘EY working with you’ which is enclosed.

We remain 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, or Janet Dawson as our Government and Public Sector Assurance Leader at jdawson1@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 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
Associate Partner
For and on behalf of Ernst & Young LLP

cc. John Harrison, Interim Service Director: Finance and Commercialisation
Councillor Eamonn Keogh, Chair of the Governance Committee