

Governance Committee

Monday, 11th June, 2018
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Keogh (Chair)
Councillor Fielker
Councillor Harwood
Councillor Kataria
Councillor Noon
Councillor Parnell
Councillor White

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

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

[02 Part 2 - Articles](#)

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

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

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

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

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

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

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

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

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

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

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

Dates of Meetings: Municipal Year 2018/19

2018	2019
11th June	11th February
30th July	15 th April
10 th September	
12th November	
10th December	

CONDUCT OF MEETING

Terms of Reference

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

03 - Part 3 - Responsibility for Functions

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.

Rules of Procedure

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

DISCLOSURE OF INTERESTS

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

DISCLOSABLE PECUNIARY INTERESTS

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

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

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

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

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

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

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

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

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

Other Interests

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

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

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

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

Principles of Decision Making

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

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

In exercising discretion, the decision maker must:

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

AGENDA

1 APOLOGIES

To receive any apologies.

2 ELECTION OF VICE-CHAIR

To elect a Vice-Chair for the Municipal Year 2018/19

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 - 10)

To approve and sign as a correct record the Minutes of the meeting held on 23rd April 2018 and to deal with any matters arising, attached.

6 ART COMPLEX (STUDIO 144) (Pages 11 - 38)

Report of Chief Internal Auditor providing the full audit report relating to the City's Art Complex (Studio 144), attached.

7 INTERNAL AUDIT PROGRESS REPORT 2017-18 (Pages 39 - 48)

Report of the Chief Internal Auditor providing an update on progress against the Annual Audit Plan, attached.

8 QUARTERLY HR STATISTICS (Pages 49 - 54)

Report of Service Director Human Resources and Organisational Development detailing Quarter 4 Human Resources Casework, attached.

9 ANNUAL GOVERNANCE STATEMENT (Pages 55 - 72)

Report of the Service Director Strategic Finance & Commercialisation seeking to review the draft Annual Governance Statement 2017-18 and to note the status of the 2016-17 Annual Governance Statement Action Plan, attached.

10 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN

2017/18 (Pages 73 - 100)

Report of the Cabinet Member for Finance informing Governance Committee and Council of the Treasury Management activities and performance for 2017/18 against the approved Prudential Indicators for External Debt and Treasury Management, attached.

11 DRAFT FINANCIAL STATEMENTS 2017/18 (Pages 101 - 106)

Report of Section 151 Officer reporting that the Draft Financial Statements 2017/18 have been signed by the S151 Officer and will be approved by Governance Committee once audited, attached.

12 EXTERNAL AUDIT FEE LETTER 2018/19 (Pages 107 - 114)

Report of External Auditor detailing the External Audit Fee Letter 2018/19, attached.

13 EXCLUSION OF THE PRESS AND THE PUBLIC

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

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

14 STRATEGIC CONTRACTS – ANNUAL REPORT (2017/18) (Pages 115 - 136)

Report of Service Director: Business Operations and Digital providing an overview of the performance, governance and other contractual matters relating to the Council's most strategically important contracts, attached.

Friday, 1 June 2018

Service Director, Legal and Governance

Agenda Item 5

GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 23 APRIL 2018

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

Apologies: Councillor Jordan

44. STATEMENT FROM THE CHAIR

Cllr Barnes-Andrews reported that this was the last meeting of the Municipal Year and thanked Members for their contributions.

In response Cllr Parnell thanked Cllr Barnes-Andrews on behalf of the Committee for his chairing of the meetings and wished him well in his forthcoming Mayoral Year.

45. MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

RESOLVED: that the minutes for the Committee meeting on 12th February 2018 be approved and signed as a correct record.

Matters Arising

Minute 35 – Quarterly HR Statistics

The Committee noted that there had been an error in the cover report and appendix to this item relating to the number of dismissals and the factual accuracies of those dismissed on disciplinary grounds. A correct report and appendix was reported to the meeting and was appended to these minutes for information.

46. ANNUAL REVIEW OF THE CONSTITUTION

The Committee considered the report of the Service Director: Legal and Governance setting out the annual review of the Constitution which would be recommended to Council for approval.

The Committee supported the proposed annual review and highlighted that the Employment related matters were embedding but was still a work in progress that required monitoring.

Councillor Pope was in attendance at the meeting and with the consent of the Chair addressed the meeting.

RESOLVED: that the proposed changes to the annual review of the Constitution be recommended to Council for adoption.

47. REVIEW OF THE CONSTITUTION – CRITERIA FOR CONFERRING ALDERMEN STATUS

The Committee considered the report of the Service Director: Legal and Governance detailing a proposed criteria for conferring the status of Honorary Alderman in the City.

RESOLVED: that the proposed criteria for conferring the status of Honorary Alderman in the City as detailed in the report be recommended to Council for adoption.

48. LOCAL AUTHORITY TRADING COMPANY (LATCO) - AMENDMENTS TO KEY DECISION THRESHOLDS AT COMPANY BOARD MEETINGS

The Committee considered the report of the Service Director: Legal and Governance detailing the Local Authority Trading Company (LATCO) Amendments to Key Decision Thresholds at Company Board Meetings.

The Committee did express some concerns in relation to the proposed amendments but noted that there would be a fuller report and discussions at the Council's Annual General Meeting on 16th May 2018 on this matter. In addition the Committee noted that the LATCO would form part of the Authority's Accounts and as such would be subject to Overview and Scrutiny, Internal Audit, External Audit and relevant to the letter of opinion provided by External Audit.

The Committee also requested that the relationship between the Committee and LATCO be subject of further consideration at its July meeting.

RESOLVED:

- (i) That the changes to the "Key Decision" threshold as it applied to Council appointed representatives (Officers and Members) exercising decisions as Directors and Shareholders of the LATCO at Board and Shareholder meetings and in relation to LATCO Company decision making in accordance with the Articles of the Company as set out in Appendix 1 of the report be recommended to Council for adoption; and
- (ii) That the relationship between Governance Committee and LATCO be considered at the July meeting of the Committee.

49. CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW

The Committee considered the report of the Service Director: Legal and Governance detailing the Code of Corporate Governance and setting out the commitment of the Council to uphold the highest possible standards of good governance.

RESOLVED: that the updated draft 2018 Code of Corporate Governance as detailed in Appendix 1 of the report be approved.

