

Governance Committee

Monday, 27th July, 2020
at 5.00 pm

PLEASE NOTE: this will be a 'virtual meeting', a link to which will be available on Southampton City Council's website at least 24hrs before the meeting

Members of the Committee

Councillor Keogh
Councillor Kataria
Councillor G Galton
Councillor Harwood
Councillor Professor Margetts
Councillor White
Councillor Windle

Contacts

Service Director – Legal and Business Operations
Richard Ivory
Tel. 023 8083 2394
Email: richard.ivory@southampton.gov.uk

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

PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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

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

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

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.

Dates of Meetings: Municipal Year 2019/20

2020	2021
15 June	15 February
27 July	19 April
28 September	

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 CHAIR AND VICE-CHAIR**

To elect a Chair and Vice-Chair for the Municipal Year 2020/21.

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 10th February 2020 and to deal with any matters arising, attached.

6 **ANNUAL GOVERNANCE STATEMENT** (Pages 5 - 28)

Report of the Executive Director Finance & Commercialism seeking to review the draft Annual Governance Statement 2019-20 and to note the status of the 2018-19 Annual Governance Statement Action Plan.

7 **DRAFT STATEMENT OF ACCOUNTS 2019/20** (Pages 29 - 32)

Report on the Executive Director Finance and Commercialism detailing the Draft Financial Statements 2019/20.

8 **EXTERNAL AUDIT - 2019/20 AUDIT PLAN UPDATE** (Pages 33 - 48)

Report of the External Auditor detailing the 2019/20 Audit Plan Update.

9 **ANNUAL INTERNAL AUDIT OPINION 2019-20** (Pages 49 - 84)

Report of the Chief Internal Auditor detailing the Annual Internal Audit Opinion 2019-20.

10 ANNUAL INTERNAL AUDIT PLAN 2020-21 (Pages 85 - 104)

Report of the Chief Internal Auditor detailing the Annual Internal Audit Plan 2020-21.

11 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2019-20 (Pages 105 - 136)

Report of the Executive Director Finance and Commercialisation (S151 Officer) detailing a review of the Prudential Limits and Treasury Management Outturn 2019-20.

12 PROJECTS AND PROGRAMMES REVIEW (Pages 137 - 140)

Report of Deputy Chief Executive outlining an update on key projects and programmes as detailed in the Corporate Plan 2020-25.

13 FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2019-20 (Pages 141 - 188)

Report detailing the statistical information for the financial year 2019-20 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).

Friday, 17 July 2020

Service Director, Legal & Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 10 FEBRUARY 2020

Present: Councillors Keogh (Chair), Kataria (Vice-Chair), G Galton, Harwood, Professor Margetts and White

Apologies: Councillors Spicer

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

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

34. **HR REPORT ABSENCE DATA**

The Committee considered the report of the Service Director HR and OD detailing Quarter 3 2019/20 HR statistics. In particular it was noted that overall sickness levels for the Council showed an average 11.29 days per employee with the sector average being 8.5 days, key issues for absence being muscular skeletal for front line staff and mental wellbeing for other staff albeit that may not be work related. A number of wellbeing initiatives had been introduced together with improved reporting and service areas business plans/absence monitoring being scrutinised by the S151 Officer and Deputy Chief Executive.

The Committee noted that organisational structures were changing and there was a need for valid comparison of overall figures going forward together with a better understanding of movement and trends. The Committee requested that trend graphs now be incorporated into the quarterly report.

Given the time constraints of the meeting and a number of further questions that Councillor Professor Margetts had it was agreed that these would be tabled and responded too outside of the meeting copying in all Members of the Committee.

RESOLVED:

- (i) That Quarter 3 2019/20 statistics be noted;
- (ii) That Children and Families be requested to attend the April meeting to discuss absence levels; and
- (iii) That trend graphs and valid comparisons be incorporated in future quarterly reports.

35. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2020/21 TO 2023/24**

The Committee considered the report of the Service Director Finance (S151 Officer) detailing the Treasury Management Strategy and Prudential Limits 2020/21 to 2023/24. The Committee particularly noted paragraph 10 of the report which detailed the core elements of the strategy. In addition the Committee requested information regarding ethical frameworks for investment and pension funds which was outside the remit of Treasury Management but would be circulated to all Members outside of the meeting.

RESOLVED:

- (i) That the Council's Treasury Management (TM) Strategy and Indicators for 2020/21 to 2023/24, as detailed in appendix 1 of the report be approved.
- (ii) That at the time of writing this report it was noted that it had been assumed that the budget proposals within the Medium Term Financial Strategy, Budget and Capital Programme 2020/21 to 2022/23 report, to be submitted to Council on the 26 February 2020, would be approved. Should the recommendations change and have any impact on the Prudential Indicators this would be reported to Council on 26 February 2020.
- (iii) That authority continue to be delegated to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. The CFO would report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.
- (iv) That the proposal to continue to explore an alternative Treasury Strategy to generate additional income that could support local services, whilst maintaining a prudent approach be endorsed.

36. ANNUAL GOVERNANCE STATEMENT 2019-20

The Committee considered the report of the Service Director Finance detailing the Annual Governance Statement 2019-20 and in particular noted paragraphs 6 and 7 of the report which detailed key elements of the assurance gathering process.

The Committee also recognised the restructuring that was taking place in the authority and that there would be a number of new senior members of staff and recommended that an all Member Briefing was provided in order to share the detail and effect of the restructure.

RESOLVED:

- (i) That the assurance gathering process to support the developments of the 2019 -20 Annual Governance Statement as detailed in appendix 1 of the report be approved; and
- (ii) That an all Member Briefing be recommended to share the detail of the restructuring that was taking place in the authority.

37. INTERNAL AUDIT PROGRESS REPORT 2019-20

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress Report for the period 31st October 2019 to 24th January 2020. The Committee noted that there were no new areas of significant concern in the period and that all audits would be completed by the end of April as scheduled. The Committee requested that feedback be provided to the Chair regarding the HMO Licensing and the backlog referred to in report outside of the meeting.

38. EXTERNAL AUDIT PLAN YEAR ENDING 31ST MARCH 2020

The Committee received and noted the report of the External Auditor providing details of the External Audit Plan year ending 31st March 2020. The Committee particularly noted the audit risks, new account procedures and value for money. The Committee also sought re-assurance that there would not be the delays in reporting this year that

arose in the previous year and noted that there was reasonable confidence that the arrangements that had been put in place would avoid this.

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Agenda Item 6

DECISION-MAKER:	Governance Committee
SUBJECT:	Annual Governance Statement
DATE OF DECISION:	27 th July 2020
REPORT OF:	Executive Director Finance & Commercialism

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director Finance & Commercialism	
	Name:	John Harrison	Tel: 023 8080 4897
	E-mail	john.harrison@southampton.gov.uk	
Author:	Title	Risk & Insurance Manager	
	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail	peter.rogers@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
<p>In accordance with the Accounts and Audit Regulations the Council is required to 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. The purpose of the Annual Governance Statement ('AGS'), which is published with the Statement of Accounts ('SoA'), 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</p>	
<p>The Governance Committee is responsible for receiving, reviewing and approving the draft AGS.</p>	
RECOMMENDATIONS:	
	(i) To review the draft 2019-20 AGS (Appendix 1); and
	(ii) To note the status of the 2018-19 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 SoA.

3.	In terms of good governance, it is also appropriate for the Committee to be provided with information and assurance regarding the status of the actions identified on the previous year's AGS
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
4.	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)	
5.	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.
6.	The purpose of the AGS, which is published with the SoA, 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.
7.	The draft AGS, has been developed in accordance with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)', And reflects the seven core principles of good governance which are referred to in the council's Code of Corporate Governance.
8.	The AGS is produced following a review of the Council's governance arrangements whereby the systems and processes that comprise the Council's corporate governance arrangements are brought together. The key elements of this assurance gathering process comprise completion an 'Assurance Framework' document together with 'Annual Governance - Self Assessment Statement'. The latter is normally completed by each Director however, the Resources Review necessitated that, for this year, they be completed by a combination of Executive Directors, Service Directors and Heads of Service. Both documents cover the key processes and systems that comprise the Council's governance arrangements and are intended to identify any areas where improvement or further development is required.
9.	<p>The draft 2019-20 AGS has been developed by the council's 'Controls Assurance Management Group' comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer, Executive Director Business Operations and the Chief Internal Auditor, who are responsible for evaluating the assurances and supporting evidence provided and drafting the AGS. This reflects CIPFA/Solace guidance whereby authorities should nominate an individual or group with appropriate knowledge, 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.

10.	The format of the AGS is aligned with CIPFA/SOLACE guidance and is similar to previous versions, with the narrative having been reviewed and updated in consultation with relevant officers. There is however a new section regarding 'The impact of the Covid 19 Pandemic on Governance' which recognises that the AGS assesses governance during 2019-20 and that the coronavirus will have impacted on this during March 2020. CIPFA suggest that the AGS is amended before the point of final publication to reflect the impact on Governance from March 2020 noting the requirement that "the AGS is current at the time of publication". A separate Appendix will therefore be developed for inclusion on the final version of the AGS in September 2020.
11.	The draft AGS has also been presented and discussed at the Council's Executive Management Board and a copy has been issued to the Leader of the Council for information.
12.	The AGS must be current at the time it is published so the final version of the 2019-20 AGS will be presented to the Governance Committee at the September meeting for approval prior to being signed by the Leader of the Council and the Chief Executive respectively.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
13.	None
<u>Property/Other</u>	
14.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
15.	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 SoA
<u>Other Legal Implications:</u>	
16.	None
RISK MANAGEMENT IMPLICATIONS	
17.	Failure to develop and publish an AGS would be a failure of the organisation to meet a statutory requirement.
POLICY FRAMEWORK IMPLICATIONS	
18.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Draft Annual Governance Statement 2019-20

2.	2018-19 Annual Governance Statement – Action Plan
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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:

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

Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

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

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

http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2020_tcm63-396028.pdf

or can be obtained from the:

Service Director – Legal and Business Operations
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.

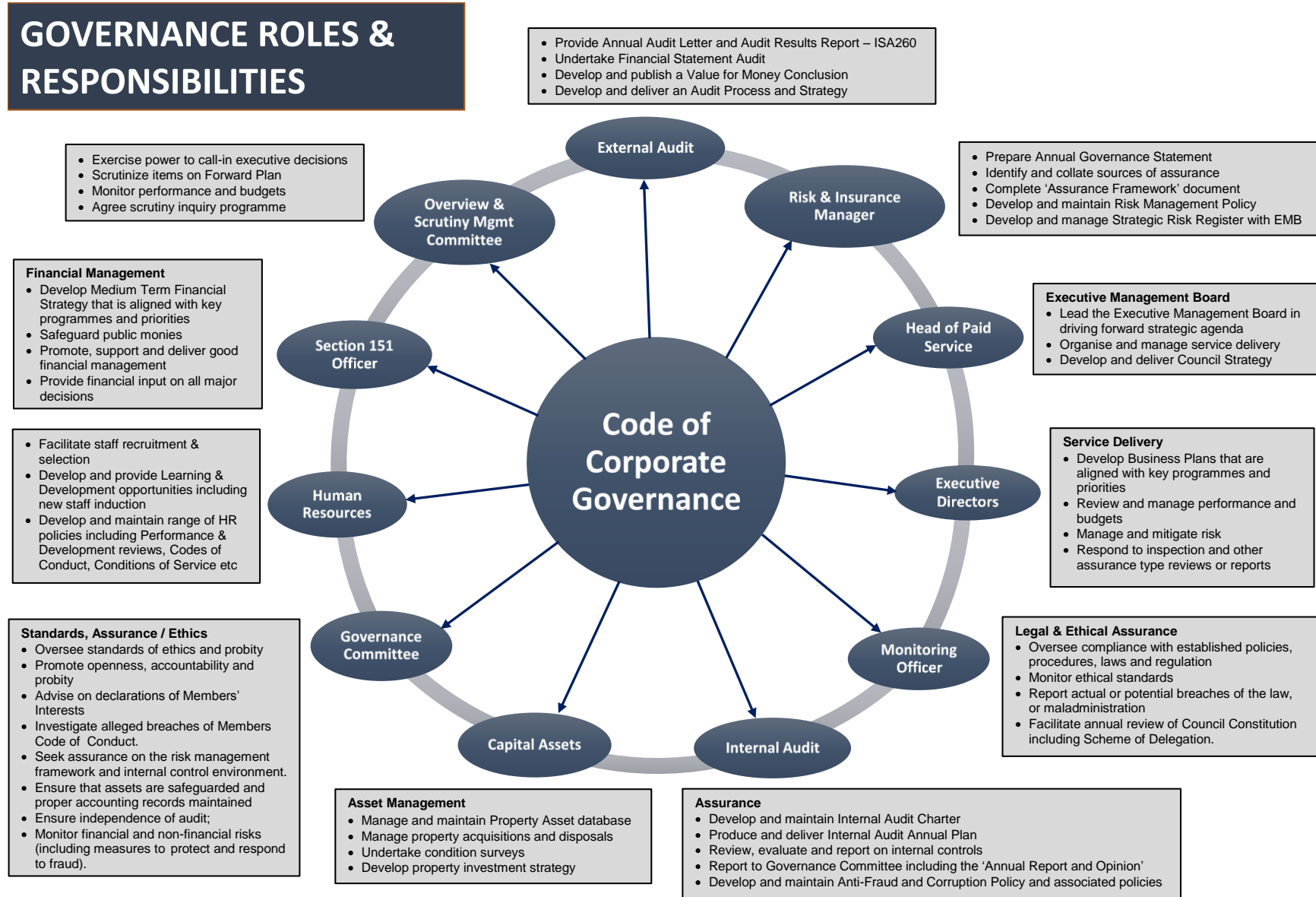
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing 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 2020 and up to the date of approval of the statement of accounts.

Annual Governance Statement

GOVERNANCE ROLES & RESPONSIBILITIES



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 in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

NOTE: Impact of the Covid-19 Pandemic on Governance

This Annual Governance Statement ('AGS') assesses the governance arrangements that were in place during 2019/20 so for the majority of the year the governance arrangements as described in this document were in place and unaffected by Covid-19.

It is however recognised that the Covid-19 pandemic will have had an impact on governance during March 2020 and beyond. In many cases normal business operations were required to change, and in some cases cease, whilst new responsibilities and processes had to be adopted, developed and implemented at short notice.

It is recognised that the impact on governance falls into the following broad categories:

- Impact on business as usual in the delivery of services
- New areas of activity as part of the national response to coronavirus and any governance issues arising, e.g.
 - Implementation of new policies and processes
 - Emergency assistance
- The funding and logistical consequences of delivering the local government response, e.g.
 - Changes to council meetings and decision making arrangements
 - New collaborative arrangements
 - Funding and cash flow challenges
- Assessment of the longer term disruption and consequences arising from the coronavirus pandemic, e.g.
 - Existing projects and programmes may have been put on hold
 - New priorities and objectives introduced
 - New risks identified or existing risks escalated

The AGS is required to be current at the time of publication and a further review of the initial impact of the Covid-19 pandemic on governance will therefore be undertaken and reflected in the final version of this document. By the date of final publication of the AGS the council is expected to have had the opportunity to at least reflect and review lessons learned from its initial response to the outbreak and to therefore be able to consider the impact on governance during this unprecedented period.

The medium to longer term impact on governance will be reflected and reported on within the AGS for 2020/21.

Annual Governance Statement

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 Business Operations 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 contractors, suppliers, partners, 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. This 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.

The council takes any complaints that it receives seriously and has processes to follow to make sure that every complaint is dealt with fairly and sorted out as quickly as possible. 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 Statutory Complaint Policy' in place. Complaints relating to Members are dealt with under the Members' Code of Conduct.

Annual Governance Statement

B. Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The council's website includes a 'Have your say' section which set out how residents and other stakeholders can 'have their say' on various issues via:

- 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 2020/21 and onward to 2022/23. Information was communicated in an easy to understand format with analysis on the consultation feedback considered by Cabinet before they made their final recommendations to Full Council.

The 2018 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton City Council with Southampton Connect (a multiagency partnership including representatives from the public, private and voluntary/community sectors) the Police and the NHS. This was intended to capture and help understand the views of local residents. The survey was undertaken by telephone using a mixture of random digit dial (RDD) and Mobile telephone samples of residents across the authority area and a total of 1,190 valid surveys were completed. The City Survey is used to monitor the success of key council strategies and to prioritise activity and will be repeated in 2020.

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.

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 and making sure that their voices are heard with a view to improving things for themselves and others.

Annual Governance Statement

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

In February 2020 the council launched a new Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') to replace the previous Southampton City Council Strategy 2016-2020. The new Corporate Plan sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan will be delivered through achieving detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



In order to achieve the council's priority outcomes employees are expected to demonstrate the council's Values. These recognise that the way we work individually and collectively is as important as the work we do and employees are expected to demonstrate the five Council Values:

-  **Customer focused**
-  **Collaborative**
-  **Curious and creative**
-  **Can-do**
-  **Commercially minded**

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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:



In addition, there are other key strategies that reflect the vision and ambition of both the city and wider region.

The Southampton City Strategy (2015-2025) which 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 are achieved through the Partnership for South Hampshire ('PfSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport.

PfSH is a collaborative partnership working arrangement between the twelve South Hampshire local authorities, Hampshire County Council plus the Southampton and Portsmouth Unitary Councils. PfSH is focused on supporting economic growth, delivery of housing, the infrastructure to achieve this development, in a sustainable manner to maintain and enhance the quality of the environment. PfSH engages with a range of other local organisations, stakeholders and Government to achieve these aims

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth

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and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2020 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership composed of: Portsmouth, Southampton, the Isle of Wight and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders and other agencies to deliver transport infrastructure, networks and systems crucial to keep the region moving and generate economic growth, wealth and sustainability.

The council's Medium Term Financial Strategy ('MTFS') is also 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 MTFS for the period 2019/20 to 2022/23 was in place with an updated version for the period 2020/21-2022/23 approved by Full Council in February 2020. 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 priorities. 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, enabling integrated financial planning over the medium term. The 2019/20 budget setting process incorporated business academies, and beginning to embed commercialisation across the council. The business academy process is designed to help develop service business plans that are aligned to the key priorities with the output fed into the budget process.

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

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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.

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 and 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, and at the discretion of the Chair provide an 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 the Inquiry Panel members.

'Financial Scorecards' produced for each service area together with a portfolio which provide relevant management information to assist in the explanation of variances and help to encourage evidence based forecasts. Significant in year budget variances are challenged by senior management with action plans and mitigations put in place.

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.

The Workforce Strategy is a key document that 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 delivery agreed outcomes.

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

The council has in place a 'Risk Management Policy' 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 risks that have been identified as needing to be managed in order to support the delivery of key initiatives and priorities. The Strategic Risk Register is developed in consultation with Service Directors who are also provided with information on 'Core Cities' strategic risks in order to sense check against the council's strategic risks.

The Strategic Risk Register, which is updated and reviewed by the Executive Management Team on a quarterly basis, identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An exceptions report identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

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 including receiving the draft Statement of Accounts. 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 an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities as set out in the Corporate Plan. These plans identify the key challenges and opportunities associated with the delivery of the respective priority projects and how they can be addressed. Heads of Service receive monthly financial performance and absence data and are expected to review performance levels.

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 the 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 (the Executive Director Finance and Commercialism) is professionally qualified and is a member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

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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 Data' page on the council's website allows the public to access a wide range of information and data 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 & Business Operations.

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 Executive Director - Finance & Commercialism (Section 151 Officer), Chair of the Governance Committee, Executive Director Business Services, Service Director – Legal & Business Operations (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 includes executive summaries of new reports published and highlights any significant risk exposure and control issues, including fraud and governance. Audits rated 'No

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Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

- 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 2019-20 was that a 'limited assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council.

The results of the work carried out in 2019-20 show that, although the level of 'limited' and 'no assurance' reviews have decreased slightly from the previous year (which would indicate that improvements are continuing), an area that still requires work is in relation to movement on the implementation of agreed actions to resolve risk exposure. This is reflected in 'Significant Governance Issue' Item 4.

- The Internal Audit Charter and delivery of the annual Internal Audit plan;
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'Self-Assessment Statements' 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. In previous years, these self-assessments have been completed by the respective Service Directors however, for this year, the process involved a combination of Heads of Service and Service/Executive Directors. This approach was necessary as the implementation of the Resources Review, which comprised a reorganisation of council's top management posts, created some challenges as the AGS is a backward look at the governance arrangements in place in 2019-20.
- 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 annual report on Risk Management Activity and including the Risk Management Policy and 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.

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SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

An important part of both the 2020-25 corporate business planning process and the council's Workforce Strategy is the requirement for service areas to identify and consider future organisational development requirements and including the resilience of the service and, in particular, succession planning. This is however an area where further actions are required within service areas in terms of having in place formal/ informal succession plans noting that the 2019 Resources Review, which saw the reorganisation of council's senior management, resulted in some areas of experience exiting the organisation and gaps opening in skills levels or resilience.

Planned Action: Recent work during coronavirus lockdown has looked at skills survey for staff against critical services and Business Plans have been updated to reflect this. Lessons learned from lockdown period are to be pulled together through EMB to help understand key skills issues and identify any gaps.

Responsible Officer: Service Director Human Resources & Organisational Development

Target Date for completion: End Q3 2020-21

2. Governance Issue

A resourcing review of the council's top 50 management posts was undertaken in 2019. This 'Resources Review' was designed to ensure that the organisational structure was aligned with the five key strategic themes, agreed with Council in July 2019, to address the opportunities and challenges the city faces over the next five years and beyond. Associated with this process was the creation of a new reporting hierarchy comprising the 'Executive Management Team (Executive Directors and Chief Executive), Senior Leadership Team (Service Directors and Heads of Service), Leadership Team (including service managers).

During this process it was necessary for interim postholders to be in place and/or appointed to certain senior management posts whilst the appointment and recruitment process was undertaken and completed.

Completed Action: All Senior posts were recruited to by the end of 2019 with all new postholders and organisational structures in place 1st April 2020

3. Governance Issue

Lack of consistent adherence and compliance by officers to policies such as Employee Gifts & Hospitality and Registration of Outside Interest, and Travel and Subsistence. The self-assessment return indicates that there are still pockets across the Authority that are unfamiliar with the required arrangements and declarations that should be completed. This position was also supported with the results of the follow-up audit review for, Ethics, where agreed actions had been delayed. The actions outstanding are regarding staff awareness/ registration and the need to update the policy.

Planned Action: Policies are reviewed and refreshed, where necessary, and communicated to relevant staff.

Responsible Officer: Executive Director Business Services

Target date for completion: End Q3 2020-21

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4. Governance Issue

An agreed process has been developed whereby Internal Audit provides a periodic report to the council's Executive Management Team in respect of 'follow up' reviews on any 'limited' or 'no assurance' audit reports. This is in terms of seeking to prompt or ensure, on a consistent basis, that the agreed management actions have been implemented or otherwise satisfactorily progressed. This is reflected in the Chief Internal Auditors Annual Report and Opinion

Full implementation of this process, which commenced in February 2020, has however been adversely impacted by Covid 19.

Planned Action: Revised reporting arrangement to be developed and built into the revamped performance reporting framework for the Executive Management Team

Responsible Officer: Executive Director Business Services

Target date for completion: End Q1 2020/21

5. Governance Issue

In order to manage the council's performance effectively the council's revised Senior Management Team needs to review monitoring reports regularly. Plans to conclude a new regular comprehensive monitoring report, and the planned regular reviews of performance at a corporate level, have been disrupted by the Resource Review, which introduced a new senior management structure and team, and the response to the COVID pandemic.

Planned Action: Both the Council Plan and performance outcomes have been revised for the Corporate Business Plan 2020 – 2025 (approved in February 2020) and a comprehensive monitoring approach, including finance, workforce, audit, health and safety and performance matters is in development

Responsible Officer: Executive Director Business Services

Target date for completion: End Q1 2020/21

6. Governance Issue (carried forward from 2018-19)

Whilst a number of actions have been implemented in order to improve officer compliance with the council's procurement policies it was considered to be too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. The intention was that, as part of the 2019/20 Internal Audit Annual Plan, an audit review would look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies.

Planned Action: The planned Internal Audit review of contract framework and procurement was scheduled for March 2020 however due to COVID-19 outbreak the audit has to be deferred until 2020/21. Timing to be confirmed.

Responsible Officer: Executive Director Finance & Commercialism

Target date for completion: End Q2 2020-21

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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

XXXXXXXXXXXXXXXXXXXX

.....
Sandy Hopkins
Chief Executive

on behalf of Southampton City Council

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.....
Councillor Christopher Hammond
Leader of the Council

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Annual Governance Statement 2018-19

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 2018-19:

1. Governance Issue	Planned Action	Status	Comments
<p>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.</p>	<p>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).</p>	<p>COMPLETED</p>	<p>The 2019-2025 business plans, developed by service areas, included the future required structure, skills mix and training together with consideration of the resilience of the service. In turn, these plans were used to inform the 2019 Resources Review that resulted in an organisational and management restructure.</p> <p>Recent work during coronavirus lockdown has looked at skills survey for staff against critical services and Business Plans have been updated to reflect this. Lessons learned from lockdown period are to be pulled together through EMB to help understand key skills issues and identify any gaps.</p> <p>New apprentice training in place and wider take up prior to lockdown.</p>
<p>Responsible Officer: Service Director Human Resources & Organisational Development Target for completion: January 2020</p>			

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2. Governance Issue		Status	Comments
<p>The 'annual performance appraisal' ("APR") process is still not fully embedded with some inconsistencies across service areas in terms of compliance with the process.</p> <p>Although compliance has increased, the HR Log of completed staff APRs is incomplete as not all forms were submitted on-line.</p>	<p>Completed Action: A more streamlined APR process was in place for 2019/2020 under a new HR Lead and informed by feedback on previous forms and process.</p> <p>Managers were 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.</p> <p>* Reported on internally but noted also at Governance Committee in respect of discussion around APR and employee recording</p>	<p>COMPLETED</p>	<p>Further update:</p> <p>A revised Performance and Development Form and associated guidance together with a series workshops for managers were held in early 2020. The timeline for completion of 2020 APRs has been extended due to priorities of work for COVID19; Business World reporting mechanism in place for 2020 onwards.</p>
<p>Responsible Officer: Service Director Human Resources & Organisational Development</p>			
Governance Issue		Status	Comments
<p>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.</p> <p>The foregoing is reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and in</p>	<p>Completed Action: Internal Audit to provide reports, normally on a quarterly basis, to the Council's Executive Management Board 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.</p>	<p>COMPLETED</p>	<p>Results of follow up work completed as at February 2020 (50%) were presented to Deputy Chief Executive, pending presentation to EMB. Subsequently placed on hold following COVID-19 outbreak. Process will be ongoing.</p>

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the Chief Internal Auditors Annual Report and Opinion.

Responsible Officer: Service Director Finance & Commercialisation

4. Governance Issue	Planned Action	Status	Comments
<p>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.</p>	<p>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.</p>	<p>Outstanding</p>	<p>Review scheduled March 2020, however due to COVID-19 outbreak the audit was deferred until 2020/21. Timing to be confirmed.</p>

Responsible Officer: Service Director Finance & Commercialisation

Target for completion: December 2019

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Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	DRAFT STATEMENT OF ACCOUNTS 2019/20		
DATE OF DECISION:	27 JULY 2020		
REPORT OF:	EXECUTIVE DIRECTOR FINANCE & COMMERCIALISATION (S151 Officer)		
<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>The Government amended the statutory timetable for completing and publishing the 2019/20 financial statements in response to the coronavirus outbreak. The Draft Financial Statements 2019/20 were signed by the Executive Director – Finance & Commercialisation (Section 151 Officer) on 1 July 2020. This is earlier than the revised statutory requirement to have the statements signed by the 31 August 2020. 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 29 June 2020 and is due to be completed in September 2020. Any major changes to the Financial Statements arising from the annual audit will be reported to the 28 September 2020 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	Notes that the Draft Financial Statements 2019/20 have been signed by the Section 151 (S151) Officer and are now brought to Committee for comment.	
	(ii)	Notes that the audited Financial Statements 2019/20 will be presented to the Committee on 28 September 2020 for approval.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is a legal requirement that the S151 Officer signs the Financial Statements by 31 August 2020 and certifies that they present ‘a true and fair view 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’.		
2.	The draft statements have been brought to the July committee in order to give members plenty of opportunity and time to comment on them before final approval in September. It is envisaged that the September report will detail any non-trivial amendments made as a result of the audit along with an amended set of statements (if necessary). A full report on the 2019/20 outturn position was presented to Cabinet on 14 July 2020.		

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 August 2020.
DETAIL (Including consultation carried out)	
	REVISED STATUTORY TIMETABLE
4.	<p>The Accounts and Audit Regulations 2015 set out detailed requirements in relation to local authority annual audit and accounting processes.</p> <p>In anticipation of the potential disruption caused by the spread of coronavirus, the Government implemented The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, amending the 2015 Regulations to extend the deadlines for local authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1 April 2019.</p> <p>These amendments extend the deadline for publishing the audited 2019/20 statement of accounts to 30 November 2020. The period for the exercise of public rights must commence on or before the first working day of September in 2020, in relation to the financial year beginning on 1 April 2019. This effectively means the accounts have to be prepared and signed by the S151 officer by 31 August 2020. The requirement for the public inspection period to include the first 10 working days of June has also been removed for the annual accounts for the year beginning on 1 April 2019.</p>
	FINANCIAL STATEMENTS
5.	The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.
	ACCOUNTING AND OTHER POLICIES
6.	The Council's accounts are prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) 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.
7.	Proposals had been put forward by CIPFA to simplify the requirements for the 2019/20 accounts to ease the burden on accounts production. However agreement could not be reached with the regulators and the auditors and therefore the full requirements of the Code of Practice apply.
8.	<p>The Accounting Policies are described in detail on pages 33 to 45 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 no significant changes to the Accounting Policies in 2019/20.</p>

9.	The accounting policies adopted by the Council are in line with the 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.
10.	The accounts include estimates and assumptions as at 31 March 2020. As with every year, there is a risk of material adjustment to the carrying amounts of some assets and liabilities within the next financial year, however with the uncertainties surrounding the impact of the COVID-19 pandemic the risk is heightened this year. Further details are provided in Note 4 of the accounts (page 48).
	RETIREMENT BENEFITS
11.	In 2019/20 the Council paid an employer's contribution of £32.18M into the Hampshire County Council Pension Fund. The employer's rate set for 2019/20 was 16.1% 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.
12.	The Council's share of the assets of the Hampshire County Council Pension Fund at 31 March 2020 was £850.42M, compared to its estimated liabilities of £1,342.57M, giving an estimated deficit on the Fund of £492.15M (£459.64M in 2018/19). The increase is due to a reduction in the value of assets, together with changes in the actuarial assumptions used in relation to demographics, financial and experience. The liabilities have been assessed based on the latest actuarial valuation which took place as at 31 March 2019.
13.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.
	2019/20 OUTTURN
14.	The Narrative Statement provides a summary of the revenue and capital financial performance for the year on pages 11 to 18. Full details of the outturn position are available in the Revenue and Capital Outturn 2019/20 report to Cabinet on 14 July 2020.
	RESOURCE IMPLICATIONS
	<u>Capital/Revenue</u>
15.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 14 July 2020.
	<u>Property/Other</u>
16.	There are no specific property implications arising from this report.
	LEGAL IMPLICATIONS
	<u>Statutory power to undertake proposals in the report:</u>
17.	Accounts and Audit Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
	<u>Other Legal Implications:</u>
18.	None

RISK MANAGEMENT IMPLICATIONS	
19.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
20.	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 2019/20.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2019/20.
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

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – 2019/20 AUDIT PLAN UPDATE		
DATE OF DECISION:	27 JULY 2020		
REPORT OF:	EXTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	DAVID WHITE	Tel: 02380 382042
	E-mail:	dwhite@uk.ey.com	
Director	Name:	KEVIN SUTER	Tel: 02380 382159
	E-mail:	ksuter@uk.ey.com	

STATEMENT OF CONFIDENTIALITY	
NONE	
BRIEF SUMMARY	
<p>The Audit Plan Update sets out our updated assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our assessment has been updated in light of the Covid-19 pandemic, which has occurred since our 2019/20 Audit Plan was presented to the 10 February meeting of the Governance Committee.</p>	
RECOMMENDATIONS:	
	(i) The Governance Committee is invited to comment on and note the 2019/20 Audit Plan Update 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 2019/20 Audit Plan Update has been provided to relevant senior managers for comment prior to being submitted into committee papers.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	N/A
<u>Property/Other</u>	
5.	N/A
LEGAL IMPLICATIONS	

<u>Statutory power to undertake proposals in the report:</u>	
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
<u>Other Legal Implications:</u>	
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.	External Audit 2019/20 Audit Plan Update

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

Southampton City Council

Audit planning report update

Year ended 31 March 2020

July 2020

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Agenda Item 8

Appendix 1

EY

Building a better
working world





Members of the Governance Committee
Southampton City Council
Civic Centre
Southampton
Hampshire
SO14 7LY

10 July 2020

Dear Governance Committee Members

Audit Planning Report update – Year ended 31 March 2020

This report seeks to provide the Governance Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report presented to the 10 February Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Following the coronavirus outbreak (Covid-19) in March 2020, we have re-assessed our audit scope and strategy. We provide here an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

This report is intended solely for the information and use of the Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 27 July 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP



01 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure

Page 38

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment. (Additions to PPE are £87.5m in 2019/20)

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Our response to significant risks (continued)

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

New Ledger System

What is the risk?

The Council introduced its new Business World financial management system with effect from 01 October 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements will be prepared using data taken from the new general ledger at the end of the financial year. To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data from the old system to its new general ledger. It is also key to ensure the correct implementation of processes and controls related to the new systems, such as timely control account reconciliations.

Page 39

Financial statement impact

The completeness and accuracy of data in the Council's financial management system, and specifically its general ledger, is crucial to the production of materially accurate financial statements, impacting all of the primary statements and many of the disclosure notes.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Our response to significant risks (continued)

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Investment Properties

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

Our procedures to address this risk are set out on the following page.

Financial statement impact

The fair value of investment properties at 31 March 2020 is £118m.



Audit risks

Our response to significant risks (continued)

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Consider the adequacy of processes management have implemented to ensure the material accuracy of the assets at 31 March since the valuation date; and
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensure that appropriate disclosure has been made in the financial statements concerning the material uncertainty, including in Note 4 'Assumptions made about the future and other major sources of estimation uncertainty'; and
- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the ERVs/yields.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the area of focus?

Valuation of Land and Buildings

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The value of PPE at 31 March 2020 is £1.46bn.

Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Consider changes to useful economic lives as a result of the most recent valuation;
- Consider the adequacy of processes management have implemented to ensure the material accuracy of the assets at 31 March since the valuation date; and
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensure that appropriate disclosure has been made in the accounts concerning the material uncertainty, including in Note 4 'Assumptions made about the future and other major sources of estimation uncertainty'; and
- If required, obtain input from EY Real Estates, our internal specialists on asset valuations for PPE, including inputs on market sentiment and how it has been reflected in valuations which are based on EUV and fair value.

Other areas of audit focus (continued)

What is the area of focus?

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

What will we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation, and particularly with a view whether there are any material uncertainties for disclosure.

We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist.

These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these will include consideration of:

- The current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

Other areas of audit focus (continued)

What is the area of focus?

New accounting standard – IFRS 16

In our Audit Planning Report issued in January we identified an inherent risk in relation to the implementation of the new accounting standard IFRS 16 (Leases) . Due to the impact Covid-19, the adoption this standard was deferred to 2021/22.

What will we do?

- Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an areas of audit focus.

Other areas of audit focus

Pension Liability Valuation, and PFI Accounting

In our Audit Planning Report issued in January we identified inherent risks in relation to Pension Liability Valuation, and Private Finance Initiative Accounting. There is no impact on these risks as set out in our Audit Plan as a result of Covid-19.

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy are as follows:

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
 - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing as far as possible; and
 - Agree IPE to scanned documents or other system screenshots.
 - Additional EY consultation requirements concerning the impact on auditor reports.
- The changes to audit risks and audit approach will change the level of work we perform. This may impact the audit fee. We will agree changes to the audit fee with management and report back to the Governance Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis and percentages for planning materiality, performance materiality and the threshold for reporting audit differences set out in our Audit Planning Report remain appropriate. We have updated the values based on the draft 2019/20 financial statements. Our planning materiality at year-end, based on 1.8% of gross revenue expenditure, is £12.14m. This results in an updated performance materiality, at 75% of overall materiality, of £9.11m, and an updated threshold for reporting misstatements of £0.607m.



02

Value for Money Risks





Value for Money risks

What is the risk?

The OFSTED inspection of children’s social care services, undertaken in November 2019, graded the service “requires improvement to be good” across the 4 main areas covered by the report:

- The impact of leaders on social work practice with children and families
- The experiences and progress of children who need help and protection
- The experiences and progress of children in care and care leavers

Overall effectiveness

The report comments on a number of areas where improvements are required going forward, to bring the service up to the level needed to achieve a Good rating in a future inspection.

What will we do?

We will:

- Compare the detailed findings of the OFSTED report with the NAO’s value for money criteria, to assess the significance of the individual findings to our responsibilities;
- Compare the detailed findings with those reported when the previous OFSTED inspection was carried out in 2014 (when the overall outcome was also “requires improvement”), to assess the significance of any changes in reported judgments; and
- Review the appropriateness of the arrangements put in place by the Council to address the findings of the OFSTED report and to monitor progress against agreed action plans.

Since our Audit Plan was issued, we have also become aware of whistleblowing allegations relating to the children’s social care services. We will therefore review the actions taken by the Council to respond to this as part of our work on the identified value for money risk.

Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL INTERNAL AUDIT OPINION 2019-20
DATE OF DECISION:	27th JULY 2020
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	FINANCE	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	John.Harrison@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>On an annual basis and in accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.</p> <p>The annual opinion for 2019-20 is that 'limited assurance' can be provided. Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance.</p> <p>The detailed results show a decrease in the number of 'no assurance or limited assurance' audit findings compared to the previous financial year which is an indication that the direction of travel continues to improve. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year which is as a result of pockets of control failures and risk exposure that still require addressing.</p> <p>During the course of the year 60 high risk exceptions were raised along with 49 medium and 8 low. The details of all work carried out can be found in Appendix 1.</p> <p>In addition to the opinion an update is provided on the work carried out since the last reporting period. During this period, an audit of St. Monica Primary School received a 'no assurance' opinion. The executive summary of this report has been attached in full under Appendix 2.</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee notes the Chief Internal Auditor's Annual Audit Opinion for 2019-20.
REASONS FOR REPORT RECOMMENDATIONS	

1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion for 2019-20.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
3.	The opinion has been shared with member of the Executive Management Board including the s151 officer.
RESOURCE IMPLICATIONS	
Capital/Revenue	
4.	None
Property/Other	
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.	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
POLICY FRAMEWORK IMPLICATIONS	
9.	None.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Opinion for 2019-20
2.	St. Monica 'No Assurance' Report
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): Results of work carried out to date.	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

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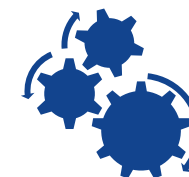


SOUTHAMPTON
CITY COUNCIL

Southampton City Council Annual Audit Report 2019/20

Elizabeth Goodwin, Chief Internal Auditor

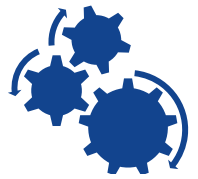




Contents

- 1** Executive Summary - page 3
- 2** Background - pages 4 to 5
- 3** Annual Opinion for 2019/20 - page 6
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- 5** 2019/20 Audit Assurance by Executive Directorate - page 8
- 6** Key Areas of Concern - page 9
- 7** Comparative 2018/19 & 2019/20 Exception Risk Rankings - page 10
- 8** 2019/20 Exception Analysis by Risk Classification - page 11
- 9** 2019/20 Follow Up Analysis - page 12
- 10** Quality Assurance - page 13
- 11** 2019/20 Audits Completed - not previously reported - pages 14 to 20
- 12** Follow-Up Audits Completed - not previously reported - pages 21 to 24
- 13** COVID-19 Impact on Audit Work - page 25
- 14** Public Sector Internal Audit Standards - page 26

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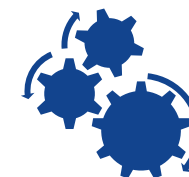
1. Executive Summary

Annual Opinion

On a yearly basis the Chief Internal Auditor is required to form an annual opinion on the effectiveness of the internal control framework in operation at Southampton City Council. This opinion is based on work carried out over the course of the previous financial year (2019/20) and includes an assessment of all results obtained from auditing activities. The details that support the opinion are contained in the body of this report.

The detailed results show a decrease in the number of 'no assurance or limited assurance' audit findings compared to the previous financial year which is an indication that the direction of travel continues to improve. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year which is as a result of pockets of control failures and risk exposure that still require addressing.

It should be noted that the limited opinion attributed for the previous two years (2017/18, 2018/19) and for this year's opinion for 2019/20, were during a period when a previous management team were in place. With effect from late March 2020 the Authority have had a new Management Team in place including a number of new Executive Directors.



2. Background

Public Sector Internal Audit Standards

2.1 On 1st April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1st April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

2.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

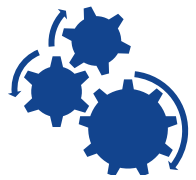
A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

2.3 The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Finance (Section 151 Officer).

2.4 The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.

2.5 In accordance with the *PSIAS* the definition of internal auditing is:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes



2.6 In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.

2.7 The Annual Internal Audit Opinion must incorporate:

- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with *PSIAS* and the results of the quality assurance and improvement programme.

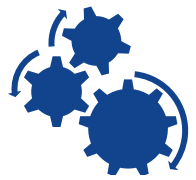
2.8 An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2019/20 confirmed that Southampton City Council's Internal Audit Service is compliant with requirements.

Statement of Organisational Independence

2.9 The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage and oversee the arrangements for 'auditing' Direct Payments and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

2.10 The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

2.11 The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance Committee.

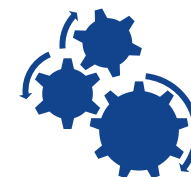


3. Annual Opinion for 2019/20

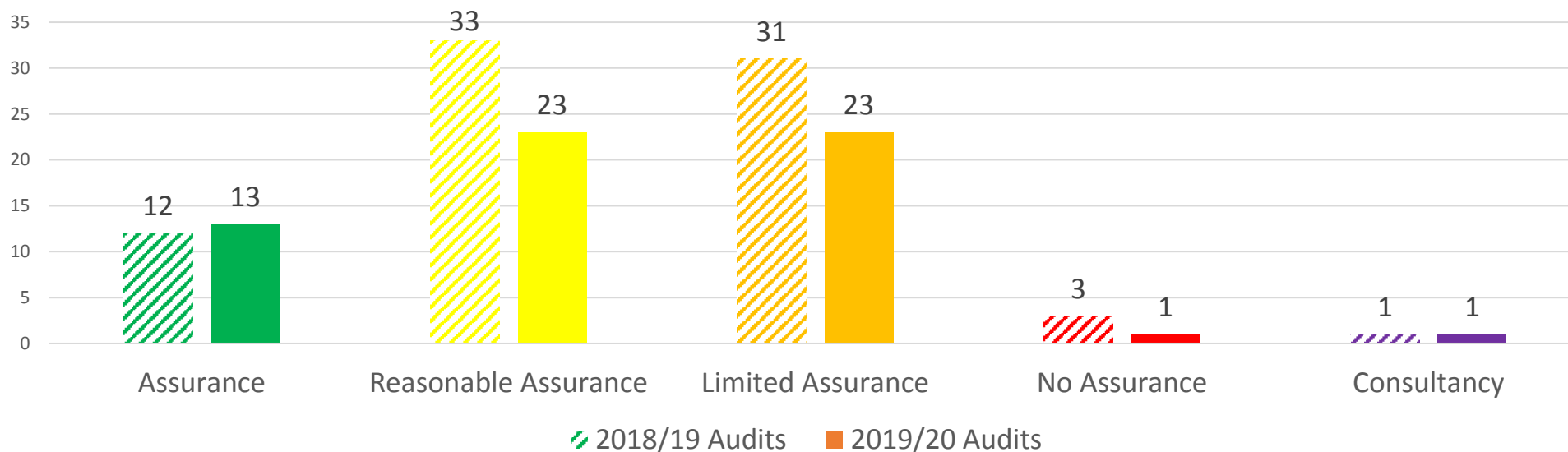
- 3.1 With effect from the 1st April 2017 and in partnership with Portsmouth City Council an in-house team to provide audit service has been established. The team currently consists of an Audit Manager and two Auditors, who are both undertaking professional qualifications. The service is provided by a combination of the in-house provision and colleagues from Portsmouth City Council overseen by a shared Chief Internal Auditor employed by Portsmouth City Council.
- 3.2 Over the course of the year (2019/20) the audit service has completed 61 reviews, 75 were planned however due to the COVID 19 pandemic, and 14 audits were deferred to the 2020/21 plan to limit the impact on critical services and as a result of redeployment of audit staff. The audits completed include a combination of full audits and follow up reviews. The results of the work carried out show that the level of limited and no assurance reviews have decreased slightly from 43% to 39% from the previous year which would indicate that improvements are continuing and that the effectiveness of the internal control environment is therefore also improving. An area that still requires work is in relation to movement on the implementation of agreed actions to resolve risk exposure indicating that the Authority still has a number of areas that it needs to address.
- 3.3 Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. As a result of the findings summarised above and detailed in this report the audit opinion for 2019/20 is **limited assurance**.



- 3.4 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2019/20 may affect that year's work for External Audit. It may also inform their work for 2020/21 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required, for a true and fair view of the financial position and compliance with professional codes of practice.