50. ANNUAL INTERNAL AUDIT PLAN 2018-19

The Committee considered the report of the Chief Internal Auditor detailing the Annual Internal Audit Plan 2018-19 which had been aligned to the Strategic Risk Register and Priority Outcomes and drafted alongside External Audit. The Committee noted that LATCO was listed within the plan and were provided with assurance that opinion had been given on pre-transfer. Moving forward there would continue to be a watching brief and opinion provided on anything further proposed to transfer over.

RESOLVED: that the provisional Annual Internal Audit Plan for 2018-19 as detailed in the appendix to the report be approved.

51. INTERNAL AUDIT PROGRESS REPORT 2017-18

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit Progress Report 2017-18 for the period 26th January 2018 to the 6th April 2018.

The Committee particularly noted Studio 144 and the “no assurance” that had been provided by internal audit. The audit review highlighted 5 high risk exceptions and no assurance that the project was managed in a way to minimise risk to the Authority. Key issues were:-

- Project Feasibility
- Project Setup
- Project Lifespan
- Financial Changes
- Residual Issues

The Committee also noted that there were ongoing contractual disputes with the project which were not in a position to be discussed at this stage for legal reasons. The Committee noted that the progress report only provided a summary into the full investigation therefore requested that the full investigation report be submitted to the next meeting for discussion including the examination of the role of the Capital Board and its robustness together with the attendance of the Service Director: Growth as the responsible service area Director.

Councillors White and Pope were in attendance and with the consent of the Chair addressed the meeting.

RESOLVED:

- (i) That the Internal Audit Progress report for the period 26th January 2018 to the 6th April 2018 be noted
- (ii) That the Studio 144 full investigation report be submitted to the next meeting for discussion including the examination of the role of the Capital Board and its robustness together with the attendance of the Service Director: Growth.

52. INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2018-19

The Committee considered the report of the Chief Internal Auditor detailing the Internal Audit and Counter Fraud Charter and Code of Ethics 2018-19 as detailed in Appendix 1 of the report.

RESOLVED: that the Internal Audit and Counter Fraud Charter and Code of Ethics as detailed in Appendix 1 of the report be approved.

53. INTERNAL AUDIT - REVIEW OF POLICIES 2018-19

The Committee considered the report of the Chief Internal Auditor detailing Anti-Fraud, Bribery and Corruption, Money Laundering and Whistleblowing Policies 2018-19 as detailed in Appendices 1-3 of the report.

The Committee noted that the Money Laundering Regulations 2007 had been replaced with the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 which placed greater emphasis on risk assessments in relation to understanding areas of potential exposure and enhanced internal controls. The Committee also noted

that the previous Bribery Act Policy and Anti-Fraud and Corruption Policy had been amalgamated as the offences were interlinked and sat better considered together.

RESOLVED: that the reviewed Anti-Fraud, Bribery and Corruption Policy, the Anti Money Laundering Policy and the Whistleblowing (Duty to Act) Policy as attached as Appendices 1-3 of the report be approved.

54. RISK MANAGEMENT POLICY AND ANNUAL ACTION PLAN

The Committee considered the report of the Service Director: Finance and Commercialisation detailing the Risk Management Policy and Annual Action Plan which had been reviewed and updated to ensure that it remained aligned with good practice and reflected the “business need”.

RESOLVED:

- (i) That the updated Risk Management Policy 2017-2021 as detailed in Appendix 1 of the report be approved;
- (ii) That the status of the 2017-18 Risk Management Development Plan as detailed in Appendix 2 of the report be noted;
- (iii) That the 2018-19 Risk Management Action Plan as detailed in Appendix 3 of the report be approved; and
- (iv) That a progress report detailing the Risk Management Action Plan be submitted to the September meeting.

55. EXTERNAL AUDIT - PROGRESS REPORT

The Committee considered the report of the External Auditor detailing the External Audit Progress Report for year ending 31st March 2018. The Committee particularly noted that the July Progress Report would pick up the value for money aspect of Studio 144.

RESOLVED:

- (i) That the External Audit Progress Report be noted; and
- (ii) That the July External Audit Progress Report pick up the value for money aspect of Studio 144.

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	QUARTERLY HR STATISTICS		
DATE OF DECISION:	12 th February 2018		
REPORT OF:	Service Director, HR and OD		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name: Janet King	Tel:	023 8083 2378
	E-mail: Janet.king@southampton.gov.uk		
Chief Executive:	Name: Dawn Baxendale	Tel:	023 8083 4428
	E-mail: dawn.baxendale@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

None. This report contains no personal information relating to specific individuals.

RECOMMENDATIONS:

- i. To note the Quarter 3 2017/8 HR statistics as requested.

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee requested quarterly, Council wide information on key employment data covering disciplinaries, dismissals, and referrals to the police, suspensions and grievances. A format for the information was agreed with the Committee for reports from November 2017 onwards.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None.

DETAIL (Including consultation carried out)

3. **Quarter 3:** In the period October – December 2017 the Council had:
 - 0 Final Written Warnings;
 A total of 30 dismissals:
 - 2 on disciplinary grounds
 - 17 as a result of Phase 3 service restructures (6 in Adult Social Care, 6 in Growth and 5 in Children and Families)
 - 1 on capability
 - 6 for ill health reasons
 - 1 due to unsuccessful completion of probationary period
 - 3 “other” (2 agreed settlement exits and 1 by mutual consent of termination of contract)
 - no referrals to the police
 - 2 suspensions with investigations underway
 - 0 grievance cases

4. Our HR policies are regularly reviewed for legislative compliance and business effectiveness. The revised policies for 2017 were approved at HR and OD Board and CMT and formally published in November 2017. The inclusion of mediation as a suitable step to resolve appropriate matters at matters at a service level with a trained mediator is now in place and two cases have been managed through this route avoiding formal grievance process.
5. Case work is supported by the HR Advisor to the service area to ensure application of correct policies and procedures and consistency of practice. The monitoring is tracked by the HR Management team to help identify any specific areas or issues of concern which require additional investigation or support. The data highlights no key areas of concern in respect of any specific service at this time.

RESOURCE IMPLICATIONS

Capital/Revenue

6. None

Property/Other

7. Not applicable.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

8. S.101 Local Government Act 1972 and associate employment legislation

Other Legal Implications:

9. None

POLICY FRAMEWORK IMPLICATIONS

10. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1. Q1-Q3 table of data

Documents In Members' Rooms

None

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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Other Background Documents

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

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

Q3 Disciplinary Dismissals (Revised and correct) Appendices for Governance Committee Feb 2018

- 2 in (Children & Families) – Dismissed for gross misconduct (AWOL and Safeguarding issues)

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE				
SUBJECT:	ARTS COMPLEX PROJECT REVIEW (STUDIO 144)				
DATE OF DECISION:	11th June 2018				
REPORT OF:	CHIEF INTERNAL AUDITOR				
<u>CONTACT DETAILS</u>					
AUTHOR:	Name: Elizabeth Goodwin	Tel: 023 8083 4616			
	E-mail: Elizabeth.Goodwin@southampton.gov.uk				
Director	Name: Mel Creighton	Tel: 023 8083 4897			
	E-mail: Mel.Creighton@southampton.gov.uk				
STATEMENT OF CONFIDENTIALITY					
N/A					
BRIEF SUMMARY					
During 2017-18 Internal Audit carried out a review of the historic project governance arrangements relating to the city's Arts Complex (Studio 144) the summarised results of which were reported in the last meeting of this committee.					
At the conclusion of the previous meeting, it was requested that the full audit report and the terms of reference for the Capital Board be presented to enable a wider discussion at this meeting.					
RECOMMENDATIONS:					
	(i)	That the Governance Committee notes the full Internal Audit report for the Arts Complex project review (Studio 144).			
REASONS FOR REPORT RECOMMENDATIONS					
1.	Request submitted at the last committee meeting held on the 23 rd April 2018				
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED					
2.	None				
DETAIL (Including consultation carried out)					
3.	<p>The narrative detailed below is a direct extract from Southampton City Council's Capital Strategy 2017/18 - 2021/22 and relates to the structure of the Capital Board and terms of reference.</p> <p>SECTION 8 - THE COUNCIL CAPITAL BOARD</p> <p>The Council Capital Board will be made up of the following members:</p> <ul style="list-style-type: none"> • Cabinet Member for Finance (Chair) • Leader of the Council • Chief Executive • Chief Strategy Officer • Chief Operating Officer • Service Director - Finance and Commercialisation (S151) • Cabinet Members • Service Lead – Corporate Planning & Commercialisation • Head of Capital Assets 				

By invite:

- Service Directors
- Project/Programme Managers

The Board meets on a monthly basis to:

- Discuss and recommend actions around developing capital issues;
- Develop the capital strategy;
- Commission the coming years capital programme;
- Review the capital receipts position;
- Review the assets disposal plan;
- Monitor the performance of the capital programme overall;
- Monitor the performance of strategic and high risk projects;
- Periodically review the strategic fit of projects; and
- On an annual basis recommend the tolerance levels for project variations in time to allow the Financial Procedure Rules to be updated and approved by Council.

The full Terms of Reference for the Board are included in the Financial Procedure Rules and will be updated annually to reflect any changes to the Council Capital Board. These are attached as Annex 1.

It should be noted that projects maybe proposed through other boards such as the Joint Commissioning Board. Whilst funding, with the exception of the requirement of Council capital resources, can be approved by these boards, the requests to changes and additions to the programme should still follow the proposed process detailed in the sections above.

ANNEX 1 COUNCIL CAPITAL BOARD TERMS OF REFERENCE

General

1. To oversee and endorse the Council's Capital Strategy.
2. To own and oversee the development of, the Council's Capital Programme for both the General Fund and the Housing Revenue Account. Through doing so, and taking a long-term view, the Board should ensure that both individual projects and the programme as a whole is affordable and fits with the Council's vision, priorities and outcomes as laid out in the Council Plan and other inter linked plans and strategies.
3. To develop and regularly review the processes to support a strategic approach to capital investment planning which will justify investment decisions, taking account of the Council priorities within the resources available.
4. To operate according to the approved processes for consideration of all capital expenditure and for new proposed capital projects.
5. To operate as a critical gateway for capital projects put forward for endorsement of concept and for ultimate commitment by the Council.

On an Annual Basis

- | | |
|--|---|
| | <ol style="list-style-type: none"> 6. To receive bids for inclusion in the Council's Capital Programme. 7. To prioritise all bid submissions. 8. To format a multiyear capital programme taking into account projected available resources for submission to Cabinet and or Council. 9. Receive capital monitoring reports (financial and performance information). 10. Receive asset disposal programme update. |
|--|---|

On a Monthly Basis

- | | |
|--|--|
| | <ol style="list-style-type: none"> 11. Consider all requests for in - year additions and changes to the Capital Programme that are not Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules. 12. To review all in - year additions and changes to the Capital Programme that have been made as Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules. 13. To oversee, monitor and authorise the progression of capital projects through key stages (to include receiving reports from established project, programme or capital boards as appropriate, and approving variations to schemes). |
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On an Adhoc Basis

- | | |
|--|---|
| | <ol style="list-style-type: none"> 14. Review prioritisation and adequacy of existing scoring mechanism. 15. Review systems of pre-project evaluation including project appraisal and business case justification. 16. Review systems of post project evaluation and application to all completed schemes. 17. To review at appropriate points major projects during the construction stage. 18. To receive post-implementation review presentations after the completion of major projects. |
|--|---|

For ease the Internal Audit report is attached as an appendix.

RESOURCE IMPLICATIONS

Capital/Revenue

- | | |
|----|------|
| 4. | None |
|----|------|

Property/Other

- | | |
|----|------|
| 5. | None |
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

- | | |
|----|--|
| 6. | The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards. |
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<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	The report is for note and discussion only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED: None	
SUPPORTING DOCUMENTATION	
Appendices	
1.	Internal Audit report for the Art Complex (Studio 144)
Documents In Members' Rooms – None	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	
Other Background Documents	
Other Background documents available for inspection at: N/A	
Title of Background Paper(s) None	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)



**SOUTHAMPTON
CITY COUNCIL**

Internal Audit Report

GRTH - Studio 144

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-

Author: Paul Somerset (Deputy Chief Internal Auditor)

Version: Final.