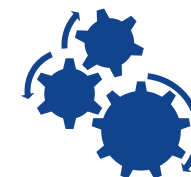
4. Comparative 2018/19 & 2019/20 Audit Assurance Levels



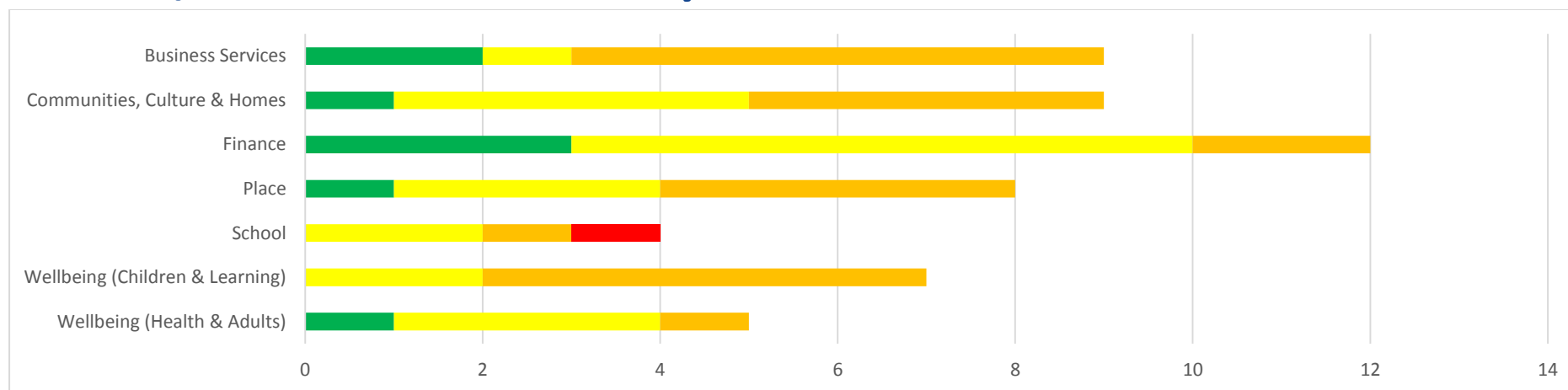
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Note: In the table below the numbers in brackets indicate audit reports that remain in draft but have a provisional overall assurance opinion. Although each report is close to be finalised the assurance levels for these 5 audit audits could be subject to change.

	2018/19	2019/20	TOTAL
Assurance	12	13	25
Reasonable Assurance	33	22 (+1)	56
Limited Assurance	31	19 (+4)	54
No Assurance	3	1	4
Consultancy	1	1	2
TOTAL	80	61	141



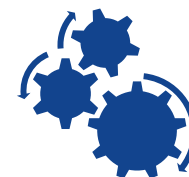
5. 2019/20 Audit Assurance by Executive Directorate



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	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	TOTAL
Business Services	2	1	6	0	9
Communities, Culture & Homes	1	4	4	0	9
Finance	3	7	2	0	12
Place	1	3	4	0	8
School	0	2	1	1	4
Wellbeing (Children & Learning)	0	2	5	0	7
Wellbeing (Health & Adults)	1	3	1	0	5
TOTAL	8	22	23	1	54*

*The breakdown per executive directorate does not include the 6 assurance grant certifications and the 1 piece of consultancy work.



6. Key Areas of Concern

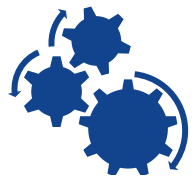
6.1 During 2019/20 one review resulted in a **no assurance** report and is summarised below:

- **St Monica School** Further details on this report are attached in Appendix B.

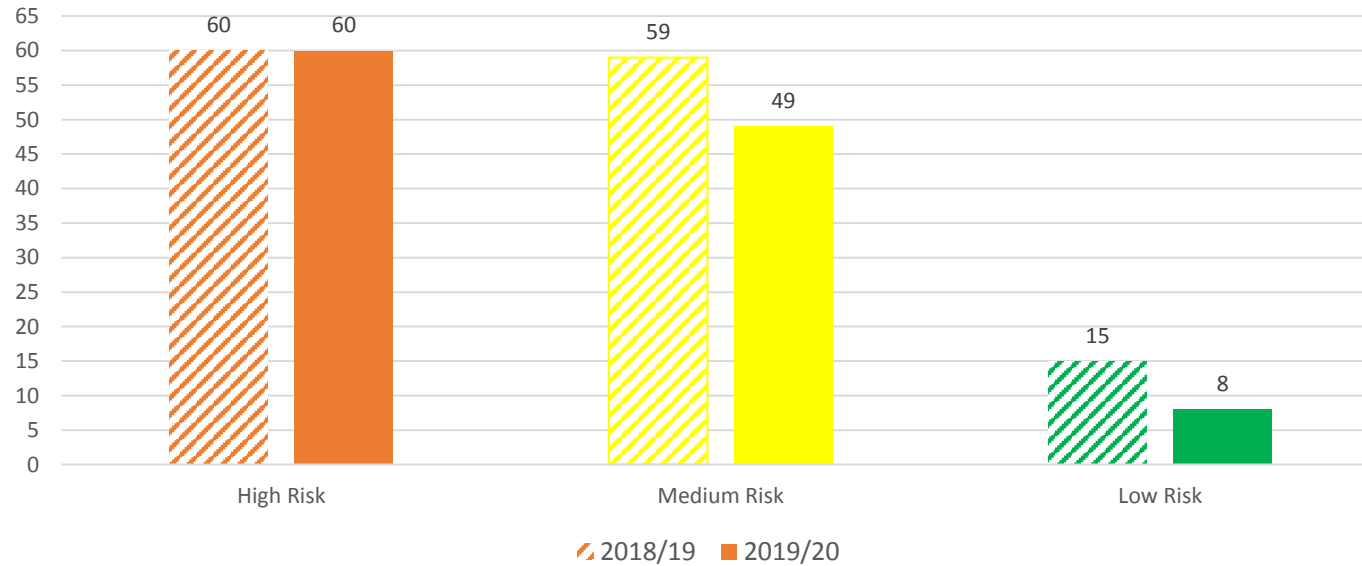
6.2 An areas of concern is in relation to the lack of movement to implement agreed actions to mitigate risk exposure. As noted in the 2019/20 Follow Up Analysis (detailed on page 11) only 34% of the 70 exceptions followed up through 2019/20 had been actioned within the agreed timeframe, meaning 66% is currently outstanding. This is reflective across the organisation. Proposed actions to address this issue have been impacted by COVID-19 and additional steps have been agreed by the Executive Management Board moving forward. This will include second follow up reviews and enhanced reporting on any areas outstanding to members to the Executive Management Board.

6.3 Over the course of the year a number of reviews have resulted in limited assurance being attributed as an overall opinion. There are no particular patterns or trends emerging across the organisation in terms of these reviews. Risk exposure in relation to Compliance with Rules, Regulations and Legislation as detailed in 2019/20 Risk Level by Risk Classification will always be highlighted due to the level of testing under compliance. Any specific concerns will always be factored in if relevant to the Annual Governance Statement.

6.4 Our opinion is in relation to work performed during 2019/20 to which in the later stages the COVID-19 pandemic occurred. There will inevitably be some issues emerging as a result of arrangements and procedures enacted due to the pandemic. However, these are not included at this time of reporting.



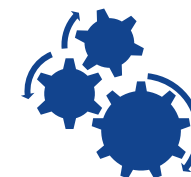
7. Comparative 2018/19 & 2019/20 Exception Risk Rankings



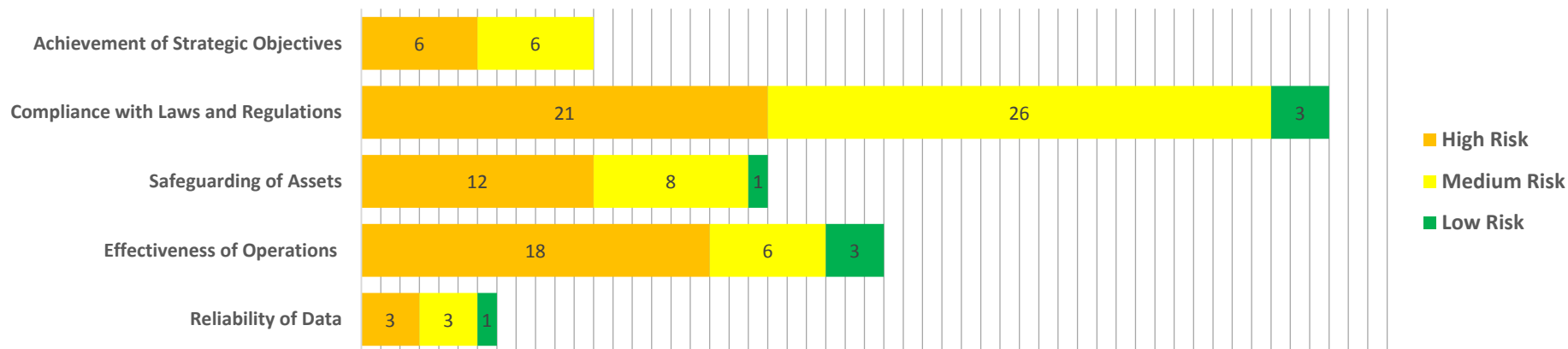
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	2018/19	2019/20	TOTAL
Critical Risk	0	0	0
High Risk	60	47 (+13)	120
Medium Risk	59	44 (+5)	108
Low Risk	15	7 (+1)	23
TOTAL	134	117	

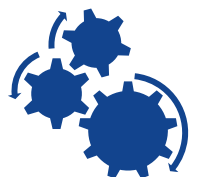
Note: In the table below the numbers in brackets indicate exceptions from audit reports that remain in draft but have a provisional risk rating. Although each report is close to be finalised the assurance levels for these 10 exceptions could be subject to change.



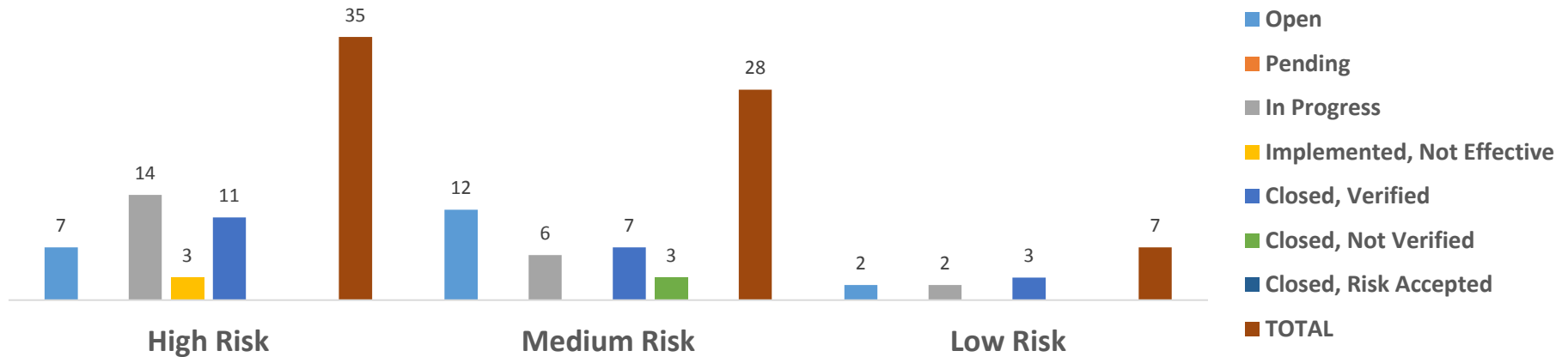
8. 2019/20 Exception Analysis by Risk Classification



	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	6	6	0	12
Compliance with Laws and Regulations	21	26	3	50
Safeguarding of Assets	12	8	1	21
Effectiveness of Operations	18	6	3	27
Reliability of Data	3	3	1	7
TOTAL	60	49	8	



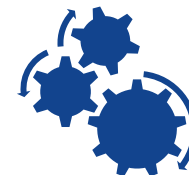
9. 2019/20 Follow Up Analysis



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	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
High Risk	7	0	14	3	11	0	0	35
Medium Risk	12	0	6	0	7	3	0	28
Low Risk	2	0	2	0	3	0	0	7
TOTAL	21	0	22	3	21	3	0	70

Internal Audit follows up exceptions where at least one high risk exception has been raised. Exceptions 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 three months due to the potential severity of the risks identified. The overall position of the 70 exceptions followed up through 2019/20 shows that 34% have been closed by audit, however 66% are overdue.



10. Quality Assurance

10.1 As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 14.

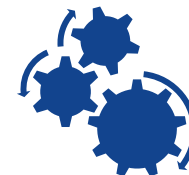
10.2 In addition to this, quality and improvement requirements are assessed by means of:

- a. Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- b. Weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- c. Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- d. All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required Continuous Professional Development
- e. An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (10.3).
- f. All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- g. Director feedback will be requested during 2020/21 in order to ascertain whether the service provided complies with *PSIAS*.

Skills Gap Analysis for 2019/20

10.3 Essential Areas: where greater coverage of skills is needed moving forward:

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service with only two officer currently qualified with a third part-qualified. To address this shortfall, professional training will continue be undertaken for the third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.



11. 2019/20 Audits Completed - not previously reported

IT Applications & Operating Systems - Business Services – Owner: James Strachan

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	No Areas Tested
Reliability and Integrity of Data	Assurance

No exceptions were raised as a result of this audit. Based on testing conducted Internal Audit can offer assurance that the agreements for the IT applications sampled were of low risk to the authority.

Annual Governance Statement – Corporate – Owner: Peter Rogers

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

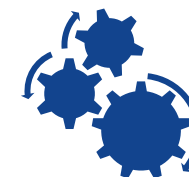
Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	No Areas Tested
Reliability and Integrity of Data	Assurance

No exceptions were raised as a result of this audit. Based on testing conducted Internal Audit can offer assurance that the completion of AGS Self-Assessment is in line with our findings and judgement.



Treasury Management – Finance and Commercialisation – Owner: Steve Harrison

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Assurance		
0	0	0	0			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	Assurance
					Safeguarding of Assets	Assurance
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	No Areas Tested

No exceptions were raised during the audit. Based on testing conducted Internal Audit can offer assurance that the arrangements in place for the management and oversight of the treasury management function are sound.

Trees Income Collection – Place – Owner: David Tyrrie

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Assurance		
0	0	0	1		Agreed actions are scheduled to be implemented by April 2021	Achievement of Strategic Objectives
				Compliance with Policies, Laws & Regulations		Assurance
					Safeguarding of Assets	Assurance
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	No Areas Tested

One low risk exception has been raised in relation to the fees and charges having not been subject to a review since the in-house team was formed back in 2016.



Housing Benefit (Universal Credit Processes) – Finance and Commercialisation – Owner: Nigel Ashton

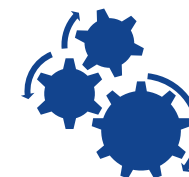
Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable Assurance		
0	0	1	0		Agreed actions are scheduled to be implemented by December 2020	Achievement of Strategic Objectives
				Compliance with Policies, Laws & Regulations		Assurance
					Safeguarding of Assets	Assurance
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	No Areas Tested

One medium risk exception was raised in relation to the systems automated procedures. In 1/10 cases sampled, housing benefit was suspended for an applicant who lived in exempt or temporary accommodation. In conclusion, although there are wider issues with the implementation of Universal Credit nationally, claims are being dealt with effectively at the local level.

Museums – Communities Culture & Homes – Owner: Carolyn Abel

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable Assurance		
0	0	2	0		Agreed actions are scheduled to be implemented by March 2020	Achievement of Strategic Objectives
				Compliance with Policies, Laws & Regulations		Reasonable
					Safeguarding of Assets	Reasonable
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	No Areas Tested

The first medium risk was raised due to the stock count sheets showing discrepancies between the system records and physical stock for five items. The second medium risk was in relation to there being no renewal dates or reminders sent to annual pass holders.



Flood Risk Management – Place – Owner: Peter Boustred

Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by September 2020

Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Limited

The high risk exception has been raised in relation to non-compliance with an element of the grant conditions. The first medium risk relates to the Local Flood Risk Management Strategy (requirement of the Flood and Water Management Act 2010) being overdue a review. The second medium risk is in relation to insufficient evidence to confirm that all out of office flooding incidents are being logged centrally.

Insurance – Finance and Commercialisation – Owner: Steve Harrison

Exceptions Raised

Critical	High	Medium	Low
0	0	3	2

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by June 2020

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Reasonable

The first medium risk is in relation to there being no formal procedures or process notes for processing claims, claims are paid in cheque which is costly and tested found issues with 3/12 claims caused by delays in receiving/chasing information. The second medium risk relates to IDEA Data Matching identifying three vehicles on the insurance schedule but were not currently used vehicles (1 unknown, 1 scrapped, 1 disposed). The final medium risk relates to there being no evidence that reconciliations of the 'LACHs insurance' system and Business World being carried out. Low risks have been raised in relation to standardised recharges and a lack of analysis of claims to identify trends.



Electric Vehicle Charging Points Installation Contract – Place – Owner: Peter Boustred

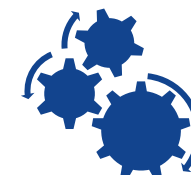
Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Limited Assurance		
0	3	1	0	Agreed actions are scheduled to be implemented by August 2020	Achievement of Strategic Objectives	Assurance
					Compliance with Policies, Laws & Regulations	Limited
					Safeguarding of Assets	No Conclusion
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	No Areas Tested

The first high risk has been raised in relation to the lack of monitoring of contractual elements due to insufficient maintenance information. Furthermore, a maintenance report noted 8 incidents where the downtime was over 5 days between April 2019 and February 2020. The second high risk is in relation to a lack of filed documentation including method, risk assessments, on site health and safety inspections and post installation checks. The final high risk is in relation to there being no checks made on quotes and invoices received by the supplier to ensure pricing was compliant with the framework. Finally, the medium risk was in relation to there being no evidence of consultation and approval regarding the charging points.

Recruitment and Retention – Business Services – Owner: Janet King

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Limited Assurance		
0	4	0	0	Agreed actions are scheduled to be implemented by August 2020	Achievement of Strategic Objectives	Limited
					Compliance with Policies, Laws & Regulations	Limited
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	No Areas Tested

The first high risk relates to there being no specific policy and/or procedure on succession planning. The second high risk covers there being no formal advertisement for 1/11 posts sampled nor was there a formal interview undertaken. Furthermore, there was limited documentation of decision making and the manager undertook activities without HRs knowledge. The third high risk is in relation to documentation not being held in employees’ files including references, medical clearance, formal offer letters, confirmation of qualifications and employment history. In addition, DBS checks were being stored which is not compliant with the authority’s Disclosure and Barring Policy. The final high risk highlighted a lack of effective management training for essential recruitment.



Health & Safety – Business Services – Owner: Janet King

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Limited Assurance		
0	4	2	0	Agreed actions are scheduled to be implemented by May 2020	Achievement of Strategic Objectives	No Areas Tested
					Compliance with Policies, Laws & Regulations	Reasonable
					Safeguarding of Assets	No
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	No Areas Tested

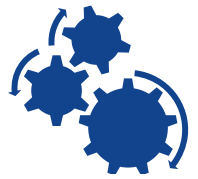
The first high risk relates to 3/10 City Services risk assessments requiring updating with 20% of total risk assessments reviewing a review. The second high risk relates to there being outstanding actions from fire risk assessments, while some are being actively addressed some risks were identified in 2017. The third high risk relates to there being no reports able to be produced on employees’ health and safety training records. The final risk relates to the timeliness of reviewing incidents, testing sampled 20 cases between August 2018 and 2019 and found that for 8/20 there was a lengthy period from incident to management review. The medium risks relate to cases in the H&S database some form of review and 8/15 Safe Working Procedures sampled requiring a review.

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St Monica Primary School – Owner: Governing Body and Head Teacher

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	No Assurance		
0	12	3	1	Agreed actions are scheduled to be implemented by June 2020	Achievement of Strategic Objectives	Limited
					Compliance with Policies, Laws & Regulations	Limited
					Safeguarding of Assets	Limited
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	Reasonable

See appendix B for further details on the audit findings.

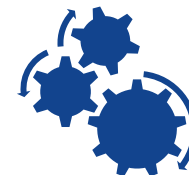


Family Matters Grant

Grant Verification – Based on testing completed there is sufficient evidence to support that the authority is adhering to the conditions of the grant. A statement to that effect has been provided as required by the grant determination.

Business World Consultation

Consultation work undertaken to provide guidance and input on risk management and control mechanisms.



12. Follow-Up Audits Completed - not previously reported

Asset Management – Place – Owner: Tina Dyer-Slade

Original Exceptions Raised

Critical	High	Medium	Low
0	2	0	0

Latest implementation date scheduled during the original audit was in August 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	2 (High)	0	0	0	0	0

Follow up testing identified that master spreadsheets have since been created to monitor both lease renewals but currently 110 rent reviews and 99 lease renewals are overdue. The second high risk in relation to incorrect invoicing remains in progress while Business World integration with Tech Forge is being worked on.

Data Management – Business Services – Owner: James Strachan

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in December 2019

Original Assurance Level

Limited Assurance

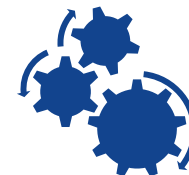
Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High)	0	0	0	1 (High)	1 (Medium)	0	0

Follow up testing found that the high risk in relation to low compliance rates for records management has been closed and verified due to the work being undertaken to contact service areas with low compliance and the information governance (IG) bulletins being sent to staff. One high risk remains open due to the project to address the deletion of sensitive data from systems still requiring a business plan. The medium risk has been actioned but not verified.



Events – Communities, Culture & Homes – Owner: Carolyn Abel

Original Exceptions Raised

Critical	High	Medium	Low
0	3	2	0

Latest implementation date scheduled during the original audit was in August 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Reasonable Assurance



Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	1 (High)	2 (High) 2 (Medium)	0	0	0

Follow up testing identified that two high and two medium risks have been closed and verified following the agreed actions being completed. One high risk relating to testing initially identifying 4/9 event risk assessments having not been completed. Follow up testing on 10 new events found 1 event risk assessments had not been completed.

Housing Depot (Responsive Repairs) – Finance – Owner: Nigel Ashton

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in October 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

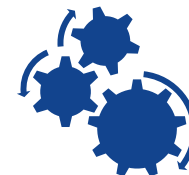
Reasonable Assurance



Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High)	0	1 (High)	0	0	1 (Medium)	0	0

Follow up testing identified that one high risk remains open as managers are unable to monitor Maintenance Recovery Charges being raised, which could lead to the raising of incorrect invoices. The second high risk remains in progress as the number of responsive repairs checks has risen 89% and quality control has risen by 43% but still remain behind target. The medium risk has been closed.



Independent Fostering Arrangements – Wellbeing (Children and Learning) – Owner: Martin Smith

Original Exceptions Raised

Critical	High	Medium	Low
0	4	0	0

Latest implementation date scheduled during the original audit was in December 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance



Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High)	2 (High)	1 (High)	0	0	0

Follow up testing identified that one high risk has been closed and verified. One high risk in relation to individual placement agreements (IPA) not being signed by providers follow up testing found that 7/10 had not been signed so the exception remains in progress. For the final two high risks testing found that the actions had been implemented but were not effective. In the first instance follow up testing found that 3/10 IPAs had not stated the outcome of the placement and in the second instance testing found 2/10 risk assessments were not completed and 5/10 Form F forms were not cited on Paris.

Learning and Development – Business Services – Owner: Janet King

Original Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled during the original audit was in December 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance



Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	3 (High) 1 (Medium)	0	0	0	0	0

Follow up testing identified that, for the first high risk, Childrens Services (CS) have refined training needs but pro-active service and authority wide training needs analysis has yet to commence. For the second high risk CS have developed a guide to review mandatory training compliance however a more general list for all staff is yet to be developed. For the third high risk Organisation Development (OD) have been working with procurement to ensure value for money is achieved. The working up of central average costs as agreed in the initial audit has not yet been completed. For the medium risk identified the services are using 'Course booker' system which has the ability to collect and collate feedback but this is not yet in place.



Leaseholder Charges – Communities, Culture & Housing – Owner: Steve Smith

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	1

Latest implementation date scheduled during the original audit was in June 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	0	1 (High) 1 (Low)	0	0	0

All exceptions raised in the original report are now closed.