Dated: 6th February 2018

Recipient: Dawn Baxendale (Chief Executive), Suki Sitaram (Chief Strategy Officer), Richard Crouch (Chief Operations Officer), Mel Creighton (S.151 & Service Director Finance & Commercialisation), Mike Harris (Service Lead - Growth)

Approved by Chief Internal Auditor, Elizabeth Goodwin:

Executive Summary

Introduction

The Studio 144 or Southampton's New Art Complex (SNAC) capital project has been on-going since 2000 following successful funding from the Art Council of £5m. In partnership with other bodies, such as John Hansard Gallery and City Eye, the project was developed to create a multi-use building funded by a variety of schemes such as grants, donations and capital funding. The initial projected cost was determined as between £10-15m, however as at September 2017, this has increased by £16.5m to an approximate cost of £30m. It has also experienced numerous delays, with an original completion date of 2012 and following various revised completion dates is due to be completed in October 2017.

The s151 Officer requested in July 2017, that Internal Audit undertook a review of the project, to identify the main causal factors for the escalation in costs and delays and to gain assurances that the governance framework for decision making had been appropriately implemented throughout the lifetime of the project. This included that accurate feasibility assessments, including financial viability had also been undertaken. A further objective was to enable the Authority to identify and learn from any failings thereby ensuring that similar issues are not encountered on any future projects of a similar size or nature.

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Main Findings throughout Project Lifecycle

The main observations from this review are noted below and chronology of the actions and key events are included in Appendix A. It should be noted that the Authority did not hold a chronology of events and key decisions, although the project has spanned 17 years. For this review Internal Audit was provided with access to the 'Arts Complex' folder on the 'K' drive, which contained in excess of 1400 folders and 15,000 files for Studio 144. All key documents used are listed in Appendix B.

Stage 1 - Conception and Initiation

The project's inception came about in 2000 as an idea to redevelop the Tyrell and Greens site into a cultural quarter. Based on this date, the project has been ongoing, at various stages, for 17 years and as a result, a number of key senior officers involved in the project have either departed from the Authority or have changed role.

As indicated above, due to this length of time, it has been difficult to source and evidence elements of the project which may have assisted in obtaining clarity and conciseness around some of the more substantial decisions which have occurred.

For example only one feasibility study has been sourced which dates back to 2000, no other assessments appear to have been undertaken and therefore it is difficult to evidence how significant changes to both the local and national environments had been identified along with their impact on the project's viability. As the project did not commence its next stage until 2007 a further feasibility study should have been undertaken, where elements such as potential revised costs, funding and delivery models would have been reconsidered.

The original concept of the project has not changed along with the political motivation and drive to see the project succeed, however for future projects the authority should always re-examine feasibility and other viability assessments in order to understand any changing risk exposure and enable it to therefore respond accordingly and make informed decisions. As a consequence of an out of date study the Authority did not appear to have detailed information on the impact of changes in scope and design which may have ultimately resulted in the Authority incurring additional costs that may have, if known from the outset, changed the decision to proceed with this project in the first place.

Stage 2 - Definition and Planning

During the planning stage, a decision was made for the project to be split into 3 separate areas (the date of this is unknown), development, design and fit out. The motivation for why this path was proposed has not been evidenced and whilst projects can be planned for delivery in this way there are issues that may arise that have a fundamental outcome of derailing a projects implementation, particularly if there is weak project oversight and management at an operational level. For this project this issue was realised, as delays from the previous contractors, then impacted on the future contractors. Attempts were made to manage this risk for the design and fit out by the use of the 'iese' framework (construction collaboration) which allows two contractors to work together during the design phase, however the results shown in the latest Contract Administrator report (July2017) indicate that this approach did not manage the risk as further delays and costs have occurred.

Projects can suffer if multiple stakeholders are not engaged or the expectations and communications are not robustly managed. Changes in key staff, inexperienced staff, or a protracted project period are all factors that can and possibly did contribute to this. No judgement has been made as to whether the original specifications for each element were clear or accurate and although project initiation documents (PID's) have been sighted and were periodically updated, there is no evidence of a risk assessments as part of the PID's, that if carried out would have considered amongst other areas the planning & financial options available and palatable to the Authority.

In addition to this lack of documentation, a significant amount of knowledge on the project stages and timings including the rational surrounding decision making has been lost with those officers that have departed. While this has impacted on the review

undertaken by Internal Audit, it is worth noting that the issue of data/information transfer may also have had an impact on the officers during the project lifetime and those now currently involved with managing the project.

Stage 3 - Execution

In April 2007, a development agreement was signed with City Lofts and a Project Initiation Document (PID) was evidenced showing a budget of £13.5m, however this company went into receivership in the summer of 2009, following the Economic Crisis in 2008. In October 2010, a development agreement was then signed with Grosvenor. A November 2011 PID showed a budget of £21.1m however there was no reference or information relating to the increase in budget.

In November 2011, a tender exercise was undertaken for the build of the site and the tenders received were in excess of the original tender amount. The lowest tender was approximately £2.6m above the tender value. Value engineering was therefore conducted with the developer to reduce the costs which resulted in some design changes and a reduction in the profit margin for the developer. The contract was awarded to Galiford Try in 2015. It is not clear from records why award of the tender spanned 4 years.

Throughout the project history, Internal Audit has been able to evidence that Project Governance has been constant with the existence of a project board. While reviewing the board and subsequent minutes, which were available, it would appear that the officers, who sat on the board and or contributed to it, were of an appropriate senior level within the Authority. However, Internal Audit is not able to comment on whether these current and historic officers had or have the relevant skills/experience required to manage and facilitate a project of this size. It has also been evidenced that the Project Board has obtained suitable authorisation for increases in the required budget however these were requested as baseline figures and did not include a comprehensive financial breakdown as to what the increase was for.

Stage 4 - Performance and Control

The project has suffered a significant increase in budget throughout its lifecycle. The initial PID dated August 2007 outlined a budget of £13.5m, however the latest PID, dated 2015 shows a budget of £25.6m. As at the current time, August 2017, the budget stands at £30m. As noted above, budget increases were agreed by Full Council however comprehensive details as to what has caused these increases have not been able to be evidenced in the PIDS or via any separate financial documents. While it is known

that the Economic Crisis of 2008 caused significant financial issues within the construction industry, it is not clear how much of an impact this event had on the project budget as a whole.

In addition to the budgetary changes, there have been changes in the funding streams of the project, some of which have also impacted on the design of the building. The key example being that when additional funding was sourced via the Arts Council, it came with conditions which meant alterations were needed to the design of the buildings. Internal Audit was not able to evidence any documentation regarding any decision making and risk/financial assessments on incorporating these changes.