Pest Control – Place – Owner: David Tyrrie

Original Exceptions Raised

Critical	High	Medium	Low
0	1	5	0

Latest implementation date scheduled during the original audit was in December 2018

Original Assurance Level

Limited Assurance

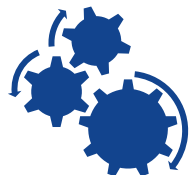
Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (Medium)	0	1 (High) 2 (Medium)	0	2 (Medium)	0	0	0

Follow up testing identified that the high risk exception remains in progress as although responsibilities for refunds have become more clearly defined, audit was only able to evidence 4/37 refunds had been authorised by the Team Leader. A medium risk relating to validating customer benefit references for refunds remains open as the option to make the field mandatory is currently being investigated. The second medium risk is in progress due to movement being made with 25/26 of contracts appearing on the contract log with a further school SLA missing. The second medium risk in progress is in relation to there still being a delay in recharging services. The final two medium risks have been closed and verified.



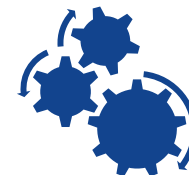
13. COVID-19 Impact on Audit Work

13.1 Following the outbreak of COVID-19 normal auditing activities were suspended if they required client involvement and input. Any audits that could be undertaken without client involvement were continued with a number of audits being deferred to the 2020/21 Audit Plan (see below). In addition to this and during the pandemic, the in-house internal auditors were redeployed to support critical services. Work undertaken in relation to COVID-19 will be reported to this committee in the form of Progress Reports through the course of 2020/21.

13.2 The following changes have been made to the plan since the February Governance Committee.

Audits deferred to 2020/21 Audit Plan due to COVID-19 pandemic:

- Appointeeships
- Asbestos
- Bank Account
- Customer Services
- IT Procurement and Disposal
- IT Project (Paris)
- MASH (Multi-Agency Safeguarding Hub)
- Mobile Devices
- Payroll
- Procurement
- Purchasing Cards
- Refunds
- Waste Operations
- Water Quality



14. Public Sector Internal Audit Standards

Introduction

- 14.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which has been performed on an annual basis for Southampton City Council but also wider on Portsmouth City Council. The results of the self-assessment have been communicated annually alongside the annual audit opinion to this committee.
- 14.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. During 2017/18 an external assessment was undertaken on Portsmouth City Council's Internal Audit & Counter Fraud Service and an external assessment will be commissioned for Southampton City Council during the next five years.

Executive Summary

An Internal Audit was conducted at St Monica Primary School on 10th and 11th February 2020 as part of the 2019/2020 Audit Plan. The Full Audit, which comprised of testing as detailed in the scope of the audit, resulted in twelve high, three medium and one low risk exception.

The results have been included in the summary below under the relevant control headers with further details in relation to any exceptions raised in the main body of this report.

Achievement of Organisation's Strategic Objectives Assurance Level: Limited Assurance

Organisation of Responsibility & Accountability

Testing commenced with a review of the **Schools Financial Value Standard (SFVS)** statement for year ending March 2020. The document was signed by the Chair of Governors, on behalf of the Governing Body, in January 2020. However, it is not clear what documentation was submitted to the Full Governing Body before submission of this statement to the Local Authority.

In addition, further testing confirmed that there is no evidence of; a Full Governing Body Committee Timetable or Terms of Reference, a Job description for the Clerk, a Financial Skills Matrix, a current Register of Pecuniary Interest or an up to date School Whistleblowing Policy.

A review of staff personnel files was carried out for a sample of three employees to ensure that recruitment and vetting checks had been completed prior to appointment. Testing highlighted that the files contained DBS document confirmation from an on-line DBS provider and a copy of a council tax bill. Retention of these documents constitutes a breach of the **General Data Protection Regulation (GDPR) 2018 - Principle E - Storage Limitations**.

Based on testing conducted five high risk and one medium risk exception have been raised under this control header.

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

Income

The school use 'Tucasi' income collection software for the recording of both on-site and on-line cash collection.

A sample of 2 on-site income payments for December 2019 (total value £1,043.45) and 7 on-line payments for School meals (with varying amounts dependant on attendance) were reviewed.

Testing confirmed that there was a clear management trail from receipt of income through to banking for all payments in the sample. A review of the lettings charging policy, hire agreement forms and hirers insurance indemnity cover was conducted to ensure that the charges are reviewed on an annual basis, a current hire agreement form is in place, a valid indemnity insurance policy has been sighted and is held on the school premises and invoices are raised promptly.

There were 4 permanent Hirers as at February 2020 and testing highlighted a weakness in controls in relation to the control and administration of lettings.

Based on testing conducted, one high risk exception has been raised.

Petty Cash

On-site testing highlighted that petty cash bank reconciliations are not taking place on a regular basis. Only 2 reconciliations were evidenced for the period tested. The first was for the period 19.10.2018 to 21.03.2019 (total reconciliation value £280.65) and the second was for the period 11.03.2019 to 18.07.2019 (total reconciliation value £636.34). There was no evidence that a reconciliation has taken place during the 2019/2020 academic year. Best practice would be to carry out reconciliations on a half termly basis, or as a minimum, once a term if the level of claims are minimal.

Discussions with the School Business Manager confirmed that the petty cash float is kept in a cash tin (which is not locked as there is no key) and the tin is kept in a combination lock safe, the sequence of which is known to the three members of staff in the finance team. The contents of the petty cash tin were counted during on-site testing and the total of £90.99 reconciled to the spread sheet tracker document.

A review of the petty cash bank statements for the period 31.12.2018 (statement 54) to 21.12.2019 (statement 67) highlighted 3 occasions where the account was noted as being overdrawn. In addition there were 9 claims which were not deemed to be 'petty cash' purchases. The value of these claims ranged from ££51.00 to £375.00.

Based on testing conducted, one high and one medium risk exception have been raised.

Ordering, Receipt and Payment of Goods

A review of a sample of 6 purchase request forms and invoices for Financial Year 2019/2020 (total value £3324.43) confirmed that the purchase was accurately recorded and appropriately authorised by the Head teacher in advance of the order being placed for all 6 purchases.

The school currently has one School Purchase Card which is controlled and administered by the School Business Manager. A sample of transactions for the December 2019 statement were reviewed during testing. There were 30 transactions during this period which equated to a total value of £1458.85. There were supporting VAT receipts on file for 28 transactions.

The remaining 2 transactions (£9.36 each for Milk & More) did not have supporting receipts as the payments had been set up as a standing order. Further testing confirmed that there are two further standing orders set up for this account with a total annual value of £725.00.

Based on testing conducted one high risk exception has been raised.

Disaster Recovery Plan

The Schools Financial Value Standard (SFVS) statement for January 2020 - section B8 - states that 'the School has an appropriate business continuity or disaster recovery plan in place'.

However, a review of the School Emergency Crisis Plan highlighted that; the document is not dated or owned, 4/6 listed persons who collectively have responsibility for School Emergency Response are no longer at the School, it is not clear who has a copy of the Plan, the Lockdown instructions are not feasible and there is no evidence of Full Governing Body approval of the Plan.

Based on testing conducted one high risk exception has been raised.

Computer Security

Discussion and observations during on-site testing confirmed that access to mainframe data containing sensitive / confidential information is restricted to authorised staff and good controls are in place for the security of passwords. Environmental controls for the security of paper documentation are sound.

CCTV cameras are in operation at the St Monica Infant School site, however, there is no evidence that the school have adopted a CCTV Policy to evidence compliance with the Data Protection Act (DPA) - GDPR (2018).

The School has a comprehensive E-Safety and Internet Usage Policy Statement and Guidelines (including an Acceptable Use Agreement - section 4) which staff are required to sign to confirm understanding and acknowledgement of the consequences of non-compliance. Discussions with the School Business Manager confirmed that there is no evidence of a signed Acceptable Use Agreement for any members of staff to confirm awareness and understanding of the Policy. Based on testing conducted one high and one medium risk exception has been raised.

Safeguarding of Assets Assurance Level: Limited Assurance**Inventory**

The School inventory was reviewed as part of the audit to ensure compliance with SCC Financial Procedures in relation to its administration and control.

Discussions with the School Business Manager confirmed that the current School Inventory is supported by a company and access to the electronic spreadsheet is password protected and limited to a representative of the company and School Business Manager. It was noted that the spread sheet includes the requisite description of the asset as per expected requirements, but there is only evidence of one recent annual asset check by the company and no evidence of spot checks on behalf of the school to verify accuracy.

Six assets were selected from the inventory during testing and it was noted that all 6 were asset tagged with a unique identifier and were located as per the inventory location guide.

Annotations on the inventory confirmed that assets are loaned to school staff, although there is no evidence of written authorisation from the Head teacher for each loan or a signed acceptance statement from the member of staff affirming understanding of the conditions of use.

Based on testing conducted one high risk exception has been raised.

Effectiveness & Efficiency of Operations Assurance Level: Limited Assurance**Budget**

The School Budget has been in deficit since 2016 and the projected deficit carry forward figure as at March 2019 is circa £388,000.00. In addition to this, the latest Ofsted inspection, which took place at the School on 08 and 09.10.2019, resulted in an overall effectiveness level of **Inadequate**.

The interim Head teacher, who has been in post since September 2019, is currently preparing a 2019/2021 Post Ofsted Action Plan in conjunction with a revised, workable 3 to 5 year Budget Recovery Plan for Local Authority approval. The Senior Leadership Team (SLT) are meeting on a weekly basis to closely monitor progress.

However, a review of the Governing Body minutes for the period March 2019 to November 2019 does not evidence any degree of challenge from the Governors in relation to the ongoing budget deficit position. In addition, the minutes do not clearly record that the

budget and revised budget were proposed, seconded and approved by the Full Governing Body. Based on testing conducted one high risk exception has been raised.

Reliability & Integrity of Data Assurance Level: Reasonable Assurance

PTA Funds

The SCC Scheme for Financing Schools (SFS) - section 5.4.2 states that Governing Bodies must provide annual audit certificates in respect of any unofficial funds under their control. The accounts of such funds must be maintained with receipts held for all transactions and must be audited on an annual basis.

A review of the school website and discussions with the School Business Manager confirmed that there is no unofficial fund in operation at the school as per the interpretation described in the SFS. However, there is a group who raise funds on behalf of the school.

Although the group does not fall within the remit of the SFS rules, they do fall within the interpretation of the term 'voluntary' fund as per the SFVS guidance and best practice would be for the group to present an audited statement of account to the Governing Body on an annual basis. Based on testing conducted a low risk improvement exception has been raised.

Completion of the audit Assurance Level: No Assurance

The **Schools Financial Value Standards** (SFVS) statement for year ending March 2020 confirms compliance with 25 out of the 29 questions in the standard and 'in part' for 4. However, there is no evidence that the Governing Body were involved in the comments, supporting evidence or proposed actions during the completion of this document. In addition, there is no evidence in the Full Governing Body minutes that the SFVS was agreed by the Full Governing Body before it was submitted to the Local Authority.

In summary, the results of the internal audit review are that 12 high, 3 medium and 1 low risk exceptions have been raised. These results do not correlate with the SFVS self-assessment submitted by the school and, as such, is deemed 'not in line with our judgement'. Therefore based on the SFVS statement and the results of the audit, no assurance can be given that the effectiveness and accountability of the financial management is of low risk to the school.

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL INTERNAL AUDIT PLAN 2020-21
DATE OF DECISION:	27th JULY 2020
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	FINANCE	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	John.Harrison@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>On an annual basis the Chief Internal Auditor is required to produce an Annual Plan that translates into a schedule of audit assignments. The plan defines the areas and potential scope inclusion and must provide a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The plan must be proportionate to the risk exposure and appropriately aligned to the strategic objectives of the Council.</p> <p>Due to the level of resource lost during the period March 2020 to June 2020 the Audit Plan of assignments is reduced compared to the previous year to reflect the available resources, both in-house and client based as well as the councils immediate priorities. The reduction has been conducted based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the council over the coming months. It is essential that this is kept fluid, in order to be able to react to the council's needs and this position will therefore be assessed monthly.</p> <p>The plan will have reduced the level of full audit assignments proposed, however the wider plan of activities, that will inform next year's audit opinion will include remote testing on COVID-19 related issues. In addition to this there are a number of audits included in the plan were a second follow up will be carried out, this is as a result of a lack of implementation of the agreed actions within agreed timescales, following the original audit. Only the outstanding areas will be retested.</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee approves the provisional Annual Internal Audit Plan for 2020-21 as attached.
REASONS FOR REPORT RECOMMENDATIONS	

1.	In accordance with internal audit practices and protocol, the Governance Committee is required to approve, but not direct the annual audit plan for Internal Audit & Counter Fraud.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
3.	The provisional Internal Audit Plan for 2020-21 has been discussed with the Council's Executive Management Team.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None.
<u>Property/Other</u>	
5.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
9.	To ensure the safety of all staff and clients, a risk assessment will be completed prior to each item of work in relation to risks relating to COVID-19. Specifically to assess whether evidence to support audit testing or an investigation can be obtained safely and in accordance with the required evidential levels. Actions to minimise risk will be completed and a determination made on whether the activities can be undertaken or if the evidence strategy can be substituted by alternative means. The risk assessment will be treated as a live document until the activity has been completed. Any activities that are deemed not safe to complete will be deferred to later in the financial year, escalated to the Executive Director of Finance or cancelled. The underlining processes for all activities will not fundamentally change.
POLICY FRAMEWORK IMPLICATIONS	
10.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED	None

<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Annual Internal Audit Plan 2020-21	
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.		
2.		

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Annual Internal Audit Plan 2020/21

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Business Services

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Agency / Temps	Business Services	1,2,8,13	all	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Annual Governance Statement	Business Services	all	all	Audit Activities feed into the overall assessment. In addition audit carry out a verification of the annual self-assessments submitted by Directors.
Cloud Storage	Business Services	1,3,9,10,13	5	Scope to include a review of the arrangements for business continuity.
Customer Services	Business Services	5,7,9,13	5	Scope to include a review of key operational controls and service delivery. The 2019/20 audit was interrupted due to COVID 19.
Data Management	Business Services	3,9,10	all	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Ethics	Business Services	all	all	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Expenses Travel & Subsistence	Business Services	1,10	5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Health and Safety	Business Services	2,8	1,2,5	Follow up required on progress to implement agreed actions.

Information Governance	Business Services	9,10	all	Scope of the review to cover FOI and GDPR requirements
IT procure and disposal	Business Services	1,3,13	5	Follow up required on progress to implement agreed actions. The 2019/20 audit was interrupted due to COVID 19.
IT Project (Paris)	Business Services	1,3,5,10,12,13	4,5	Project selected under the 2019/20 plan was PARIS, the scope focused on project management arrangements however this work was interrupted due to COVID 19.
Learning & Development	Business Services	1,2,8,13	5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Mobile devices	Business Services	1,3,10	5	Follow up required on progress to implement agreed actions. The 2019/20 audit was interrupted due to COVID 19.
NHS Digital Submission	Business Services	5,7,9	4,5	Data sharing verification required.
Payroll	Business Services	1	5	Scope to include a review of key controls over the administration of pay and rations. The 2019/20 audit was interrupted due to COVID 19.
Recruitment and Retention	Business Services	1,2,8,13	all	Follow up required on progress to implement agreed actions.

Communities, Culture and Homes

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Asbestos	Community Culture & Homes	2,8,12	1,2,4,5	Follow up required on progress to implement agreed actions. The 2019/20 audit was interrupted due to COVID 19.
Community Funerals	Community Culture & Homes	1,8	1,4	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
HMO Licensing	Community Culture & Homes	2,5,8	1,4	Follow up required on progress to implement agreed actions.
Housing Depot Responsive Repairs	Community Culture & Homes	1,12,13	1,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Parking (Income Collection)	Community Culture & Homes	1,12	2,3	Follow up required on progress to implement agreed actions.
Port Health	Community Culture & Homes	2,8	1,2,5	Follow up required on progress to implement agreed actions.
Right to Buy	Community Culture & Homes	1,9	1,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.

Finance

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Appointeeship	Wellbeing Health & Adults/ Finance	4,5	4,5	Scope of the review to cover key operational controls. The 2019/20 review was interrupted by COVID 19
Bank Account	Finance	1	5	Scope to include a review of key controls. The 2019/20 audit was interrupted due to COVID 19.
Disabled Facilities Grant	Finance	1,5	1,4,5	Grant Certification
Housing Rents and Debt	Community Culture & Homes/ Finance	1,5,9	1,5	Scope to include a review of key controls..
Infection Control Grant	Finance	1,2,9	1,4,5	Grant Certification
Local Authority Bus Subsidy	Finance	1,11	2,3,5	Grant Certification
Local Transport Capital Grant	Finance	1,11	2,3	Grant Certification
Payable	Finance	1,5,7,12	all	Scope to include a review of key operational controls and changes to online & telephone payments.
Procurement	Finance	1,2,5,7,12,13	all	Scope to include a review of compliance to the procurement framework. The 2019/20 audit was interrupted due to COVID 19.
Purchasing Cards	Finance	1,12	5	Scope to focus on compliance with Financial Rules. The 2019/20 audit was interrupted due to COVID 19.
PUSH	Finance	1	1	Grant Certification

Receivable	Finance	1,5,7,12	1,5	Scope to include a review of key operational controls and data analytics.
Refunds	Finance	1,5,7	5	Scope to include a review of key authorisation controls/ processes and integrity of data. The 2019/20 audit was interrupted due to COVID 19.
Supplier Performance	Finance	1,12	all	Scope to include a review of performance and key controls.
Test and Trace Grant COVID 19	Finance	1,2,9	1,4,5	Grant Certification
Voids	Community Culture & Homes/ Finance	1,5,12,13	1,5	Follow up required on progress to implement agreed actions.

Place

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Asset Management	Place	1,2,12,13	1,3,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
CDM Asbestos Review	Place	2,8	1,2,4,5	Follow up required on progress to implement agreed actions.
Contract - Electric Vehicle Charging Points	Place	1,11,12	2,5	Follow up required on progress to implement agreed actions.
Fleet Management	Place	1,11	2,5	Scope to include a review of key controls.
Flood Risk Management	Place	2,8	all	Follow up required on progress to implement agreed actions.
Grounds Maintenance (Non Schools)	Place	1,12,13	1,2,3,5	Scope to include a review of key controls.
Pest Control	Place	2,13	1,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Regeneration Projects	Place	1,12	1,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Tower Blocks	Place	1,2,8	1,2,4,5	Scope to include a review of health and safety assessments and resolution timeframe.

Waste Operations	Place	2,12	2,5	Scope to include a review of performance and key controls. The 2019/20 audit was interrupted due to COVID 19.
Water Quality	Place	2,8	1,2	Scope to include a review of key controls against statutory requirements. The 2019/20 audit was interrupted due to COVID 19.

Wellbeing (Children & Learning)

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Bassett Green	Wellbeing Children & Learning	6,7	4	Follow up required on progress to implement agreed actions.
Care Leavers	Wellbeing Children & Learning	6,7	4,5	Follow up required on progress to implement agreed actions.
Child Sexual Exploitation & Missing Persons	Wellbeing Children & Learning	6,7	4,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Children in Need	Wellbeing Children & Learning	6,7	4,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Education Psychologists	Wellbeing Children & Learning	6,7	4,5	Scope to include a review of statutory requirements and income generation.
Families Matters Grant	Wellbeing Children & Learning	1,6,7	1,4	Grant Certification required quarterly.
Independent Fostering Agreements	Wellbeing Children & Learning	6,7	4,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
Looked After Children	Wellbeing Children & Learning	6,7	4,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.
MASH	Wellbeing Children & Learning	6,7	4	Scope to include a review of key controls. The 2019/20 audit was interrupted due to COVID 19.

Mount Pleasant School	Wellbeing Children & Learning	6,7	4	Follow up required on progress to implement agreed actions.
Public Protection Notice (PPN1)	Wellbeing Children & Learning	6,7	4,5	Scope to include a review of legal and statutory requirements following practice changes.
Schools (TBC)	Wellbeing Children & Learning	6,7	4	Scope to include a review of key governance and operational controls.
School's Financial Values Statement	Wellbeing Children & Learning	6,7	4	Verification of the accuracy of the SFVS return for 2020.
Short Breaks	Wellbeing Children & Learning	6,7	4,5	Follow up required on progress to implement agreed actions.
St Monica Primary	Wellbeing Children & Learning	6,7	4	Follow up required on progress to implement agreed actions.
Woolston Infants	Wellbeing Children & Learning	6,7	4	Follow up required on progress to implement agreed actions.

Wellbeing (Health & Adults)

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Adult Safeguarding	Wellbeing Health & Adults	4,5	1,4	Scope to include a review of key controls and timeframe adherence.
Blue Badge	Wellbeing Health & Adults	5,7	1,4,5	Follow up required on progress to implement agreed actions.
Care Act	Wellbeing Health & Adults	4,5	4	Scope to include a review of compliance against the statutory framework.
Deprivation of Liberty (DOL's)	Wellbeing Health & Adults	4,5	4,5	Scope to include a review of adherence to statutory timeframe and key controls.
Direct Payments	Wellbeing Health & Adults	1,4,5	4,5	Follow up required on progress to implement agreed actions.
EU Perinatal Mental Health	Wellbeing Health & Adults	1,4,5	4,5	Grant Verification
Public Health Outcomes	Wellbeing Health & Adults	1,2,8,9	1,2,4,5	Scope to focus on evidence supporting delivery of PHO in non PH areas where PH Grant has been used.
Sexual Health Contract	Wellbeing Health & Adults	1,5,12	4,5	Follow up performed during 2019/20, exceptions remain open and therefore second follow up required.

Additional Audit Days Allocated

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Advice	all	-	-	-
Assurance Reporting COVID 19	all	all	all	Testing schedule devised to cover assurance work required. Areas to cover include but not limited to; Business Grants, Service provider additional costs, vouchers, PPE, fraud checks, data sharing, PPN20 etc.
Investigations	all	-	-	-
National Fraud Initiative (NFI)	all	-	-	-

Strategic Risks

1. Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.
2. Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions
3. Major IT incident or service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/ or statutory functions.
4. Failure to safeguard vulnerable adults resulting in a preventable incident.
5. Failure to ensure an effective and sustainable adult's social care system.
6. Failure to safeguard children resulting in a preventable incident.
7. Failure to ensure an effective and sustainable Children's social care system.
8. Failure to meet our health and safety responsibilities.
9. Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures.

10. Failure to maintain good governance whilst delivering organisational change and service redesign solutions.
11. Failure to ensure delivery of statutory air quality standards.
12. Failure by service areas to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules'.
13. Failure to have in place up to date skills audit across all service areas to identify the range of skills and technical/ professional expertise required to deliver services.

Corporate Outcomes

1. Communities, Culture and Homes
 - a) Supporting safer communities
 - b) Delivering more quality, affordable, council homes
 - c) Bitterne Community Hub
 - d) Developing cultural city
 - e) Outdoor sports centre
2. Green City
 - a) Sustainable energy and carbon reduction
 - b) Delivering clean air
 - c) Our natural environment
 - d) Resources, waste and water management
 - e) Sustainable active travel
3. Place
 - a) Local Plan
 - b) Mayflower Quarter
 - c) Local Transport Plan
 - d) Future of work
 - e) Southampton pound and social value
4. Wellbeing
 - a) Expanding St Marks School
 - b) Tackling child hunger
 - c) Transforming adult social care
 - d) Children & young People's special resource hub
 - e) Better case management
5. Successful, sustainable Business
 - a) Improving the customer experience
 - b) Innovation & efficiencies
 - c) Working differently
 - d) People development, absence management

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2019/20		
DATE OF DECISION:	27 JULY 2020		
REPORT OF:	EXECUTIVE DIRECTOR FINANCE & COMMERCIALISATION (S151 Officer)		
<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 Governance Committee of the Treasury Management activities and performance for 2019/20 against the approved Prudential Indicators for External Debt and Treasury Management.

RECOMMENDATIONS:	
It is recommended that Governance committee:	
(i)	Notes the Treasury Management (TM) activities for 2019/20 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.

REASONS FOR REPORT RECOMMENDATIONS	
1.	The reporting of the outturn position for 2019/20 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Governance Committee 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 Governance Committee 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
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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 2019/20 was approved by Council on 20 February 2019. These were subsequently reviewed and revised as part of the Council's Treasury Management Strategy Statement for 2020/21 at Governance Committee on 10 February 2020. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2020.
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.	Please note that this report: <ul style="list-style-type: none"> • is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code; • presents details of capital financing, borrowing, debt rescheduling and investment transactions; • reports on the risk implications of treasury decisions and transactions; • gives details of the outturn position on treasury management transactions in 2019/20; and • confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices also highlight that:
	a) Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 10 February 2020.
	b) There has been full compliance with the Prudential Indicators approved by Governance Committee on 10 February 2020.
	c) As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons

		<p>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.</p> <p>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.</p>
	d)	<p>For longer term investments the Council aims to continue to diversify into more secure and/or higher yielding asset classes.</p> <p>Total Investment returns during 2019/20 were £2.08M at an average rate of 4.31%.</p>
	e)	<p>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.</p> <p>As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 2.84%, is lower than that budgeted and lower than last year (3.31%), this is as a result of a reduction in base rates during 2019/20 resulting in an decrease in variable rate debt, this was offset by a corresponding decrease in variable interest on investments.</p> <p>This includes short term debt which was taken during the year, which averaged 1.25%. It is the intention to continue to borrow in the short term markets during 2020/21 to take further advantage of the current interest environment.</p>
	f)	<p>Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs.</p> <p>If opportunities arise long term borrowing would be considered as demonstrated during 2019/20 when the benchmark gilt rates for PWLB loans fell to historic lows and a £90M 15 year EIP (Equal Instalment Payment) loan was taken at 1.12% to secure this advantageous rate and add some certainty to the debt portfolio.</p>
	g)	<p>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.</p>
	h)	<p>Net loan debt increased during 2019/20 from £248M to £284M (£36M) as detailed in Appendix 2, paragraph 5.</p> <p>Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £7.9M at an average interest rate of 2.79%</p>
	i)	<p>The initial reaction to the COVID crisis in March meant that short term liquidity became difficult, as for example local authorities held on to their cash balances in reaction to the uncertainties. However, after the initial uncertainty the markets have returned to a more 'normal' position, with increased willingness for lending to counterparties. Government has also sought to assist cash flow by providing up front</p>

		funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme). As a result of this grant funding year end investment balances were higher than expected.
	j)	The impact of COVID-19 will continue during the current financial year and will be reported as part of the quarterly monitoring reports and as part of the mid-year report.
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2019/20.	
12.	Appendix 2 summarises treasury activity during the year and covers: <ul style="list-style-type: none"> • Borrowing Requirement and Debt Management • Investment Activity • Non – Treasury Investments 	

COMPLIANCE WITH PRUDENTIAL INDICATORS

13.	It can be confirmed that the Council has complied with its Prudential Indicators for 2019/20, approved by Governance Committee on 10 February 2020.																						
14.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2019/20. 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.																						
15.	<i>Table1: Key Prudential Indicators</i>																						
	<table border="1"> <thead> <tr> <th>Indicator</th> <th>Limit</th> <th>Actual at 31/3/2020</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt</td> <td>£925M</td> <td>£385M</td> </tr> <tr> <td>Operational Limit for external debt</td> <td>£875M</td> <td>£385M</td> </tr> <tr> <td>Maximum external borrowing year to date</td> <td>£875M</td> <td>£351M</td> </tr> <tr> <td>Limit of fixed interest debt</td> <td>100%</td> <td>86%</td> </tr> <tr> <td>Limit of variable interest debt</td> <td>50%</td> <td>14%</td> </tr> <tr> <td>Limit for long term investments</td> <td>£55M</td> <td>£30M</td> </tr> </tbody> </table>		Indicator	Limit	Actual at 31/3/2020	Authorised Limit for external debt	£925M	£385M	Operational Limit for external debt	£875M	£385M	Maximum external borrowing year to date	£875M	£351M	Limit of fixed interest debt	100%	86%	Limit of variable interest debt	50%	14%	Limit for long term investments	£55M	£30M
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RESOURCE IMPLICATIONS

Capital/Revenue

16.	This report is a requirement of the TM Strategy, which was approved at Council on 10 February 2020.	
17.	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 £7.87M in 2019/20. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and the new long term borrowing being taken at preferential rates.	
18.	In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2019/20 £2.03M was	

	earned which was higher than budgeted mainly due to continuing investment in bonds and LAPF and higher than expected balances after the PWLB loan was taken in September.
19.	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 £0.14M in 2019/20 compared to an estimate of £0.16M. 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>	
20.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
21.	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>	
22.	None.
RISK MANAGEMENT IMPLICATIONS	
23.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
24.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	NONE

<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	2019/20 Economic Background	
2.	Treasury Activity during 2019/20	
3.	Southampton Benchmarking 31 st March 2020	
4.	Compliance with Prudential Indicators	
5.	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.		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2020/21 to 2022/23 – reported to Council 26 February 2020	

External Factors Impacting on Treasury during 2019/20

A summary of the external factors in 2019-20 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

Economic background; The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Outlook for 2020/21: The medium-term global economic outlook is exceedingly weak. While containment measures taken by national governments in response to coronavirus (COVID-19) are being eased, it is likely to be sometime before demand recovers to pre-crisis levels due to rises in unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.

The global central bank and government responses have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. The economic bounce in the second half of the year will be significant, as businesses currently dormant begin production/supply services once more.

However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before a vaccine is produced will mean that the subsequent pace of recovery is limited. Early signs of this are evident in the Chinese data, although the impact may be even more

significant for Western economies that tend to be more reliant on the hard-hit services sector and have now experienced an even greater virus impact.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Following fence-sitting by MPC members, money markets have taken the unprecedented step of pricing in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates and inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation.

Forecast interest Rates

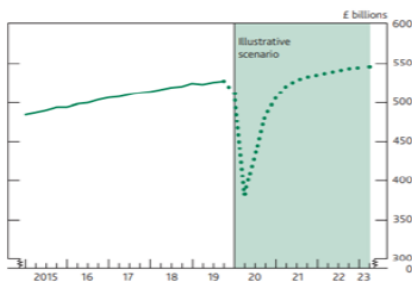
The following forecast interest forecast are set against a background of:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- We expect additional monetary loosening in the near future (possibly the next meeting), most likely through further financial asset purchases. While our central case for Bank Rate is no change, we cannot rule out further cuts to Bank Rate to zero or even into negative territory.
- Gilt yields will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth prospects improve.
- Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.

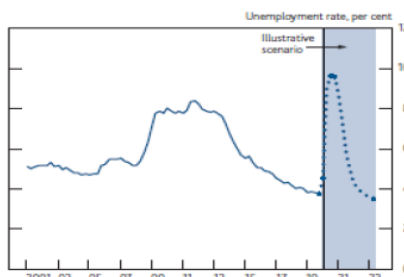
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30
Arlingclose Central Case	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.45	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
1yr money market rate													
Upside risk	0.05	0.05	0.05	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40
Arlingclose Central Case	0.50	0.45	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.50	0.55
Downside risk	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20
5yr gilt yield													
Upside risk	0.10	0.20	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.10	0.15	0.15	0.15	0.15	0.15	0.15	0.20	0.20	0.25	0.25	0.30	0.35
Downside risk	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45
10yr gilt yield													
Upside risk	0.10	0.25	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60
Arlingclose Central Case	0.20	0.25	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.50
Downside risk	-0.30	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45
20yr gilt yield													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60
Arlingclose Central Case	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.70	0.75	0.75
Downside risk	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20
50yr gilt yield													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60
Arlingclose Central Case	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.55	0.55	0.60	0.60
Downside risk	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20

BoE Monetary Policy Report - May 2020

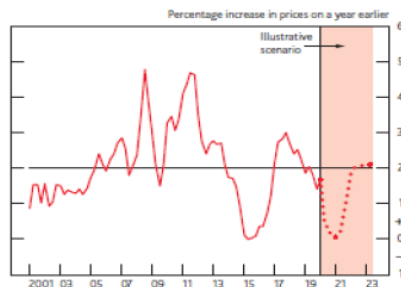
Outlook for UK GDP



Outlook for UK Unemployment



Outlook for UK CPI inflation

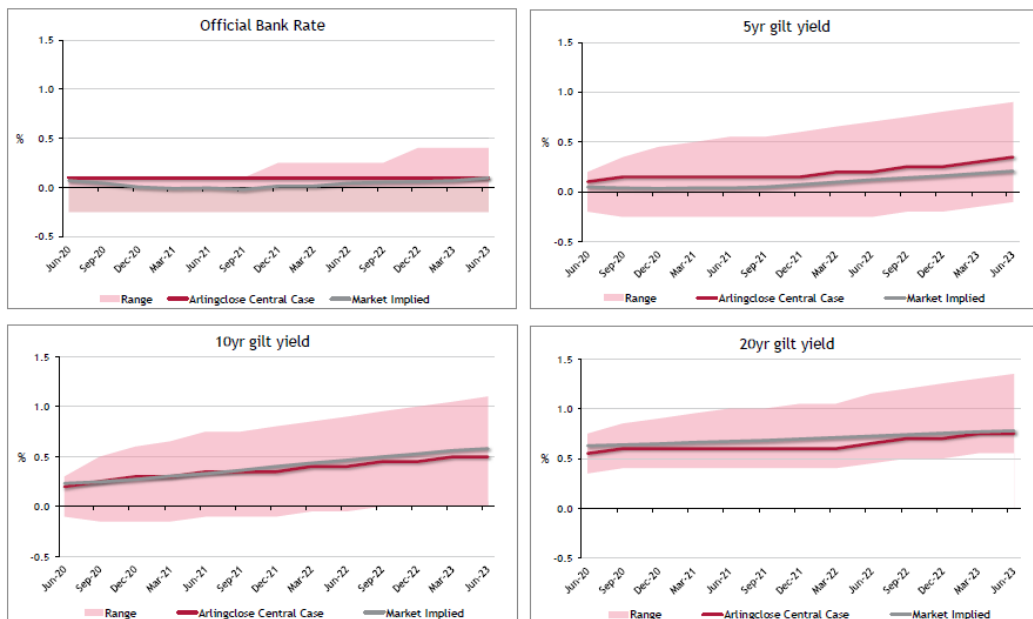


The Bank of England has taken the unusual step of not producing the regular fan charts for GDP growth and CPI inflation, presumably because the level of uncertainty over the future path for both measures is so great no reliance can be placed on the output from the normal economic model. Instead it has produced an illustrative scenario for GDP, unemployment and inflation which is based on a set of stylised assumptions about the pandemic, the responses of economic players, the prevailing levels of asset prices and the market path for interest rates.

May 2020 Scenario: After falling sharply in H1 2020, GDP picks up relatively rapidly in 2020 H2 in the scenario, although it takes some time to recover towards its previous path. The Bank of England notes that the risks to this scenario lie to the downside. Unemployment is expected to rise sharply in H1 2020 and is expected to fall in H1 2021 before returning to pre-coronavirus levels in 2022. CPI Inflation is predicted to drop to 0 in H2 2020 before rising throughout 2021 to reach the 2% target in 2023.

Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risk around the Bank Rate forecast is weighted to the downside. The risks for the gilt yield forecasts are broadly balanced.

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
 PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.80%
 PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



TREASURY MANAGEMENT ACTIVITY DURING 2019/20

Appendix 2

BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. On the 31st March 2020, the Authority had a net borrowing need of £69M 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.
2. 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 a decrease of our internal borrowing of £15.3M.

Table 1 – Balance Sheet Summary

	31-Mar-19 Actual	31-Mar-20 Actual	31-Mar-20 Movement in year
	£M	£M	£M
General Fund CFR	334.02	339.58	5.56
Housing CFR	162.73	169.13	6.40
Total CFR	496.75	508.71	11.96
Less Other Debt Liabilities*	(71.07)	(67.83)	3.24
Loans CFR	425.68	440.88	15.20
Less External Borrowing	(246.34)	(276.87)	(30.53)
Internal (over) Borrowing	179.34	164.01	(15.33)
Less Usable Reserves	(154.28)	(174.55)	(20.27)
Less Working Capital Surplus	(92.94)	(58.01)	34.93
New Borrowing or (Investments)	(67.88)	(68.55)	(0.67)

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

3. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was last updated in February 2020, the CFR for 31 March 2020 was estimated at £535.6M, the Council's actual CFR at the end of the year was £508.7M. This decrease was due to slippage in borrowing on the capital programme, £17.5M on the General Fund and £9.4M on HRA. Actual Movement in year is shown in the following table.

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	31/03/2019 Actual £M	31/03/2020 Forecast £M	31/03/2020 Actual £M	31/03/2020 Variance £M
Balance Brought forward	322.03	334.02	334.02	0.00
New Borrowing	19.41	34.75	17.26	(17.49)
MRP	(5.65)	(6.07)	(6.07)	0.00
Appropriations (to) from HRA	0.00	(2.40)	(2.40)	0.00
Movement in Other Liabilities	(2.33)	(3.24)	(3.24)	0.00
MRP Holiday	0.56	0.00	0.00	0.00
Total General Fund Debt	334.02	357.06	339.57	(17.49)
HRA	162.73	178.54	169.13	(9.41)
Total CFR	496.75	535.60	508.70	(26.90)

4. 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.

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

	31-Mar-19 Actual £M	31-Mar-19 Average Rate %	31-Mar-20 Actual £M	31-Mar-20 Average Yield / Rate %	31-Mar-21 Estimated Balance £M
Long Term Borrowing					
Public Works Loan	197.34	3.30	257.87	2.88	527.60
LOBO Loans from Banks	9.00	4.86	9.00	4.89	9.00
	206.34	3.36	266.87	2.95	536.60
Short Term Borrowing					
Other Local Authorities	40.00	0.75	10.00	0.92	10.00
Total External Borrowing	246.34	3.03	276.87	0.92	546.60
Other Long Term Liabilities					
PFI Schemes	56.88	8.82	54.00	9.01	50.96
Deferred Debt Charges (HCC)	14.55	2.61	13.83	2.66	13.46
Total Gross External Debt	317.77	4.08	344.70	3.87	611.02
Investments:					
Managed In-House					
Government & Local Authority	(9.00)	0.79	0.00	0.00	
Cash (Instant access)	(26.06)	0.77	(31.11)	0.34	(10.00)
Cash (Notice Account)			0.00	0.00	0.00
Short Term Bonds	(1.60)	1.21	0.00	0.00	
Long Term Bonds	(6.03)	3.15	(3.01)	5.30	(3.00)
Managed Externally					
Pooled Funds (CCLA)	(27.00)	4.40	(27.00)	4.35	(27.00)
Total Investments	(69.69)	4.03	(61.13)	4.44	(40.00)
Net Debt	248.08		283.57		571.02

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

Movement in Borrowing during the year	2018/19	31-Mar-20	2019/20	Average Life
	Actual	Movement	Actual	
	£M	£M	£M	
Long-term borrowing Carried Forward	217.81		206.34	
Maturities in year	(11.47)		(39.47)	
New borrowing taken in year	0.00		100.00	
Net Long Term Borrowing	206.34	60.53	266.87	17 Years
Short-term borrowing Carried Forward	33.00		40.00	
Maturities in year	(33.00)		(54.00)	
New borrowing taken in year	40.00		24.00	
Net Short Term Borrowing	40.00	(30.00)	10.00	2 Months
Total Borrowing at 31st March	246.34	30.53	276.87	

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.

7. The maturity analysis of the Council's debt at 31 March 2020 is further analysed below. Debt due in one year includes both short term and long term loans due in year, Lender's Option Borrower's Option (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.

8. **Table 5: Maturity Structure of Borrowing**

<u>Outstanding</u> <u>31 March 2019</u>		<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>	<u>Total Borrowing</u>	<u>Outstanding</u> <u>31 March 2020</u>		<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>
£000	%		Source of Loan	£000	%	
(197,344)	80		Public Works Loan Board	(257,875)	93	
(49,000)	20		Other Financial Institutions	(19,000)	7	
(246,344)	100			(276,875)	100	
Analysis of Loans by Maturity						
(76,469)	31		Less than 1 Year	(45,278)	16	
(19,278)	8		Between 1 and 2 years	(8,750)	3	
(2,750)	1		Between 2 and 5 years	(18,000)	7	
0	0		Between 5 and 10 years	(30,000)	11	
0	0		Between 10 and 15 years	(37,000)	14	
(10,000)	4		Between 20 and 25 years	(5,000)	2	
(5,000)	2		Between 25 and 30 years	(25,000)	9	
(42,000)	17		Between 30 and 35 years	(36,700)	13	
(50,600)	20		Between 35 and 40 years	(47,900)	17	
(31,247)	13		Between 40 and 45 years	(14,247)	5	
(9,000)	4		Uncertain Date**	(9,000)	3	
(246,344)	100			(276,875)	100	

Borrowing Update

9. On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12th March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" allows key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closes on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22.

<u>Borrowing Strategy</u>	
10.	At 31st March 2020 the Authority held £276.87M of loans, (an increase of £30.53M since 31st March 2019), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans are summarised in Table 4 and 5 above.
11.	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.
12.	In keeping with these objectives, new borrowing was only taken when a drop in the market presented an opportunity; short term borrowing was kept to a minimum, while existing loans were allowed to mature without replacement. We have remained under our CFR limit and had internal borrowing of £164.01M at the end of the year. This strategy enabled the Authority to reduce net borrowing costs and reduce overall treasury risk.
13.	The PWLB were the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide but this year has illustrated, PWLB funding margins have increased quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
14.	However, due to the continued depressed markets and the 'cost of carry' associated with long term debt (i.e. the return from funds borrowed, whilst held and invested in the short term, would be less than the interest payments owed), the Council will defer long term borrowing and continue to use internal resources to finance the capital programme to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio. This will be kept under review during 2020/21 with the need to resource an increasing capital programme and if opportunities arise as with the borrowing taken in 2019/20. Our advisors assist with this 'cost of carry' and breakeven analysis.
15.	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>	
16.	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>Other Debt Activity</u>	
17.	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 £2.87M is £54M.
18.	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 £13.8M. This is being repaid over 50 years at £0.4M per annum.

INVESTMENT ACTIVITY

19. 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.
20. In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell
21. The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 the council’s investment balances have ranged between £38.7M and £152.8M. Movement in year is summarised in the table below:

22. **Table 6: Investment activity during the year**

	Balance on 01/04/2019	Investments Repaid	New Investments	Balance on 31/03/2020	(Increase)/ Decrease in Investment for Year	Average Life of Investments
	£M	£M	£M	£M	£M	Life
Multi- National Bonds (not subject to bail in)	(3)			(3)	0	2.47 years
Covered Bonds (secured)	(5)	5		0	5	
Money Market Funds and Call Account	(26)	470	(475)	(31)	(5)	1 day
Government & Local Authority Managed Externally (CCLA Pooled funds)	(9)	83	(74)	0	9	
	(27)			(27)	0	Unspecified
Total Investments	(70)	558	(549)	(61)	9	

23. 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 2019/20. 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.

	Target	Actual
Portfolio average credit rating	A	AA-

24. 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.

25. The table below summarises the Council’s investment portfolio at 31 March 2020 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 2020

Credit Rating	Long Term		Short Term	
	2019 £000	2020 £000	2019 £000	2020 £000
AAA	3,015	3,013	4,764	295
AA+			0	0
AA			9,021	10
AA-			17,001	21,840
A+			7,000	7,000
A			2,124	2,367
A-				
Shares in unlisted companies	45	20		
Unrated pooled funds	27,451	26,469	301	141
Total Investments	30,511	29,502	40,211	31,653

Credit Developments and Credit Risk Management

26. Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-. Further information is available in Appendix 1, Economic Background.

27. **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. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 0.82% is higher than the average of 0.64% and our overall return including the Local Authority Property Fund (income only) is 2.31% as opposed to the average of 1.23%. 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

28. 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.

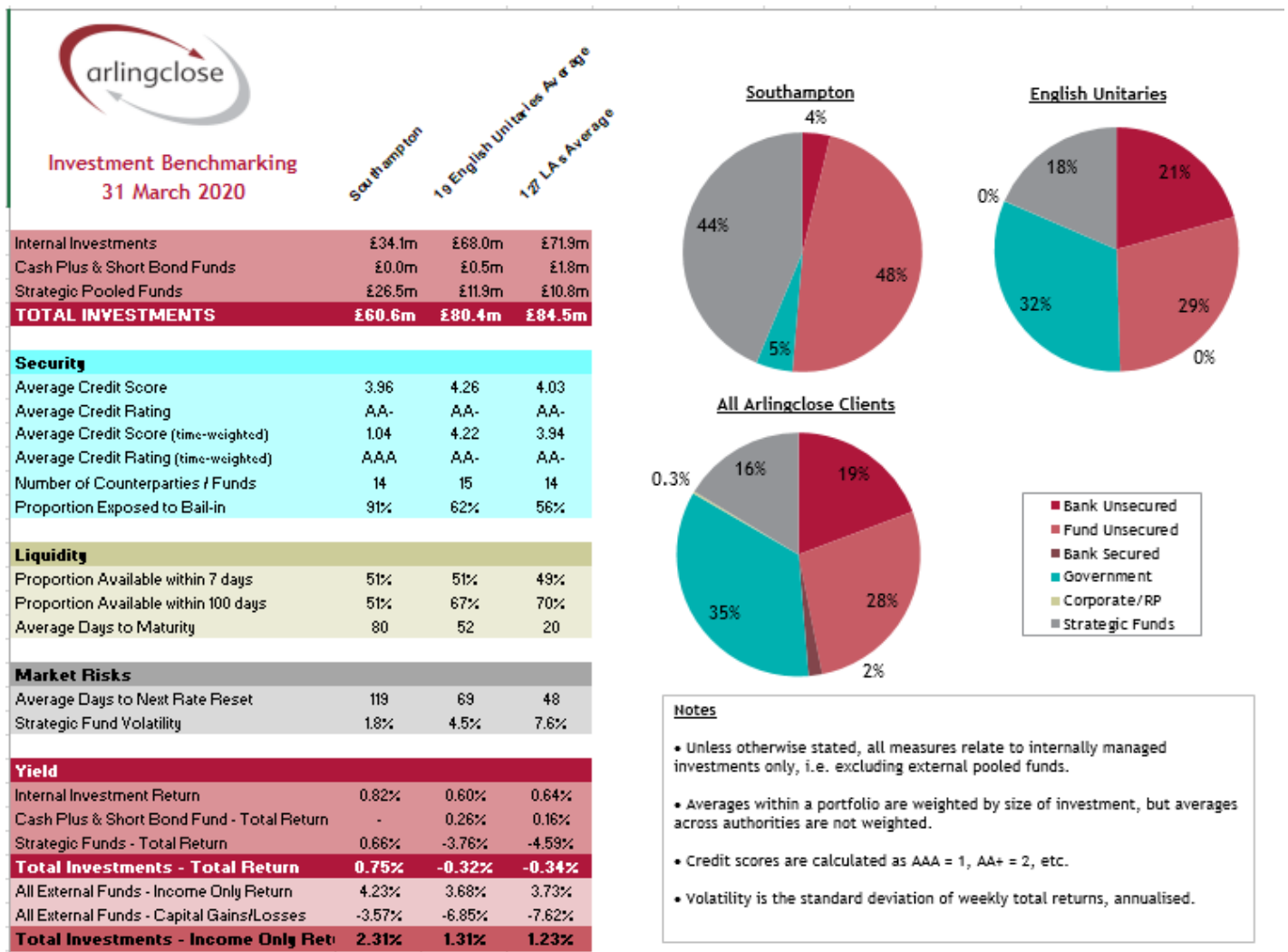
Externally Managed Funds	
29.	The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term, but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
30.	During 2019/20 this investment returned an average yield of 4.35% against the initial investment. Due to market conditions the value of the fund fell from £27.45M at 31 March 2019 to £26.47M a movement of £0.98M in the year, a reduction of £0.53M against the original investment. This notional “loss” at year end would only be a cost to the Authority at the point the investment is sold as the Authority is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds’ fair value losses to the Pooled Investment Fund Adjustment Account until 2023/24.
31.	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. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority’s latest cash flow forecasts, investment in these funds has been maintained.
Non – Treasury Investments	
32.	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.
33.	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 2019/20 was 6.04% gross and 2.14% net (after borrowing costs of £1.16M were incurred), which therefore represents a contribution to the revenue account of around £0.64M.
34.	All of the properties remain fully let and the tenants are meeting their financial obligations under the leases and there are currently no concerns regarding the property that has currently fallen in value below the debt outstanding on it due to the current financial environment. In November 2019, full council agreed an approach of additional investment in property, with £200M added to the capital programme, but any allocation from this sum has yet to be made.