Fundraising was another finance scheme used to help fund the project. The Authority set an initial target of £1.6m in August 2007 based on a fundraising feasibility study conducted by the University of Southampton in August 2004 which gave a conclusion that "there is good market evidence to suggest that it is feasible to raise £1.5m". Fundraising was undertaken by the Southampton Cultural Trust, which was a trust setup by SCC, and any shortfalls in fundraising were underwritten by SCC. The target was then increased in November 2010 to £2.1m but there was no evidence to suggest why the increase occurred, other than the budget of the project had increased. As at August 2017, fundraising has raised £350k. No evidence has been sighted which has reviewed the fundraising shortfall and what factors contributed to it. Should the Authority wish to fundraise for capital projects in the future, a study as to why the shortfall occurred would be advisable.

From our review it is apparent that the Authority in its desires to conclude the project, accepted the varying and substantial increase in costs. A shorter project lifetime, continuity in staff and a robust project management may well have enabled the Authority to effectively manage the financial risks and still achieve the desired outcomes.

Stage 5 - Project Close

The project is yet to be formally completed and there are residual issues relating to the Independent Quantity Surveyors (QS) report and outstanding claims with the Contract Administrator. At the time of the last QS Report (July 2017) there was a potential for an additional £4.4m to be added to the 'fit out' contractual sum. This figure will likely fluctuate once the Contract Administrator makes a decision on the claims made against the Authority by the contractor.

The Contract Administrator is responsible for investigating and deciding whether the Authority or the contractor is liable for the additional costs which have been highlighted in the Quantity Surveyors report. These costs are changes to the contracted work and the circumstances surrounding the change will determine who is liable. An example being that if the Authority delays the contractor

INTERNAL AUDIT REPORT
GRTH - Studio 144

from conducting the work scheduled for a certain period, the Authority becomes liable to cover the costs the contractor has borne as a result of the delay.

One future area for consideration in relation to the QS report is for the Authority to conduct a full review of the final QS report with the aim of identifying the reason for any contractual changes. Evidenced via discussions with key staff, it has been established that there are 3 main reasons for contractual changes during the fit out; Snagging, Stakeholder changes and Design deficiencies.

At the current time, it is not possible for the Authority to accurately know which of those 3 factors has had the most significant impact on the contract sum. By completing a post QS report review, the Authority would be able to establish whether, for example, the design was not adequate which resulted in an unacceptable level of contractual changes and or excessive snagging issues were highlighted as a result of poor construction/fit out.

Conclusion:

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In conclusion, whilst there have been numerous issues all creating a domino effect, the main contributing factor is the length of time of this project from conception to completion. Conversely, while some external factors could not be predicted i.e the Economic Crisis, had further information been collected and analysed at the relevant times, a greater level of information would have been available to aid in any decision making which occurred. However, throughout the review it has not been possible to evidence the decision making processes and the parties involved in them. In addition, continuity of key staff and a detailed project timeline could have mitigated issues caused by the time delays.

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Objectives and Scope of the Review

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

The objectives of the audit were to ensure that:

Achievement of organisation's strategic objectives

- To ensure a suitable project governance structure was in place for the Studio 144 Project.
- To ensure all major decisions are justifiable with documentary evidence and have been suitably approved by the delegated parties/officers.

Safeguarding of Assets

- To ensure accurate feasibility reviews were conducted prior to the commencement of the project

Effectiveness of Operations

- To review the chronology of the project and identify any areas of concern which may have contributed to the delays and costing of the project.

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ISS.1 - SCC1718-048 - Studio 144 - Feasibility - Stage 2 - Definition and Planning

Priority Level

High Risk

Exception

Testing highlighted that a project feasibility study was conducted at the very inception of the project, dated 2000. Since that date, multiple changes have occurred to the project and it is Internal Audit's understanding that no further feasibility studies were undertaken to account for the changes. In addition, it has not been possible to evidence financial feasibility studies that have been undertaken at stages when the project has changed significantly.

Due to the time lapse since the original feasibility and current stage, the data and information within that study would no longer be relevant. With the time lapse and the changes, it would have been prudent to consider further feasibility studies to consider whether the project was to continue based on the changes.

To add context to this finding, the Financial Crisis occurred both nationally and globally in 2007-08 which had a significant impact on the construction industry throughout the subsequent years. As a result, the original developer, City Lofts, went into receivership in 2009 and a new Developer was procured in Grosvenor. Subsequently, the tenders received were then a minimum of £2.6m over the expected cost.

Without an up to date study on both operational and financial feasibility, no assurance can be placed on the findings of those studies. As such, the project may have continued and decisions made on data/information which was no longer current or accurate.

Risks and Consequences

Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved.

Agreed Action

Please see action plan on page 22

Person Responsible / Action by Date

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ISS.2 - SCC1718-048 - Studio 144 - Project Setup - Stage 2 - Definition and Planning

Priority Level

High Risk

Exception

The Studio 144 project was split and procured into 3 distinct stages. These were the development and shell building creation, the design of the building interior and lastly, the fit out of the building.

Due to this approach, the Council has procured 3 different contractors for each element. It is understood this decision was made due to the complexity of the project however no internal meeting minutes or documents have been able to evidence this decision making process.

As a result of this approach, SCC has had to manage 3 separate contractors which have resulted in issues regarding delays and complexities relating to the project. Example being that when one contractor is significantly delayed, then this resulted in a domino effect on the next contractor. In addition, there were instances where the proceeding contractor raised issues regarding the quality of the work undertaken by the previous contractor, such as construction or design of the building, example being the placement of electrical points. At all times the Authority has been responsible for facilitating a suitable resolution between the contractors. .

The IESE contract framework was used as a way to minimise the issues that could occur when using different contractors to design and then fit out the building, however based on the significant changes outlined within the latest Quantity Surveyors report (July 2017) this approach does not appear to have reduced the risk of snagging and or design changes, with the ultimate responsibility residing with the Authority to resolve.

The split procurement resulted in the management of the 3 different contractors throughout the project. This has resulted in the need for increased stakeholder management and cost which has been exacerbated by the significant delays and complexities which have arisen during this project.

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Risks and Consequences

Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved.