35. Table 8: Property Investment Fund

Property	Actual	31.03.2019 Actual		31.03.2020 Actual		Outstanding Debt 31.03.2020
	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M
Property 1	6.47	6.27	0.24	6.30	0.03	5.97
Property 2	14.69	13.87	0.08	10.80	(3.07)	13.57
Property 3	8.53	8.17	0.09	8.39	0.22	7.88
	29.69	28.31	0.41	25.49	(2.82)	27.42

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Southampton Benchmarking Scores 31st March 2020



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COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2019/20 Appendix 4

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 2019/20, 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 2020, details of movement on the CFR can be seen in the Appendix 2, Treasury Activity during 2019/20, table 2.

This shows that we borrowed £37.75M less than expected, which was mainly due to slippage in the capital programme resulting in a decrease of £26.9M in expected borrowing and 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	31/03/2019 Actual £M	31/03/2020 Estimate £M	31/03/2020 Actual £M	31/03/2019 Variance £M
Borrowing (Long Term GF)	68.93	109.59	109.59	0.00
Borrowing (Long Term HRA)	137.41	147.28	157.28	10.00
Borrowing (Short Term)	40.36	57.81	10.36	(47.45)
Total Borrowing	246.70	314.68	277.23	(37.45)
Finance leases and Private Finance Initiatives	56.88	54.01	54.01	0.00
Transferred Debt	14.19	13.83	13.83	0.00
Total Other Debt	71.07	67.84	67.84	0.00
Total Debt	317.77	382.52	345.07	(37.45)

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 2019/20; borrowing at its peak was £311.2M plus other deferred liabilities of £71.1M.

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 2019/20 (%)	Maximum during 2019/20 (%)
Upper Limit for Fixed Rate Exposure	100	85.9
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	20.2
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 2019/20 the actual principal sum invested peaked at £34.6M the same as for 2018/19 but has now reduced to £30M. 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 15% 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	2018/19 Actual	2019/20 Forecast	2019/20 Actual	2019/20 Variance
	%	%	%	%
General Fund	6.23	6.19	6.82	0.63
HRA	14.69	6.71	7.14	0.43
Total	10.35	8.85	8.79	(0.06)

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.

7. Summary

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

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GLOSSARY OF TREASURY TERMS

<p>Authorised Limit (Also known as the Affordable Limit):</p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves:</p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bail - in (Risk):</p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p>Bank Rate:</p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p>Bond:</p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p>CD's:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>

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.

<p>(Short) Term Deposits:</p> <p>Deposits of cash with terms attached relating to maturity and rate of return (Interest).</p>
<p>Specified Investments:</p> <p>Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.</p>
<p>Supported Borrowing:</p> <p>Borrowing for which the costs are supported by the government or third party.</p>
<p>Temporary Borrowing:</p> <p>Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>
<p>Treasury Management Code:</p> <p>CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p>Treasury Management Practices (TMP):</p> <p>Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.</p>
<p>Unsupported Borrowing:</p> <p>Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p>Variable Net Asset Value (VNAV):</p> <p>Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.</p>
<p>Yield:</p> <p>The measure of the return on an investment instrument.</p>

DECISION-MAKER:	Governance Committee
SUBJECT:	Projects & programmes review
DATE OF DECISION:	27 th July 2020
REPORT OF:	Deputy Chief Executive

<u>CONTACT DETAILS</u>			
Executive Director	Title	Deputy Chief Executive	
	Name:	Mike Harris	Tel: 023 8083 2882
	E-mail	Mike.harris@southampton.gov.uk	
Author:	Title	Head of Projects, Policy & Performance	
	Name:	Munira Holloway	Tel: 023 8083 4476
	E-mail	Munira.holloway@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The Corporate Business plan was approved at full council in February 2020 alongside the Medium-Term Financial Strategy. The plan set out the key projects for the five year period as understood at that time. This paper provides a summary of key projects and programmes as articulated in the Corporate Plan that are currently in formal stages of project governance. Summary review of impact of Covid 19 on these key projects and programmes and any mitigating actions in place.

A further review of changing priorities or new activities required as a result of Covid recovery plans is currently in progress.

RAG status definitions

Red: Outside agreed parameters, Amber: At risk, Green: On track

7 currently RAG status green

5 currently RAG status amber

0 currently RAG status red

4 completed since last report

RECOMMENDATIONS:

	(i)	Report to be noted.
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REASONS FOR REPORT RECOMMENDATIONS

1.	In order to update the Governance Committee on the key activities, projects and programmes currently in progress.
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED
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2.	Not to update the committee, not considered to be an appropriate option.
DETAIL (Including consultation carried out)	
3	Delivering more quality, affordable council homes Overall project status: Green Approval to proceed with 726 homes sought, with is the remainder of the 1000 committed.
4	Bitterne Community Hub Overall project status: Amber Review purpose and opportunities as a result of Covid-19 impacts, including leisure model, income generation, land values and future of the high street. To consider as part of leisure strategy.
5	City of Culture bid Overall project status: Green Accelerate programme, working in line with key bid dates.
6	Outdoor Sports Centre Overall project status: Amber Review purpose and opportunities as a result of Covid.
7	Green City Overall project status: Green Work continues including consideration for carbon offset, green infrastructure planning and flood resilience. Green transport recovery plan in place.
8	Local Plan Overall project status: Green Deliver as planned and as per statutory frameworks.
9	Mayflower Quarter Overall project status: Amber Continue to develop Master Plan, some difficulties in stakeholder engagement due to Covid. Revision of activities under way.
10	Local Transport Plan Overall project status: Green TCF work continues, plan may re-shape somewhat with Covid impact. Currently on track.
11	St Mark's school Overall project status: Green Delivery continuing, on track for 2022.
12	Better case management Overall project status: Amber Delivery impact of supplier and staff availability for workshops and development being reviewed. Revised planning under way.
13	Itchen Bridge contactless payments Overall project status: Green On track to deliver Q3 2020 as planned.

14	Smart ways of working Overall project status: Amber Phase 1 delivery accelerated remote capability rollout as a result of Covid. Reshaping future programme.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
15	All implications considered as part of project and managed through project governance.
<u>Property/Other</u>	
16	All implications considered as part of project and managed through project governance.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
17	S.1 Localism Act 2011, S.111 Local Government Act 1972.
<u>Other Legal Implications:</u>	
18	None.
RISK MANAGEMENT IMPLICATIONS	
19	All projects will have risk registers included as part of their project management arrangements. The Executive Management Board will review progress on a quarterly basis to ensure a risk management overview at a council wide level.
POLICY FRAMEWORK IMPLICATIONS	
21	The projects identified are part of the council's approved Corporate Business Plan.

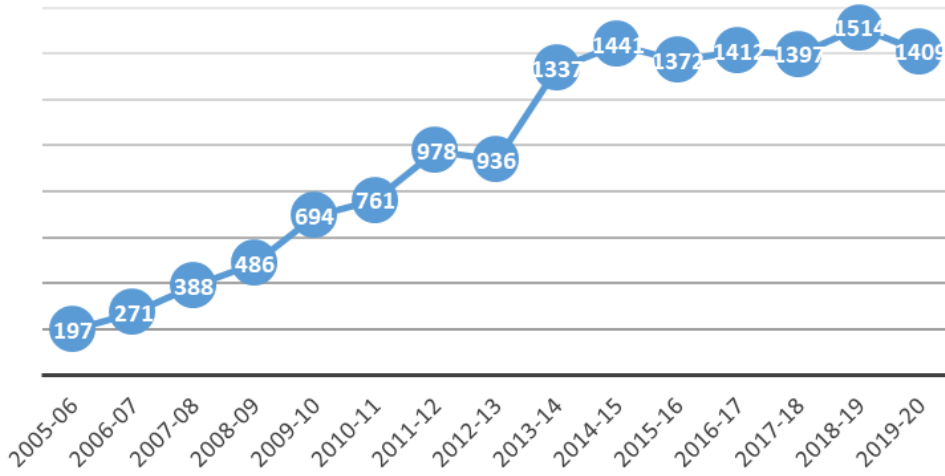
KEY DECISION?	/No	
WARDS/COMMUNITIES AFFECTED:		
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	None.	
2.		
Documents In Members' Rooms		
1.		
2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
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.		
2.		

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		FREEDOM OF INFORMATION, DATA PROTECTION & REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2019-20	
DATE OF DECISION:		27 th JULY 2020	
REPORT OF:		Service Director Legal and Business Operations	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	TRACY HORSPOOL	Tel: 023 8083 2027
	E-mail:	Tracy.horspool@southampton.gov.uk	
Director	Name:	MIKE HARRIS	Tel: 023 8083 2882
	E-mail:	Mike.harris@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
A report detailing the statistical information for the financial year 2019-20 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 2019 – 31 st March 2020 relating to: <ul style="list-style-type: none"> • FOIA and associated legislation • GDPR • RIPA 2000 	
	(ii)	To note the outcome of the recent inspection by the Investigatory Powers Commissioner's Office ('IPCO') of the Council's compliance with the Regulation of Investigatory Powers Act 2000 and its use of covert investigatory powers To note the updated Corporate Surveillance document (May 2020) attached at appendix 1	
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 2019-20.		
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)	
4.	This report will be published on the Council's website
	FOIA
5.	The FOIA came fully into force on 1 st January 2005, marking a major enhancement to the accessibility of information held by public authorities.
8.	Running parallel to the FOI regime is the 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.
9.	Under the FOIA and associated legislation, anybody may request information from a public authority with functions in England, Wales and/or Northern Ireland. Subject to exemptions, the FOIA confers two statutory rights on applicants: <ul style="list-style-type: none"> (i) The right to be told whether or not the public authority holds that information; and (ii) The right to have that information communicated to them
10.	There are two types of exemptions that may apply to requests for information – absolute and qualified.
11.	Information that falls into a particular exemption category, for example information relating to commercial interests, will have to be disclosed unless it can be successfully argued that the public interest in withholding it is greater than the public interest in releasing it. Such exemptions are known as qualified exemptions.
12.	Where information falls within the terms of an absolute exemption, for example, information reasonably accessible by other means or information contained in court records, a public authority may withhold the information without considering any public interest arguments.
13.	The Council has now experienced the fifteenth full year of the FOIA, which has seen the number of requests received plateau over the past 7 years.

FOI / EIR Requests Received



14. The number has decreased slightly from 1514 for the year to 1409, but the drop can be attributed to a sharp decline in the number of requests received in March due to the COVID-19 pandemic.

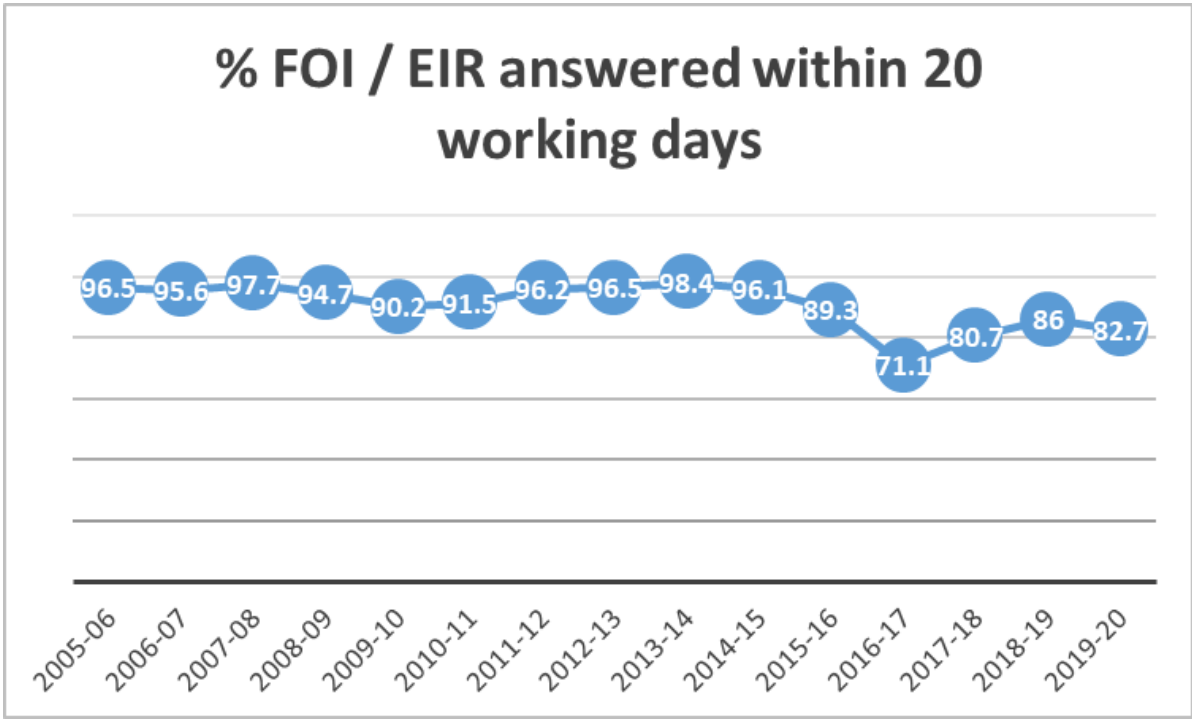
The area breakdown of the requests is as follows:

Directorate	No. Rec'd	%	Days
Svc Director Transactions & Universal Services	342	86%	12.7
Svc Director Children & Families	239	76%	16.5
Svc Director Digital & Business Operations	220	83%	12.3
Svc Director Housing, Adults & Communities	200	79%	15.6
Svc Director Growth	195	85%	14.6
Svc Director HR and Organisational Development	56	88%	12.8
Svc Director Intelligence, Insight & Communications	42	83%	15.1
Svc Director Legal & Governance	42	91%	12.7
Svc Director Strategic Finance & Commercialisation	31	81%	14.2
Svc Director Public Health	29	76%	16.8
Requests on hold at time of report	9	N/A	N/A
Director of Quality & Integration	4	100%	16.3
Grand Total	1409	83%	14.2

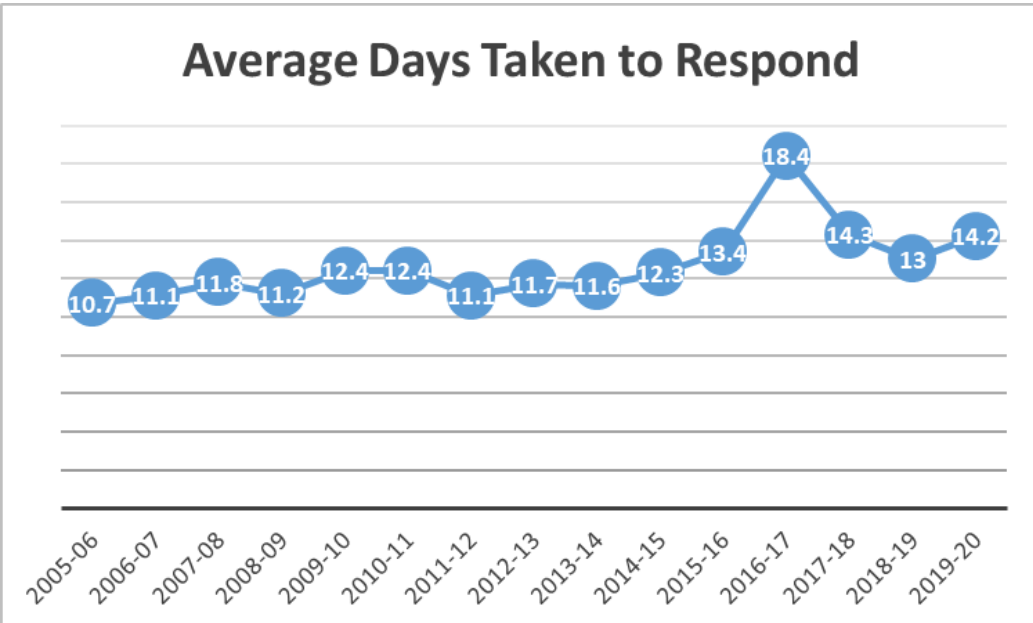
To summarise, the Council has received a total of 1409 requests between 1st April 2019 and 31st March 2020. This comprises 1312 dealt with as FOI requests and 97 EIR requests.

15. 2019-20 has seen an overall decrease in the volume of requests received in comparison to previous years. The average number of requests received per month was 117, compared with 126 last year. COVID-19 did have an impact on this, with March seeing a drop in requests of around a third. The monthly average of excluding March was 125, on par with last year.

16. During the year, 83% of all monitored FOI and EIR requests (excluding those 'on hold' or lapsed) were dealt with within the statutory deadline of 20 working days. This is a slight decrease on the previous year, which can also be attributed to COVID-19, which saw the Council divert resources to ensure key services remained operational.



18. This has also had an impact on the time taken to respond to requests, with the overall response time increasing 14 days on average.



19.	<p>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 2019-20, the Council issued 71 Refusal Notices on fees grounds, which represents an increase, with 51 being issued last year.</p>														
20.	<p>Of all requests received during the year, 63% of information requested was disclosed in full. Of the remaining requests, 4% of information was not held by the Council, 10% were partly responded to by the Council (i.e. some parts of the request were subject to an exemption), and 14% 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).</p> <div data-bbox="245 837 1441 1550" data-label="Figure"> <p style="text-align: center;">REQUEST OUTCOME</p> <table border="1"> <caption>Request Outcome Data</caption> <thead> <tr> <th>Outcome</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Fully Responded</td> <td>63%</td> </tr> <tr> <td>Refused</td> <td>14%</td> </tr> <tr> <td>Part disclosure</td> <td>10%</td> </tr> <tr> <td>Information not held</td> <td>4%</td> </tr> <tr> <td>Withdrawn</td> <td>8%</td> </tr> <tr> <td>Lapsed</td> <td>8%</td> </tr> </tbody> </table> </div>	Outcome	Percentage	Fully Responded	63%	Refused	14%	Part disclosure	10%	Information not held	4%	Withdrawn	8%	Lapsed	8%
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21.	<p>16 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.</p>														
22.	<p>This year, there have been 2 occasions where an appeal was made to the ICO as a result of the Council's decision in respect of their internal review. In the first, the ICO ruled that the Council had incorrectly identified a request made under the Environmental Information Regulations as one being made under the Freedom of Information regime, and upheld the requesters complaint that a reasonable search for the information had not been undertaken. In the second, the requester was not satisfied that the Council had correctly applied an exemption in respect of commercial sensitivity when withholding the information. The requester later withdrew their complaint to the ICO.</p>														

23.	<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" data-bbox="231 488 1449 1104"> <thead> <tr> <th data-bbox="231 488 1284 539">Service Area</th> <th data-bbox="1284 488 1449 539">Requests</th> </tr> </thead> <tbody> <tr> <td data-bbox="231 539 1284 591">Business Services - Business rates</td> <td data-bbox="1284 539 1449 591">88</td> </tr> <tr> <td data-bbox="231 591 1284 642">Education and Early Help – Schools</td> <td data-bbox="1284 591 1449 642">69</td> </tr> <tr> <td data-bbox="231 642 1284 694">Strategic IT & Digital Client - Information communication technology</td> <td data-bbox="1284 642 1449 694">50</td> </tr> <tr> <td data-bbox="231 694 1284 745">Env'mnt St Scene & Health - HMO Licensing</td> <td data-bbox="1284 694 1449 745">49</td> </tr> <tr> <td data-bbox="231 745 1284 797">Children's Social Care - Children and young people social care</td> <td data-bbox="1284 745 1449 797">42</td> </tr> <tr> <td data-bbox="231 797 1284 848">HR Operations - Human resources</td> <td data-bbox="1284 797 1449 848">40</td> </tr> <tr> <td data-bbox="231 848 1284 900">Provider Services - Adult social care</td> <td data-bbox="1284 848 1449 900">39</td> </tr> <tr> <td data-bbox="231 900 1284 952">Planning, Infrastructure and Development - Planning services</td> <td data-bbox="1284 900 1449 952">39</td> </tr> <tr> <td data-bbox="231 952 1284 1048">Assessment, support Planning Options - Homelessness and prevention</td> <td data-bbox="1284 952 1449 1048">31</td> </tr> <tr> <td data-bbox="231 1048 1284 1104">Planning, Infrastructure and Development – Highways</td> <td data-bbox="1284 1048 1449 1104">29</td> </tr> </tbody> </table>	Service Area	Requests	Business Services - Business rates	88	Education and Early Help – Schools	69	Strategic IT & Digital Client - Information communication technology	50	Env'mnt St Scene & Health - HMO Licensing	49	Children's Social Care - Children and young people social care	42	HR Operations - Human resources	40	Provider Services - Adult social care	39	Planning, Infrastructure and Development - Planning services	39	Assessment, support Planning Options - Homelessness and prevention	31	Planning, Infrastructure and Development – Highways	29
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24.	<p>For the period covered in this report, 63% of requests came from private citizens, 15% came from companies/businesses, 11% from the media. The remaining 11% came from a combination of charities, students, researchers, lobby groups, MPs / Members and other Councils etc.</p>																						
25.	<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 have shown that it took Corporate Legal approximately 2 hours to respond to each request. However, current research from Parliamentary post-legislative scrutiny of the Act indicates “the best-performing local authorities took between one and six hours for each request”. We can estimate that our time spend on requests is comparable to this, and using the £25 per hour rate that the Act allows us to charge for staff time when refusing requests, we can estimate that each request costs the Council between £25 and £150 to respond on average.</p>																						
26.	<p>As Corporate Legal use a case management system and accurately time record we are able to detail how much time it takes to log, monitor, and give advice on requests. For 2019-20, the average time taken per request was just under 1 hour. 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. For example, the Corporate Legal time spent just under 20 hours on one single request in 2019-20. 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>																						

27.	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).																										
28.	<p>In the Corporate Legal team there are now 3 FTE member of staff dedicated to providing advice, training 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.</p> <p>For 2019-20, the Council’s Legal team spent 5542 hours on Information Governance matters in general. This not only includes processing information requests, but also providing advice and guidance to service areas on a range of IG matters, conducting Data Protection Impact Assessments, investigating data security incidents, and attendance at the Information Governance Board.</p>																										
GENERAL DATA PROTECTION REGULATION																											
29.	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.																										
30.	<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 																										
31.	<p>For the year 2019-20, the Council received 258 rights requests compared with 205 such requests last year. Again, COVID-19 is a factor in this total, and prior to the pandemic, the number of requests was on course to be much higher.</p> <div data-bbox="319 1429 1343 2038" style="text-align: center;"> <table border="1" style="margin-left: auto; margin-right: 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> <tr><td>2019-20</td><td>258</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	2019-20	258
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32.	The types of requests were as follows:
	Subject Access 245
	Objection 5
	Rectification 4
	Erasure 3
	Portability 1
	Grand Total 258

32. 96% of the requests were responded within the statutory timescales compared with 85% last year.
 This increase in compliance is a great achievement, in light of the overall increase in the number of requests received, and the reduction in timescale brought about by the GDPR.

Year	Percentage
2008-09	53.3%
2009-10	53.9%
2010-11	76.0%
2011-12	89.3%
2012-13	95.3%
2013-14	88.6%
2014-15	88.7%
2015-16	85.4%
2016-17	79.0%
2017-18	95.4%
2018-19	85.4%
2019-20	95.7%

33. The Directorate breakdown is as follows:

	No. Rec'd	%	Days
Svc Director Children & Families	142	96.5%	23.0
Svc Director Housing, Adults & Communities	45	100.0%	22.1
Svc Director HR and Organisational Development	18	94.4%	29.9
Svc Director Digital & Business Operations	15	93.3%	17.6
Svc Director Transactions & Universal Services	15	100.0%	19.3
*On hold - Awaiting Allocation	11	100.0%	N/A
Svc Director Legal & Governance	8	100.0%	33.6
Svc Director Growth	3	100.0%	88.0
Svc Director Intelligence, Insight & Communications	1	100.0%	N/A
Grand Total	258	97.3%	24.0

34.	11 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																										
36.	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.																										
37.	There were no occasions where the ICO contacted the Council in light of concerns they had about how a request was handled.																										
39.	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.																										
40.	<p>For the year 2019-20 the Council received 291 requests for data from such third party organisations compared to 385 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="245 1061 1445 1751" 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> <tr><td>2019-20</td><td>291</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	2019-20	291
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41.	In addition to these requests, the CCTV control room (City Watch) and Licensing Team received 758 and 122 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.																										

42.	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.																
43.	<p>In 2019-20, 23 requests were processed, with CCTV footage and Council Tax data being the most common source of information.</p> <div data-bbox="459 472 1203 904" style="text-align: center;"> <table border="1" style="margin: auto;"> <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> <tr> <td>2019-20</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	2019-20	47
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2019-20	47																
DATA SECURITY INCIDENTS																	
44.	During 2019-20, 189 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.																
44.	<p>Importantly, the Council records 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 was considered to require a full investigation and remediation report.</p> <p>For 2019-20, the average severity of incidents determined to be actual breaches remains at 0.5.</p>																
45.	One of the data breaches was considered sufficiently serious to be reported to the Information Commissioner’s Office. This involved the disclosure of a service user’s address to a member of their family, which placed them at risk of harm.																
46.	The ICO considered that no further action was necessary as the Council had put into action adequate and robust remediation plans to address the risks to the individual, and ensure that such errors do not reoccur.																
NHS TOOLKIT																	
47.	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, but due to COVID-19, the annual submission deadline of 31 st March was extended to 30 th September 2020. The Council aims to be self-assessed at being 100% compliant with the mandatory evidence requirements well before this deadline.																

	RIPA																																		
48.	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.																																		
49.	<p>There were no authorisations made under RIPA in 2019-20.</p> <div data-bbox="247 537 1436 1220" data-label="Figure"> <table border="1"> <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> <tr><td>2019-20</td><td>0</td></tr> </tbody> </table> </div>	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	2019-20	0
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2019-20	0																																		
50.	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).																																		
51.	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.																																		
52.	The Council is required to formally appoint a ‘Senior Responsible Officer’ for RIPA. The Service Director; Legal & Business Operations 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.																																		

53.	<p>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.</p> <p>This year we delivered six training sessions to officers at Eastleigh Borough Council.</p>												
54.	<p>The Investigatory Powers Commissioner's Office (formerly the Office of Surveillance Commissioners) carried out its most recent inspection of the Council's management of covert activities in 2019.</p> <p>In his report of December 2019, The Rt. Hon. Sir Brian Leveson, the Investigatory Powers Commissioner, noted:</p> <p>"(My) observations highlight good practice within (your) organisation and this has clearly resulted largely from a conscientious approach and internal oversight and the provision of regular training by Mr Ivory and Mrs Horspool. Both have been inspected in this regard for many years and are not found wanting"</p>												
55.	<p>The Council's reviewed and updated Corporate Surveillance Guidance for 2020 is attached at appendix 1 and the current list of Authorising Officers is attached at appendix 2.</p>												
DATA PROTECTION IMPACT ASSESSMENTS													
56.	<p>Under Council policy, a Data Protection Impact Assessment (or DPIA) must be carried out for new projects.</p> <p>Carrying out a DPIA enables the Council to identify and address any privacy risks at an early stage, ensure a "privacy by design approach, and adhere to the accountability principle of the GDPR.</p>												
57.	<p>In 2019-20, the Council conducted 174 DPIAs, which is an increase of 25% on the previous year (from 139)</p> <div data-bbox="245 1279 1426 1957" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <h3 style="text-align: center;">DPIAs Undertaken</h3> <table border="1" style="width: 100%; text-align: center; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>DPIAs Undertaken</th> </tr> </thead> <tbody> <tr> <td>2015-16</td> <td>15</td> </tr> <tr> <td>2016-17</td> <td>26</td> </tr> <tr> <td>2017-18</td> <td>48</td> </tr> <tr> <td>2018-19</td> <td>139</td> </tr> <tr> <td>2019-20</td> <td>174</td> </tr> </tbody> </table> </div>	Year	DPIAs Undertaken	2015-16	15	2016-17	26	2017-18	48	2018-19	139	2019-20	174
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2019-20	174												

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
58.	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>	
59.	None directly related to the report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
60.	The statutory obligations relating to information law are detailed in the body of this report.
<u>Other Legal Implications:</u>	
61.	None directly related to this report.
RISK MANAGEMENT IMPLICATIONS	
62.	The potential impact of the decision in terms of finance, service delivery and reputation is considered to be low. Although the report does highlight potential future pressures on service delivery with the advent of the GDPR, the decision of members in this report is to note the performance of the Council in terms of information governance for 2019-20.
POLICY FRAMEWORK IMPLICATIONS	
63.	The information contained in this report is consistent with and not contrary to the Council's policy framework.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices None	
1.	Corporate Surveillance Guidance for 2020
2.	Current list of Authorising Officers
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	

Southampton City Council
Corporate Surveillance Guidance
The Regulation of Investigatory Powers Act 2000
June 2020



Southampton City Council
Corporate Surveillance Guidance
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Corporate Surveillance Guidance			
Version	16.0	Approved by	Service Director – Legal and Governance
Date last amended	20 November 2018	Approval date	20 November 2018
Lead officer	Tracy Horspool, Senior Solicitor (Corporate)	Review date	1 June 2020
Contact	information@southampton.gov.uk	Effective date	1 June 2020

1. Introduction

1.1 Summary

The Regulation of Investigatory Powers Act 2000 ('RIPA') brought into force the regulation of covert investigation by a number of bodies, including local authorities. RIPA regulates a number of investigative procedures, the most recent of which is the access to communications data.

This document is intended to provide officers with guidance on the use of covert surveillance, Covert Human Intelligence Sources ('Sources') and the obtaining and disclosure of communications data under RIPA. Officers must take into account the Codes of Practice issued under RIPA (RIPA and the Codes of Practice may be found at www.security.homeoffice.gov.uk).

1.2 Background

The Human Rights Act 1998 requires the Council, and organisations working on its behalf, pursuant to Article 8 of the European Convention, to respect the private and family life of a citizen, his home and his correspondence.

The European Convention did not, however, make this an absolute right, but a qualified right. Accordingly, in certain circumstances, the Council may interfere in the citizen's right mentioned above, if such interference is:

- (a) in accordance with the law
- (b) necessary (as defined in this document); and
- (c) proportionate (as defined in this document).

RIPA provides a statutory mechanism for authorising certain types of surveillance. It seeks to ensure that any interference with an individual's right under Article 8 of the European Convention is necessary and proportionate. In doing so, RIPA seeks to ensure both the public interest and the human rights of individuals are suitably balanced.

If the correct procedures are not followed, evidence may be disallowed by the courts, a complaint of maladministration could be made to the Ombudsman, and/or the Council could be ordered to pay compensation. It is essential, therefore, that all

involved with RIPA comply with this document and any further guidance that may be issued, from time to time, by the Service Director, Legal & Governance.

Each officer of the Council with responsibilities for the conduct of investigations, shall, before carrying out any investigation involving RIPA, undertake appropriate training to ensure that investigations and operations that he/she carries out will be conducted lawfully.

The Service Director, Legal & Governance, is appointed as the senior responsible officer to ensure the integrity of the process within the Council and its compliance with RIPA; to have oversight of reporting of errors to the relevant oversight commissioner; responsibility for engagement with the Investigatory Powers Commissioner's Office when they conduct their inspections and where necessary, oversight of the implementation of any post-inspection action plan. The senior responsible officer will also ensure that Members regularly review the Council's use of RIPA.

1.3 *Review*

RIPA and this document are important for the effective and efficient operation of the Council's actions with regard to surveillance. This document will, therefore be kept under yearly review by the Service Director, Legal & Governance.

Authorising Officers must bring any suggestions for continuous improvement of this document to the attention of the Service Director, Legal & Governance, at the earliest possible opportunity.

1.4 *Scope*

RIPA covers the authorisation of directed surveillance, the authorisation of sources and the authorisation of the obtaining of communications data. Communications data includes information relating to the use of a postal service or telecommunications system but does not include the contents of the communication itself, contents of e-mails or interaction with websites. An authorisation under RIPA will provide lawful authority for the investigating officer to carry out surveillance.

In terms of monitoring e-mails and internet usage, it is important to recognise the interplay and overlaps with the Council's e-mail and internet policies and guidance, the Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000 and the Data Protection Act 1998. RIPA forms should be used where relevant and they will only be relevant where the criteria listed on the forms are fully met.

2. General

2.1 *Definition of Surveillance*

'Surveillance' includes:

- a) monitoring, observing or listening to persons, their movements, their conversations or their other activities or communication;
- b) recording anything monitored, observed or listened to in the course of surveillance; and
- c) surveillance by or with the assistance of a surveillance device.

Surveillance includes the interception of postal and telephone communications where the sender or recipient consents to the reading of or listening to or recording of the communication. This is a form of directed surveillance.

2.2 *Confidential Material*

Particular care should be taken in cases where the subject of the investigation or operation might reasonably expect a high degree of privacy, or where confidential information is involved. Confidential information consists of matters subject to legal privilege, confidential personal information, confidential journalistic material and communications between an MP and a constituent.

Applications in which the surveillance is likely to result in the acquisition of confidential material will only be considered in exceptional and compelling circumstances with full regard to the proportionality issues this raises.

The Authorising Officer shall give the fullest consideration to any cases where the subject of the surveillance might reasonably expect a high degree of privacy, for instance in his or her home.

Where a likely consequence of surveillance would result in the acquisition of confidential material, the investigating officer must seek authority from the Chief Executive, or, in his absence, the Service Director, Legal & Governance.

3. Directed and intrusive surveillance

3.1 *Directed Surveillance*

Directed surveillance is surveillance which is covert, but not intrusive, and undertaken:

- a) for the purposes of a specific investigation or specific operation;
- b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
- c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under RIPA to be sought for the carrying out of the surveillance.

3.2 *Intrusive Surveillance*

That surveillance becomes intrusive if the covert surveillance:

- a) is carried out by means of a surveillance device in relation to anything taking place on any residential premises or in any private vehicle; or
- b) is carried out without that device being present on the premises or in the vehicle, is not intrusive unless the device is such that it consistently provides information of the same quality and detail as might be expected to be obtained from a device actually present on the premises or in the vehicle, or
- c) is carried out in places ordinarily used for legal consultation, at a time when they are being used for such consultations

Therefore directed surveillance turns into intrusive surveillance if it is carried out involving anything that occurs on residential premises or any private vehicle and involves the presence of someone on the premises or in the vehicle or is carried out by means of a surveillance device **OR** when directed surveillance is carried out in places ordinarily used for legal consultation, at a time when they are being used for such consultations.

For intrusive surveillance relating to residential premises or private vehicles, if any device used is not on the premises or in the vehicle, it is only intrusive surveillance if it consistently produces information of the same quality as if it were.

Where covert surveillance is carried out by a device designed or adapted principally for the purpose of providing information about the location of a vehicle, the activity is directed surveillance.

Commercial premises and vehicles are therefore excluded from intrusive surveillance. Currently, local authorities are **not** authorised to carry out intrusive surveillance.

4. Identifying directed surveillance

Ask yourself the following questions:

4.1 *Is the surveillance covert?*

Covert surveillance is any surveillance that is carried out in a manner calculated to ensure that the persons subject to the surveillance are unaware that it is or may be taking place.

If your activities are not hidden from the subjects of your investigation, you are not within the RIPA framework at all. In many cases, Officers will be behaving in the same way as a normal member of the public (e.g. in the case of most test purchases), and/or will be going about Council business openly (e.g. a market inspector walking through markets).

Similarly, surveillance will be overt if the subject has been told it will happen (e.g. where a noisemaker is warned (preferably in writing) that noise will be recorded if the noise continues, or where an entertainment licence is issued subject to conditions, and the licensee is told that officers may visit without notice or identifying themselves to the owner/proprietor to check that conditions are being met.

It should be noted that if the same outcome can be achieved by overt means then those means need to be fully explored in the first instance. Covert surveillance must only be undertaken when there is no less invasive way of achieving the outcome.

4.2 Is the surveillance for the purposes of a specific investigation or a specific operation?

Although, the provisions of the Act do not normally cover the use of overt CCTV surveillance systems, since members of the public are aware that such systems are in use, there may be occasions when public authorities use overt CCTV systems for the purposes of a specific investigation or operation. For example, if the CCTV cameras are targeting a particular known offender. In such cases, authorisation for directed surveillance may be necessary.

4.3 Is the surveillance in such a manner that is likely to result in the obtaining of private information about a person?

Private information includes any information relating to a person's private or family life. The concept of private information should be broadly interpreted to include an individual's private or personal relationship with others. It includes an individual's business and family relationships. Family life itself should be treated as extending beyond the formal relationships created by marriage.

4.4 Is the surveillance otherwise than by way of an immediate response to events or circumstances where it is not reasonably practicable to get authorisation?

Directed surveillance does not include covert surveillance carried out by way of an immediate response to events or circumstances which, by their very nature, could not have been foreseen. For example, a police officer would not require an authorisation to conceal himself and observe a suspicious person that he came across in the course of a patrol.

However, if as a result of that immediate response, you undertake a specific investigation you will need authorisation.

5. Covert human intelligence sources

5.1 Definition

A person is a source if:

- a) he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paragraph (b) or (c);
- b) he covertly uses such a relationship to obtain information or to provide access to any information to another person; or

- c) he covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

A source may include those referred to as agents, informants and officers working undercover.

A purpose is covert, in relation to the establishment or maintenance of a personal or other relationship, if and only if, the relationship is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

A relationship is used covertly, and information obtained is disclosed covertly, if and only if it is used or disclosed in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the use or disclosure in question.

The use of a source involves inducing, asking or assisting a person to engage in the conduct of a source, or to obtain information by means of the conduct of such a source.

This covers the use of professional witnesses to obtain information and evidence. For example, it will include professional witnesses retained by Housing to pose as tenants to obtain information and evidence against alleged nuisance perpetrators.

Carrying out test purchases will not require the purchaser to establish a relationship with the supplier with the covert purpose of obtaining information and, therefore, the purchaser will not normally be a CHIS. For example, authorisation would not normally be required for test purchases carried out in the ordinary course of business (e.g. walking into a shop and purchasing a product over the counter).

By contrast, developing a relationship with a person in the shop, to obtain information about the seller's suppliers of an illegal product will require authorisation as a CHIS. Similarly, using mobile hidden recording devices or CCTV cameras to record what is going on in the shop, or an adult is observing a juvenile test purchase, this will require authorisation as directed surveillance. In all cases, a prior risk assessment is essential in relation to any young person used for a test purchase.

The Code of Practice states that the provisions of RIPA are not intended to apply in circumstances where members of the public volunteer information to the police or other authorities, as part of their normal civic duties, or to contact numbers set up to receive information (such as Crimestoppers, Customs Confidential, the Anti Terrorist Hotline, or the Security Service Public Telephone Number). Members of the public acting in this way would not generally be regarded as sources.

It should be noted, however, that if the information provided is recorded as potentially useful or actionable, there is potential duty of care to the individual and the onus is on the public authority to manage human sources properly. Authorising Officers should be alive to the possibility of 'status drift'. Authorising Officers, when deciding whether to grant an authorisation, should take account of the difference between a volunteer of information already known to the individual and the relevance of the exploitation of a relationship for a covert purpose.

An authorisation under RIPA will provide lawful authority for the use of a source.

5.2 Security and Welfare

Only the Chief Executive or, in his absence, the Service Director, Legal & Governance, is able to authorise the use of vulnerable individuals and juvenile sources. The Authorising Officer shall have regard to the special safeguards and provisions that apply to vulnerable individuals and juvenile sources, more particularly set out in the Covert Human Intelligence Source Code of Practice at www.security.homeoffice.gov.uk.

The Authorising Officer shall ensure that arrangements are in place for the proper oversight and management of sources, including appointing individual officers for each source. The person responsible for the day-to-day contact between the public authority and the source will usually be of a rank or position below that of the Authorising Officer.

Officers using a source shall consider the safety and welfare of that source (even after cancellation of the authorisation), and the foreseeable consequences to others of the tasks they are asked to carry out. The Authorising Officer shall carry out a risk assessment before authorising the source.

6. Covert surveillance of social networking sites (SNS)

6.1 Even though data may be deemed published and no longer under the control of the author, it is unwise to regard it as 'open source' or publicly available. The author has a reasonable expectation of privacy if access controls are applied. In some cases, data may be deemed private communication still in transmission.

6.2 Providing there is no warrant authorising interception in accordance with section 48(4) of the Act, if it is necessary and proportionate for a public authority to breach covertly access controls, the minimum requirement is an authorisation for directed surveillance. An authorisation for the use and conduct of a CHIS is necessary if a relationship is established or maintained by a member of a public authority or by a person acting on its behalf, i.e. the activity is more than mere reading of the site's content

6.3 Officers must not:

- Set up a false identity for a covert purpose without authorisation
- Adopt the identity of a person known, or likely to be known, to the subject of interest or users of the site without authorisation and without the consent of the person of the person whose identity is used, and without considering the protection of that person. The consent must be explicit.
- Use their personal social network login details to view individuals under investigation

6.4 In deciding whether online surveillance should be regarded as covert, consideration should be given to the likelihood of the subject(s) knowing that the surveillance is or may be taking place. Use of the internet itself may be considered as adopting a surveillance technique calculated to ensure that the subject is unaware of it, even if no further steps are taken to conceal the activity. Conversely, if reasonable steps have been taken to inform the public or particular individuals that the surveillance is or may be taking place, this can be regarded as overt and a directed surveillance authorisation will not normally be available.

6.5 As set out in paragraph 6.6 below, depending on the nature of the online platform, there may be a reduced expectation of privacy where information relating to a person or group of people is made openly available within the public domain, however in some circumstances privacy implications still apply. This is because the intention when making such information available was not for it to be used for a covert purpose such as investigative activity. This is regardless of whether a user of a website or social media platform has sought to protect such information by restricting its access by activating privacy settings.

6.6 Where information about an individual is placed on a publicly accessible database, for example the telephone directory or Companies House, which is commonly used and known to be accessible to all, they are unlikely to have any reasonable expectation of privacy over the monitoring by public authorities of that information. Individuals who post information on social media networks and other websites whose purpose is to communicate messages to a wide audience are also less likely to hold a reasonable expectation of privacy in relation to that information.

6.7 Whether the Council interferes with a person's private life includes a consideration of the nature of the Council's activity in relation to that information. Simple reconnaissance of such sites (i.e. preliminary examination with a view to establishing whether the site or its contents are of interest) is unlikely to interfere with a person's reasonably held expectation of privacy and therefore is not likely to require a directed surveillance authorisation. But where the Council is systematically collecting and recording information about a particular person or group, a directed surveillance authorisation should be considered. These considerations apply regardless of when the information was shared online.

Example 1: A simple internet search on a name, address or telephone number to find out whether a subject of interest has an online presence is unlikely to need an authorisation. However, if having found an individual's social media profile or identity it is decided to monitor it or extract information from it for retention in a record because it is relevant to an investigation or operation, authorisation should then be considered.

Example 2: Initial examination of an individual's online profile to establish whether they are of relevance to an investigation is unlikely to need an authorisation. Visiting a website would not normally amount to surveillance, but if during that visit it is intended to extract and record information to establish a profile including information such as identity, pattern of life, habits, intentions or associations, it may be advisable to have in place an authorisation even for that single visit. As set out in the following paragraph, the purpose of the visit may be relevant as to whether an authorisation should be sought.

Example 3: General monitoring of the internet in circumstances where it is not part of a specific, ongoing investigation or operation does not require RIPA authorisation. This includes any monitoring that is intended to identify themes, trends, possible indicators of criminality or other factors that may influence operational strategies or deployments. It may also include the discovery of previously unknown subjects of interest, but once it is decided to monitor those individuals as part of an ongoing operation or investigation, authorisation should be considered.

6.8 In order to determine whether a directed surveillance authorisation should be sought for accessing information on a website as part of a covert investigation or operation, it is necessary to look at the intended purpose and scope of the online activity it is proposed to undertake. Factors that should be considered in establishing whether a directed surveillance authorisation is required include:

- Whether the investigation or research is directed towards an individual or organisation;
- Whether it is likely to result in obtaining private information about a person or group of people (taking account of the guidance at paragraph 3.6 above);
- Whether it is likely to involve visiting internet sites to build up an intelligence picture or profile;
- Whether the information obtained will be recorded and retained;
- Whether the information is likely to provide an observer with a pattern of lifestyle;
- Whether the information is being combined with other sources of information or intelligence, which amounts to information relating to a person's private life;
- Whether the investigation or research is part of an ongoing piece of work involving repeated viewing of the subject(s);
- Whether it is likely to involve identifying and recording information about third parties, such as friends and family members of the subject of interest, or information posted by third parties, that may include private information and therefore constitute collateral intrusion into the privacy of these third parties.

6.9 Internet searches carried out by a third party on behalf of a public authority, or with the use of a search tool, may still require a directed surveillance authorisation

Example: Researchers within a public authority using automated monitoring tools to search for common terminology used online for illegal purposes will not normally require a directed surveillance authorisation. Similarly, general analysis of data by public authorities either directly or through a third party for predictive purposes (e.g. identifying crime hotspots or analysing trends) is not usually directed surveillance. In such cases, the focus on individuals or groups is likely to be sufficiently cursory that it would not meet the definition of surveillance. But officers should be aware of the possibility that the broad thematic research may evolve, and that authorisation may be appropriate at the point where it begins to focus on specific individuals or groups. If specific names or other identifiers of an individual or group are applied to the search or analysis, an authorisation should be considered.