Agreed Action	Person Responsible / Action by Date
Please see action plan on page 22	

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ISS.3 - SCC1718-048 - Studio 144 - Project Lifespan - Stage 1 Conception and Initiation

Priority Level

High Risk

Exception

The initial inception of the project started in 2000 and Full Council approval for the project was gained in 2007. A development agreement with the contractor Grosvenor was then signed in 2010. As at September 2017, the project has yet to be completed with a revised date of October 2017.

Across this time there have been multiple changes in officer involvement, council structure and other stakeholders.

Due to the significant timeframe of the project, issues have arisen relating to lost knowledge and the location of documentation. A detailed project timeline and document management may have limited the impact of this.

In addition, the economic environment has changed significantly throughout this timeframe which will have altered the financial feasibility of the project however as noted previously, it is not clear if financial feasibility studies (other than one re fundraising targets) were conducted. This was highlighted by the original Developer, City Lofts, going into receivership in 2009 and a new developer needing to be procured.

With a project spanning such a long timeframe, multiple changes in both the external and internal environment have occurred which will have added a lack of continuity of the project ownership. As such this has presented issues such as loss of staff knowledge and documentation relating to the project. This may have then affected subsequent decision making.

Risks and Consequences

Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved.

Agreed Action

Please see action plan on page 22

Person Responsible / Action by Date

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<i>ISS.4 - SCC1718-048 - Studio 144 - Financial Changes - Stage 4 - Performance and Control</i>
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Priority Level

High Risk

Exception

Throughout the project there have been a number of significant financial changes. The earliest Project Initiation Document (PID) dated August 2007 outlined a budget of £13.5m and the latest PID dated June 2015 shows a budget of £25.6m. As at September 2017 it is expected the project will have a total cost of approximately £30m. Testing established that the PID's that have been evidenced do not specifically state the reasoning for the budget changes since the previous document, therefore it is not clear what has changed to outline the significant budget change.

It is understood that the tender for the development of the site was significantly lower than the bids received with the lowest bid exceeding the tender by £2.6m.

In addition, the original funding granted by the Arts Council was increased by £1.5m in 2010 however the increase came with different requirements for the building which would have affected potential designs and costings. As noted above, no further feasibility studies were undertaken following these changes.

The original level of fundraising was set at £1.6m in August 2007 and increased to £2.1m in November 2010. A feasibility study conducted by the University of Southampton in August 2004 gave a conclusion "there is good market evidence to suggest that it is feasible to raise the £1.5m required in the 3 year time frame." As previously noted, the Financial Crisis of 2007/08 would have likely affected this study but no further feasibility studies into the achievement of fundraising was conducted.

The fundraising was managed by the Southampton Cultural Trust, which is a charity created by SCC, and as at July 2017, approximately £350k has been raised. The Authority decided to underwrite the fundraising target amount and has therefore resulted in the increase payment of £1.8m towards the project.

It is understood that professional fundraising staff were appointed for this project however it is our understanding that difficulties were faced in fundraising for a project which had already secured substantial funding from the Council and the Arts Council. No evidence has been sighted which has reviewed the fundraising shortfall and what factors contributed to it. Should the Authority wish to fundraise for capital projects in the future, a study as to why the shortfall occurred would be advisable.

The project has had significant increases in the budget from £13.5m to approximately £30m prior to completion. While all increases have sought and acquired full council approval, the increased spend would have had a negative effect on the councils reserves.

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Risks and Consequences

Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved.

Agreed Action	Person Responsible / Action by Date
Please see action plan on page 22	

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<i>ISS.5 - SCC1718-048 - Studio 144 - Residual Issues - Stage 5 Project Close</i>
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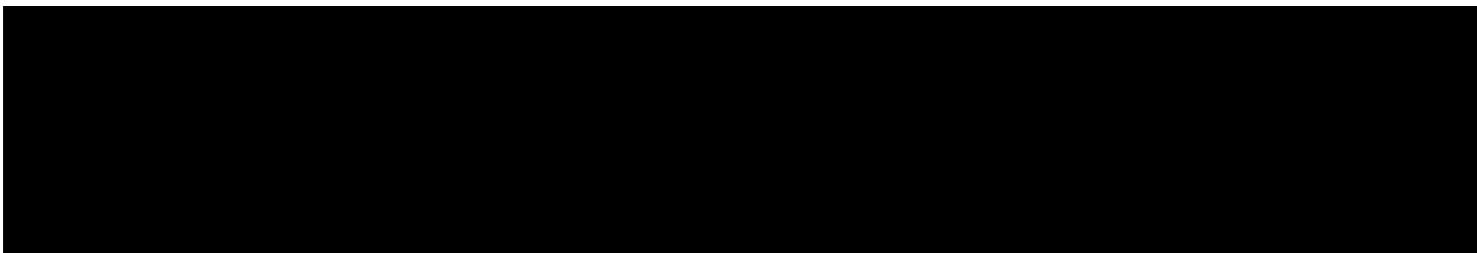
Priority Level

High Risk

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Exception

The delays incurred during the Studio 144 project are currently being investigated by the Contract Administrator. Depending on the decision of the Contract Administrator, SCC may also be liable for increase contract sums. Various factors have caused these delays and it is the responsibility of the Contract Administrator to investigate these to determine fault. For example:



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The data is based on the Quantity Surveyors report dated 6th Jul 2017.

- Huntley Cartwright Quantity Surveyors:
- Contract Sum for fit out is stated as £12,660,398.36
- Omit from Account - £1,274,842.15
- Add to account - £4,414,595.49 (Includes £1,950,250 is possible further expenditure)
- Final Account Figure - £15,800,151.70
- Net increase of £3,139,753.34 (24.8%)

One future area for consideration in relation to the QS report is for the Authority to conduct a full review of the final QS report with the aim of identifying the reason for any contractual changes. Evidenced via discussions with key staff, it has been established that there are 3 main reasons for contractual changes during the fit out; Snagging, Stakeholder changes and Design deficiencies. At the current time, it is not possible for the Authority to accurately know which of those 3 factors has had the most significant impact on the contract sum. By completing a post QS report review, the Authority would be able to establish whether, for example, the design was not adequate which resulted in an unacceptable level of contractual changes and or excessive snagging issues were highlighted as a result of poor construction/fit out.

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Risks and Consequences

Financial, operational and reputational risks may all occur should the residual issues not be addressed. A lack of post project review would also limit the knowledge to be had in relation to lessons learnt and may then impact any future project decisions.