6.10 Each viewing of a company or an individual's Social Media profile for the purpose of investigation or evidence gathering must be notified to the SRO and will be recorded on the log held by the Corporate Legal Team. All Authorising Officers have access to view the log on Sharepoint.

7. Communications data

7.1 *Definition*

This covers any conduct in relation to a postal service or telecommunications system for obtaining communications data and the disclosure to any person of such data. For these purposes, communications data includes information relating to the use of a postal service or telecommunications system but does not include the contents of the communication itself, content of emails or interaction with websites.

Communications data includes subscribers details, names and addresses and telephone numbers of those contacted, billing addresses, account information, web addresses visited etc.

The Investigatory Powers Act 2016 (IPA) created new Communications Data terminology. Communications Data now comprises 'Entity Data' and 'Events Data'.

Entity Data broadly replaces 'Subscriber Data' under RIPA, s21(4)(c), e.g name of subscriber, address for billing, contact telephone number, subscriber account information etc.

Events Data identifies or describes events which consist of one or more entities engaging in an activity at a specific time or times. It includes call histories and activity, including itemized records of telephone calls, internet connections, dates and times/duration of calls etc. Event data refers to both 'Traffic Data' (S21(4)(a)) and 'Service Use Information' (S21(4)(b)) under RIPA. Where the purpose of the acquisition is to prevent or detect crime and the data required is Events data, the offence or conduct of the offence being investigated must meet at least one of the definitions of serious crime.

7.2 *Serious Crime threshold*

From 1st November 2018, an amendment to RIPA came into force adding a serious crime threshold to the acquisition of service or traffic data. This means that where an application is for the crime statutory purpose (S60A(7)(b)) to acquire event data, the crime must be a serious crime.

7.3 *Definition of Serious Crime*

- 12 months (or more) imprisonment
 - an offence that is capable of attracting a prison sentence of 12 months or more
- Corporate Body
 - an offence by a person who is not an individual
- S81 Offence
 - an offence falling within the definition of serious crime in S81(3)(b) of the IPA where the conduct involves the use of violence, results in substantial financial gain or is by a large number of persons in pursuit of a common

purpose

- Communication Offence
 - an offence which involves, as an integral part of it, the sending of a communication
- Breach of Privacy
 - an offence which involves, as an integral part of it, a breach of a person's privacy

8. Authorisation procedure

8.1 General

Authorisation is required for the use of directed surveillance, for the conduct and use of sources and for the conduct in relation to a postal service or telecommunication system and the disclosure to any person of such data. Authorisation for directed surveillance can only be granted if the purpose of the surveillance is the prevention or detection of crime(s) punishable by 6 months imprisonment or more, or relates to the sale or alcohol or tobacco to underage persons.

All applications for authorisation of directed surveillance or for the conduct and use of any source must be referred to the RIPA Co-Ordinator (Senior Solicitor-Corporate legal Team) before submission by the Co-Ordinator to an Authorising Officer for consideration.

If the authorisation is provisionally approved by the Authorising Officer, each provisional authorisation then needs to receive judicial approval before being acted upon. Once approved, the original authorisation and accompanying paperwork must be forwarded to the RIPA Co-Ordinator (Senior Solicitor – Corporate Legal Team) to allocate the application a Unique Reference Number (URN) and for key details to be entered onto the central register. For further detail, see paragraph 12.1.

Any officer wishing to engage in conduct in relation to a postal service and telecommunication system for obtaining communications data and the disclosure to any person of such data must also seek authorisation, the procedure of which differs slightly and is outlined in paragraph 8.5.

8.2 Who can give Provisional Authorisations?

By law, the 'Authorising Officer' for local authority purposes is any assistant Chief Officer, assistant Head of Service, service manager or equivalent. An Authorising Officer may grant a provisional authorisation, but this authorisation will not take effect until it receives judicial approval (See paragraph 7.4). More senior officers within a Council may also give provisional authorisations in the circumstances to those whom they are senior. Please note that certain provisional authorisations, namely those relating to confidential information, vulnerable individuals and juvenile sources, can

only be granted by the Chief Executive, or, in his genuine absence, the Service Director, Legal & Governance.

The Council's authorised posts are listed in [Appendix 1](#). This appendix will be kept up to date by the Service Director, Legal & Governance and added to as needs require. If a Chief Officer wishes to add, delete or substitute a post, a request must be referred to the Service Director, Legal & Governance, for consideration as necessary. The Service Director, Legal & Governance, has the delegated authority to add, delete or substitute posts.

It will be the responsibility of Authorising Officers who have been duly certified to ensure their relevant members of staff are also suitably trained as 'applicants' so as to avoid common mistakes appearing on forms for RIPA authorisations.

Training will be given, or approved by the Service Director, Legal & Governance, before Authorising Officers are certified to sign any RIPA forms. A certificate of training will be provided to the individual and a central register of all those individuals who have undergone training or a one-to-one meeting with the Service Director, Legal & Governance, on such matters, will be kept by the Service Director, Legal & Governance.

Authorising officers should not normally be responsible for authorising operations in which they are directly involved, although it is recognised that this may sometimes be unavoidable. Where an Authorising Officer authorises such an investigation or operation the central register will highlight this and the Commissioner or inspector will be notified of this during his or her next inspection

Authorising Officers will also ensure that staff who report to them follow this guidance document and do not undertake or carry out any form of surveillance without first obtaining the relevant authorisations in compliance with this document.

Authorising Officers must also ensure that, when sending copies of authorisations and associated documentation to the Service Director, Legal & Governance, the same are sent in sealed envelopes and marked 'Strictly Private and Confidential'.

Any equipment to be used in any approved surveillance must be properly controlled, recorded and maintained for audit purposes.

8.3 Grounds for Authorisation – the 'necessary & proportionate' test

An Authorising Officer has a number of obligations within the provisions of the Act, which must be met before carrying out any form of surveillance.

An Authorising Officer shall not grant a provisional authorisation for the carrying out of directed surveillance, or for the use of a source or for the obtaining or disclosing of communications data unless he believes:

- a) that a provisional authorisation is necessary and
- b) the provisionally authorised investigation is proportionate to what is sought to be achieved by carrying it out

For local authority investigations, provisional authorisation is deemed “**necessary**” in the circumstances of the particular case if it is for the purpose of preventing and detecting crime or of preventing disorder.

Conduct is not deemed “**proportionate**” if the pursuance of the legitimate aim listed above will not justify the interference if the means used to achieve the aim are excessive in the circumstances. Any conduct must meet the objective in question and must not be arbitrary or unfair nor must the impact on any individuals or group be too severe.

The conduct must also be the least invasive method of achieving the end and the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation must be assessed and taken into account (see Collateral Intrusion below).

Consideration must be given to the seriousness of the offence under consideration. Authorisation for directed surveillance can only be granted if the purpose of the surveillance is the prevention or detection of crime(s) punishable by 6 months imprisonment or more, or relates to the sale or alcohol or tobacco to underage persons. Covert surveillance relating to dog fouling and schools admissions/suspected false addresses will not be deemed a proportionate activity.

Careful consideration needs to be made by authorising officers of all of these points. Such consideration needs to be demonstrated on the authorisation form in the relevant parts. Authorising Officers must exercise their minds every time they are asked to sign a form. They must never sign or rubber stamp the form without thinking about their personal and the Council’s responsibilities.

Any boxes not needed on the form/s must be clearly marked as being ‘not applicable’ or a line put through the same. Great care must also be taken to ensure accurate information is used and inserted in the correct boxes. Reasons for any refusal of an application must also be kept on the form and retained for future audits.

Authorising Officers should not be responsible for authorising investigations or operations in which they are directly involved.

Collateral Intrusion

Before provisionally authorising investigative procedures, the Authorising Officer shall also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion). The investigating officer shall take measures, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

An application for a provisional authorisation shall include an assessment of the risk of any collateral intrusion. The Authorising Officer shall take this into account, when considering the proportionality of the surveillance.

Where an operation unexpectedly interferes with the privacy of individuals who were not the subject of surveillance or covered by the authorisation in some other way, the investigating officer should inform the Authorising Officer.

8.4 Judicial Approval of Provisional Authorisations and Renewals

The Council is only able to grant a provisional authorisation or renewal to conduct covert surveillance. All provisional authorisations and renewals must be approved by the Magistrates Court before surveillance commences.

The Council must apply to the local Magistrates Court for an Order approving the grant or renewal of an authorisation. A template application form and draft Order are included at [Appendix 5](#) to this policy. In order to obtain judicial approval, the first page of the template form must be completed and submitted along with a copy of the provisional authorisation and any other relevant supporting documents.

The Council does not need to give notice of the application to the person(s) subject to the application or their legal representatives. If the Magistrates Court refuse to approve the application, they may also make an order quashing the provisional authorisation.

The Magistrates will consider the provisionally authorised application or renewal, and will need to satisfy themselves that:

- a) At the time of provisional authorisation, there were reasonable grounds for believing that the tests of necessity and proportionality were satisfied in relation to the authorisation, and that those grounds still exist;
- b) That the person who granted provisional authorisation was an appropriately designated person;
- c) The provisional grant or renewal of any authorisation or notice was not in breach of any restrictions imposed under RIPA; and
- d) Any other conditions provided for by an order made by the Secretary of State were satisfied.

A further requirement in relation to renewal of covert human intelligence sources, is that judicial approval will only be granted if the Magistrates are satisfied that a review has been carried out, which considers:

- the use made of the source in the period since authorisation was granted (or the last renewal); and
- the tasks given to the source during that period, and the information obtained from the conduct or use of the source.

and for the purposes of making an Order, the Magistrates have considered the results of that review.

The Council's Trading Standards Team will generally make applications for judicial approval to the Magistrates Court on behalf of the Council. Any particularly complex authorisations or authorisations arising from other areas of the Council that require legal input or representation may be dealt with by the Council's Legal Team if necessary in the circumstances.

8.5 Special Procedure for Authorisation in respect of Communications Data

8.5.1 The introduction of the Office for Communications Data Authorisations (OCDA) means the acquisition of Communications Data by local authority officers is no longer subject to judicial approval by a Magistrate. OCDA assesses Communications Data applications from public authorities and makes decisions about those applications that strike a fine balance between the protection of privacy and the risk to public safety. OCDA acts as a hub of authorisation expertise, independently assessing applications, holding authorities accountable to robust safeguarding standards and challenging where required.

8.5.2 Applications for the obtaining and disclosure of communications data may only be made by officers of the City Council.

8.5.3 Applications for communications data must be channelled through single points of contact (“SPoCs”). The SPoC is able to advise authorising officers as to whether an authorisation or notice is appropriate.

The City Council use the services of the National Anti-Fraud Network (NAFN) for all Communications Data enquiries and as such NAFN performs the role of a SPoC through their qualified SPoC officers. All applicants must be registered with NAFN via the NAFN website at www.nafn.gov.uk. Any initial internal queries can be directed to Tracy Horspool, Senior Solicitor (Corporate) at tracy.horspool@southampton.gov.uk.

8.5.4 The SPoC is required to:

- provide quality assurance checks to ensure that applications consistently comply with IPA standards and to a sufficient level to meet OCDA and IPCO scrutiny
- monitor those applications which are returned for rework or rejected by OCDA and determine the reasons why
- provide organisational and/or individual training as and where necessary sharing best practice, advice and support
- be the point of contact between public authorities and OCDA

8.5.5 S60A of IPA provides for independent authorisation of communications data requests by the Investigatory Powers Commissioner (IPC). OCDA performs this function on behalf of the IPC. An authorising officer in OCDA can authorise any lawful request, for any of the specified purposes from any listed authority. For the City Council, the sole purpose is the ‘applicable crime purpose’.

8.5.6 The IPA provides a new requirement for a local authority making an application to ensure someone of at least the rank of Senior Responsible Officer is aware.

8.5.7 OCDA will only retain, for a limited period of time, the Communications Data applications which are sent to them and the decision document they issue back to public authorities. Public Authorities are therefore required to keep records of both the Communications Data applications that they issue as well as the decisions received from OCDA. Communications data, and all copies, extracts and summaries of it must be handled and stored securely. The requirements of the Data Protection Act 2018 and the principles of the Criminal Procedure and Investigations Act 1996 must be strictly followed.

8.5.8 Where the purpose of a Communications Data application is to identify a journalistic source, these must first be authorized by an Authorising Individual (OCDA AO or DSO) but must also be approved by an IPCO Judicial Commissioner (JC). The Applicant and SPOC should pay special consideration to these applications and inform their Senior Responsible Officer. The IPA does not alter the existing processes for Communications Data applications that may feature sensitive professions including medical doctors, lawyers, journalists, parliamentarians or ministers of religion. If the Communications Data could contain information relating to any of these professions, this must be noted in the application.

8.6 *Urgency*

Urgent authorisations are no longer available in relation to directed surveillance or covert human intelligence sources.

8.7 *Standard Forms*

All authorisations must be in writing.

Standard forms for seeking provisional directed surveillance and source authorisations are provided at [Appendices 3 & 4](#). The standard form for obtaining judicial approval is provided at [Appendix 5](#). All authorisations shall be sought using the standard forms as amended from time to time.

9. **Activities by other public authorities**

9.1 The investigating officer shall make enquiries of other public authorities e.g. the police whether they are carrying out similar activities if he considers that there is such a possibility in order to ensure that there is no conflict between the activities of this Council and those other public authorities.

10. **Joint investigations**

10.1 When some other agency has been instructed on behalf of the City Council to undertake any action under RIPA, this document and the forms in it must be used (as per normal procedure) and the agency advised or kept informed, as necessary, of the various requirements. They must be made aware explicitly what they are authorised to do.

When some other agency (e.g. police, Customs & Excise, Inland Revenue etc.):

- (a) wish to use the City Council's resources (e.g. CCTV surveillance systems), that agency must use its own RIPA procedures and, before any officer agrees to allow the Council's resources to be used for the other agency's purposes, he must obtain a copy of that agency's RIPA form for the record and/or relevant extracts from the same which are sufficient for the purposes of protecting the Council and the use of its resources
- (b) wish to use the Council's premises for their own RIPA action, the officer should, normally, co-operate with the same, unless there are security or other good operational or managerial reasons as to why the Council's premises should not be used for the agency's activities. In such cases, the Council's own RIPA forms should not be used as the Council is only assisting and not being involved in the RIPA activity of the external agency being involved in the RIPA activity of the external agency.

In terms of (a), if the police or other agency wish to use the Council's resources for general surveillance, as opposed to specific RIPA authorisations, an appropriate letter requesting the proposed use, remit, duration, details of who will be undertaking the general surveillance and the purpose of it must be obtained from the police or other agency before any Council resources are made available for the proposed use.

11. Duration, renewals and cancellation of authorisations

11.1 Duration

Authorisations must be reviewed in the time stated and cancelled once no longer needed.

Authorisations last for:

- a) 12 months from the date of the judicial approval for the conduct or use of a source (4 months for juvenile CHIS authorisations)
- b) three months from the date of judicial approval for directed surveillance
- c) one month from the date of judicial approval for communications data, or earlier if cancelled under Section 23(8) of the Act.

However, whether the surveillance is carried out/conducted or not in the relevant period, does not mean that the authorisation is spent. Authorisations do not expire, they have to be reviewed, or cancelled if no longer required.

11.2 Reviews

The Authorising Officer shall undertake regular reviews of authorisations to assess the need for the surveillance to continue. The results of a review should be recorded on the central record of authorisations.

Where the surveillance provides access to confidential information or involves collateral intrusion the officer should conduct frequent reviews.

Standard review forms for directed surveillance and CHIS are available on the RIPA intranet pages.

11.3 Renewals

Authorisations may be renewed more than once, if necessary, and the renewal should be kept/recorded as part of the central record of authorisations

Authorisations can be renewed in writing shortly before the maximum period has expired. An authorisation cannot be renewed after it has expired.

The Authorising Officer must consider the matter afresh, including taking into account the benefits of the surveillance to date and any collateral intrusion that has occurred.

The renewal will begin on the day when the authorisation would have expired, provided the necessary judicial approval has been obtained.

A further requirement in relation to renewal of covert human intelligence sources, is that judicial approval will only be granted if the Magistrates are satisfied that a review has been carried out, which considers:

- the use made of the source in the period since authorisation was granted (or the last renewal); and
- the tasks given to the source during that period, and the information obtained from the conduct or use of the source.

and for the purposes of making an Order, the Magistrates have considered the results of that review. The Authorising Officer who granted or last renewed the authorisation must cancel it if he is satisfied that the investigative procedure no longer meets the criteria upon which it was authorised.

Standard renewal forms for the authorisation of directed surveillance and CHIS are available on the RIPA intranet pages.

11.4 Cancellations

An Authorising Officer shall cancel a notice or authorisation as soon as it is no longer necessary, or the conduct is no longer proportionate to what is sought to be achieved. The duty to cancel a notice falls on the authorising officer who issued it.

In the case of a notice issued in respect of communications data, the relevant postal or telecommunications operator will be informed of the cancellation.

Standard cancellation forms for directed surveillance and CHIS are available on the RIPA intranet pages.

12. Records

The City Council must keep a detailed record of all authorisations, reviews, renewals, cancellations and rejections in departments and a central register of all such forms will be maintained by the Service Director, Legal & Governance.

In relation to communications data, the designated SpoC will retain the forms and the Service Director, Legal & Governance, will have access to such forms as and when required.

12.1 Central record of all Authorisations

The Service Director, Legal & Governance, shall hold and monitor a centrally retrievable record of all provisional and judicially approved authorisations. The Authorising Officer must notify and forward a copy of any provisional notice or authorisation granted, renewed or cancelled and any judicial approval received or refused within 1 week of the event to the Service Director, Legal & Governance to ensure that the records are regularly updated.

The record will be made available to the relevant Commissioner or an Inspector from the Investigatory Powers Commissioner's Office. These records will be retained for a period of 5 years from the ending of the authorisation. A record will be kept of the dates on which the authorisation notice is started and cancelled.

The Service Director, Legal & Governance, will monitor the submission of provisional and judicially approved authorisations and notices and give appropriate guidance, from time to time, or amend any provisional or draft document as necessary. The records submitted to the Service Director, Legal & Governance, shall contain the following information:

- a) the type of authorisation or notice
- b) the date the provisional authorisation or notice was given;
- c) name and rank/grade of the authorising officer;
- d) the date judicial approval was received or refused;
- e) the unique reference number (URN) of the investigation or operation;
- f) the title of the investigation or operation, including a brief description and names of subjects, if known;
- g) if the authorisation or notice is renewed, when it was renewed and who authorised the renewal, including the name and rank/grade of the authorising officer and the date of judicial approval;
- h) whether the investigation or operation is likely to result in obtaining confidential information;
- i) review dates
- j) the date the authorisation or notice was cancelled.

12.2 Records maintained in the Department

The Authorising Officer shall maintain the following documentation, which need not form part of the centrally retrievable record:

- a) a copy of the application and provisional authorisation or notice together with a copy of any order of judicial approval or refusal, as well as any supplementary documentation and notification of the approval given by the Authorising Officer;
- b) a record of the period over which the surveillance has taken place;

- c) the frequency of reviews prescribed by the Authorising Officer;

- d) a record of the result of each review of the authorisation or notice;
- e) a copy of any renewal of an authorisation or notice, together with judicial approval or refusal and the supporting documentation submitted when the renewal was requested;
- f) the date and time when any instruction was given by the Authorising Officer.
- g) the unique reference number for the authorisation (URN)

Each form must have a URN. The Authorising Officers will issue the relevant URN to applicants. The cross-referencing of each URN takes place within the form for audit purposes. Rejected forms will also have URN's.

12.3 Other Record of Covert Human Intelligence Sources

Proper records must be kept of the authorisation and use of a source. An Authorising Officer must not grant a provisional authorisation for the use or conduct of a source unless he believes that there are arrangements in place for ensuring that there is at all times a person with the responsibility for maintaining a record of the use made of the source.

The records shall contain the following information:

- (a) the identity of the source;
- (b) the identity, where known, used by the source;
- (c) any relevant investigating authority other than the Council;
- (d) the means by which the source is referred to within each relevant investigating authority;
- (e) any other significant information connected with the security and welfare of the source;
- (f) any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in paragraph (d) has been considered and that any identified risks to the security and welfare of the source have where appropriate been properly explained to and understood by the source;
- (g) the date when, and the circumstances in which, the source was recruited;
- (h) the identities of the persons who, in relation to the source;
 - i. hold day-to-day responsibility for dealing with the source and for the source's security and welfare
 - ii. have a general oversight of the use made of the source (not to be the person identified in (h)(i))
 - iii. have responsibility for maintaining a record of the use made of the source
- (i) the periods during which those persons have discharged those responsibilities;
- (j) the tasks given to the source and the demands made of him in relation to his activities as a source;
- (k) all contacts or communications between the source and a person acting on behalf of any relevant investigating authority;

- (l) the information obtained by the conduct or use of the source;
- (m) any dissemination of information obtained in that way; and
- (n) in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made or provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

13. Retention and destruction

13.1 Material obtained from properly authorised surveillance or a source may be used in other investigations. Arrangements shall be in place for the handling, storage and destruction of material obtained through the use of covert surveillance, a source or the obtaining or disclosure of communications data.

Authorising Officers must ensure compliance with the appropriate data protection requirements and any relevant Corporate Procedures relating to the handling and storage of material.

13.2 Where the product of surveillance could be relevant to pending or future proceedings, it should be retained in accordance with established disclosure requirements for a suitable period and subject to review.

14. Consequences of ignoring RIPA

14.1 RIPA states that if authorisation confers entitlement to engage in a certain conduct and the conduct is in accordance with the authorisation, then it shall be lawful for all purposes.

Where there is interference with the right to respect for private and family life guaranteed under Article 8 of the European Convention on Human Rights, and where there is no other source of lawful authority, the consequence of not obtaining an authorisation under RIPA may be that the action is unlawful by virtue of section 6 of the Human Rights Act 1998.

Officers shall seek an authorisation where the directed surveillance, the use of a source or the obtaining or disclosure of communications data is likely to interfere with a person's Article 8 rights to privacy by obtaining private information about that person, whether or not that person is the subject of the investigation or operation.

Obtaining an authorisation will ensure that the action is carried out in accordance with law and subject to stringent safeguards against abuse.

15. Scrutiny of investigatory bodies

15.1 The Investigatory Powers Commissioner's Office independently scrutinises the use of RIPA powers by the investigatory bodies that are subject to it.

The Commissioner will inspect Councils to ensure compliance with RIPA and can audit/review the Council's policies and procedures, and individual authorisations. Further detail can be found at www.ipco.org.uk

15.2 There is also a statutory complaints system welcomed by the Council. The Investigatory Powers Tribunal has been established under RIPA to deal with complaints from members of the public about the use or conduct by public authorities of these powers. The Tribunal is separate from IPCO.

The Council welcomes this external scrutiny. It expects its officers to co-operate fully with these statutory bodies and to bring forward any proposals for improvement that may follow on from an inspection report or a Tribunal hearing.

IF IN DOUBT ADVICE MUST BE SOUGHT FROM THE SERVICE DIRECTOR, LEGAL & GOVERNANCE OR THE CORPORATE LEGAL TEAM

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Appendix 2

2020/21 List of Authorising Officers

Sandy Hopkins – CX

Richard Ivory – Solicitor, Service Director Legal & Governance

Mike Harris – Service Director, Growth

Rosie Zambra – Service Lead, Environment Street Scene &
Health

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