Agreed Action	Person Responsible / Action by Date
Please see action plan on page 22	

EXCEPTIONS

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

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

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Appendix A

Date	Main points	Internal Audit Comments
May 2000	Feasibility Study by David Powell Associates	Operational Feasibility, not financial
21 st March 2007 Full Council	Approval for project to proceed.	
16 th April 2007 Cabinet	Approval for project to proceed and delegated management to Council Officers	
April 2007	City Lofts Sign development agreement	City Lofts engaged to carry out the building shell construction.
August 2007	Project Initiation Document drafted. Budget of £13.5m with completion date of 2012	No information as to why there is a delay from this date to Summer 2009
Summer 2009	City Lofts went into receivership	No assessment has been made by Internal Audit regarding due diligence checks on City Lofts
October 2010	Developer Agreement signed with Grosvenor for development of the site.	
November 2010	Project Initiation Document drafted. Budget of £21.1m with completion date of 2015	PID does not refer to previous edition and not clear on what has driven change in budget and no assumptions have been made.
November 2011	Tender exercise carried out, 3 contractors' submission with the lowest exceeded construction budget by £2.6m.	Value engineering occurred to reduce costs for the site development contract only.
December 2011	Glenn Howells procured under OJEU process to continue as design team leaders with consultants appointed through them.	
October 2012	Project Initiation Document revised, no fundamental changes. Budget of £21.1m with completion date of 2015	
12 th December 2012 Briefing Report by Barry Meering & Mike Harris	Briefing on 29/1/13 cabinet report, contains proposal of £160k ongoing grant to the Operating Company, alongside £160k from the Arts Council.	Main point not relevant to construction project. The Arts Council future funding is uncertain. Already funded £7.3m to build the complex.

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Date	Main points	Internal Audit Comments
29 th January 2013 Report to Cabinet, by Mike Harris	Seeking authority to conclude the organisational structure to progress the project, specifically around set up of a Holding Company and Operating Company.	Relevant point as this contributed to delays.
1 st May 2013 Cabinet Report	Apparently noted delays in the development agreement with Grosvenor and potential increase in inflationary cost of £200k	This report is noted in the 23 rd Jan 14 briefing.
23 rd January 2014 Briefing Report by Mike Harris	Predicted expenditure from £900k contingency budget, predicted to overspend by £142k i.e. £1,042 in total.	Evidence of reporting to members.
March 2014	Project Initiation Document drafted. Budget of £21.1m with completion date of 2016	
June 2015	Project Initiation Document drafted. Budget of £25.6m with completion date of 2016	New PID does not reference change in budgetary figure from last PID issued, therefore unclear why increase occurred.
15 th July 2015 Full Council	Request for additional funding of £1,959,000 for fit out of Arts Complex bringing total budget to £25,109,000	
20 th July 2016 - General Fund Capital Outturn	Fundraising shortfall identified of £1.8m. Council had agreed to underwrite the fundraising target of £2.1m. Shortfall funded from Capital Grants (£1.5m), Misc capital contributions (£0.15m) and capital receipts (£0.10m)	Unclear throughout reasoning for the delays.
July 2017	Advised the project is due to be completed September 2017 with a projected cost of £30.1m	

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Appendix B

Key Documents received:

- Contract Documents - Grosvenor, Glen Howells, Galiford Try, Huntley Cartwright
- Arts Council Funding Agreement Feb 2017
- Full Council minutes relating to Studio 144 Funding
- University of Southampton Feasibility Study re SNAC Fundraising
- iESE Contract Framework documentation
- Quantity Surveyors Report dated July 2017
- Various Project Initiation Documents dated 2007, 2010, 2012, 2014, 2015
- Project Costing timeline dated May 2000 - July 2017
- Internal Audit has also had access to the Arts Complex folder on the K: drive. This folder contains 1,414 sub folders and 15,809 files.

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Key Officers who have provided information and knowledge:

- Mike Harris - Service Director Growth
- Jill Low - Client Team Leader Arts Complex
- Luke Farren - Commercial Controller
- Edmund Ellert - Architect Section Manager

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Management Response/Action Plan

There were 5 risks identified in the report, which are identified below

<i>Project stage</i>	<i>Risks & consequences identified</i>
<i>ISS.1 - SCC1718-048 - Studio 144 - Feasibility - Stage 2 - Definition and Planning</i>	Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved
<i>ISS.2 - SCC1718-048 - Studio 144 - Project Setup - Stage 2 - Definition and Planning</i>	Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved
<i>ISS.3 - SCC1718-048 - Studio 144 - Project Lifespan - Stage 1 Conception and Initiation</i>	Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved
<i>ISS.4 - SCC1718-048 - Studio 144 - Financial Changes - Stage 4 - Performance and Control</i>	Financial, operational and reputational risks may all occur with ultimate project failure or an end product that neither meets the needs or expectations of stakeholders involved
<i>ISS.5 - SCC1718-048 - Studio 144 - Residual Issues - Stage 5 Project Close</i>	Financial, operational and reputational risks may all occur should the residual issues not be addressed. A lack of post project review would also limit the knowledge to be had in relation to lessons learnt and may then impact any future project decisions.

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The Council has, during the lifetime of the project, made some significant changes to how Capital resources are allocated and managed:

- The Capital Assets team has been created, consolidating teams from across the Council, and more recently Capita, that work on property projects. Previously commercial arrangements, design development and project management have been dealt with in separate teams. Whilst matrix management is not an unusual approach, it can lead to inconsistency both in project management, financial reporting, but also project administration and filing. These are challenges raised within the report and should be addressed by this cohesive team. Significant issues have arisen from the risk transfer in the separate 'Shell and Core' and 'Fit out' contractual arrangements. Any projects that could feasibly be delivered in this manner, will have substantial risk allocation reviews as part of a cohesive project development process
- Capital Board has been established to provide corporate governance on the management of the capital programme and political input to the process. Greater visibility of decisions, within the senior leadership of the Council has been enabled by this.

In addition, following a review of the report, the following specific steps are proposed:

Action	Custodian	Adherence responsibility	Timeframe for implementation
New project management process and procedures will be devised and implemented	Programme Management Office	Project team	April 2018
Gateway reviews will be required on all major capital projects. These will review the status and continue viability of projects at key milestone events, for example Project Initiation Document, procurement	Programme Management Office	Project Board	May 2018

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A project timeline is to be updated throughout the lifecycle of projects detailing key events, decisions, changes etc	Programme Management Office	Project Manager	BAU
Projects will have a clear and defined filing structure and files follow a nominated naming convention	Programme Management Office	Project Manager	April 2018
Projects which have not progressed or started for over a year will need to revisit the original business case/feasibility before continuing. Annual reviews of the projects included on the capital programme will also be undertaken.	Programme Management Office	Council Management Team	June 2018
Projects will be required to document and retain clear evidence on the process followed and information reviewed when significant decision making occurs	Programme Management Office	Project Manager	April 2018
Conduct review of final QS report	Capital Assets	Capital Assets	Within 3 months of receipt of final report

Agenda Item 7

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT 2017-18	
DATE OF DECISION:		11th June 2018	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name: Elizabeth Goodwin	Tel: 023 8083 4616	
	E-mail: Elizabeth.Goodwin@southampton.gov.uk		
Director	Name: Mel Creighton	Tel: 023 8083 4897	
	E-mail: Mel.Creighton@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"> • Progress made against the agreed annual audit plan. • Results of audit activities and • Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority <p>All other PSIAS requirements are communicated in either the charter, strategy or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p>			
<p>Internal Audit Progress for the period 6th April 2018 to the 30th May 2018 is covered in the attached Appendix 1.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 6 th April 2018 to the 30 th May 2018.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	None		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None		

<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED: None	
SUPPORTING DOCUMENTATION	
Appendices	
1.	Internal Audit Progress Report for the period 6 th April 2018 to the 30 th May 2018.
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.	
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	
Other Background Documents	
Other Background documents available for inspection at: N/A	
Title of Background Paper(s): None	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)



**SOUTHAMPTON
CITY COUNCIL**

Internal Audit Progress Report

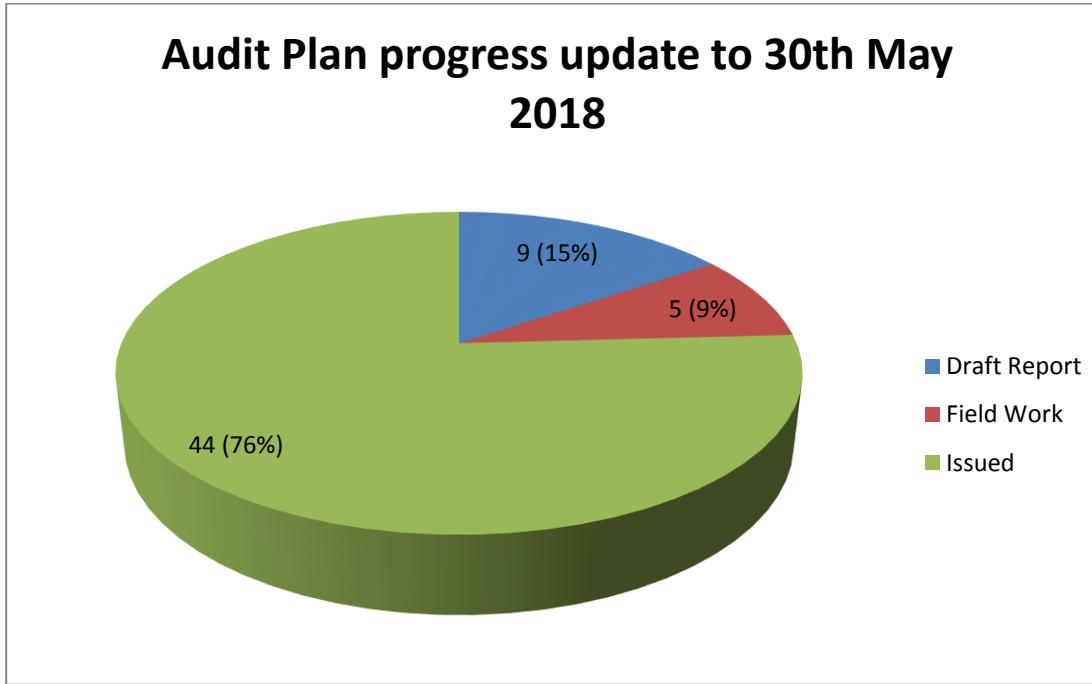
11th June 2018 Governance Committee

Elizabeth Goodwin - Chief Internal Auditor

Introduction: The internal audit function is a statutory function for all Local Authorities. Southampton City Council currently has a shared Chief Internal Auditor and an in house team of three members of staff, supported under a partnership agreement with Portsmouth City Council.

Purpose of report: The purpose of this report is to update the committee on the progress of the 2017/18 Audit Plan for the period 6th April 2018 to 30th May 2018 and highlight any areas of concern that may have arisen during the completed audits.

Audit Plan Progress:



91% of the Audit Plan has been completed as at 30th May 2018. 9% of the Audit Plan is in progress with an expected completion date of the end of June 2018. This is based on 58 audits.

Completed Audits between 6th April 2018 and 30th May 2018:

Project Name	Hub	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary of high risk exceptions
DBO - CCTV	Operations	Limited Assurance		-	1	-	1	One high risk exception relating to non current data protection impact assessments in certain areas.
F&C - Accounts Receivable and Debt Management	Strategy	Limited Assurance		-	2	2	-	Two high risk exceptions relating to inaccurate invoicing across the authority and the closing down of write offs before authorisation.
F&C - Income and Collection Sites	Strategy	Limited Assurance		-	2	3	-	Two high risks exceptions relating to the lack of vault box verification at Itchen bridge, lack of management oversight and inadequate system reports.
HAC - Residential Care Homes SCC run	Operations	Limited Assurance		-	4	2	1	Four high risk exceptions relating to petty cash inaccuracies, administration of personal funds, incomplete inventory records and weaknesses in stock control.
T&U - Asbestos	Operations	Limited Assurance		-	5	-	-	Five high risk exceptions arose which related to the following areas: Procurement and Contract management in relation to Asbestos, inadequate control and performance reporting, properties overdue inspections, inadequate incident reporting closedown and incomplete training for key staff.
T&U - TranMan	Operations	Limited Assurance		-	2	1	-	Two high risk exceptions arose relating to inadequate system privileges within the system and missing driver license checks on a number of agency workers

Project Name	Hub	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary of high risk exceptions
T&U - Water Quality	Operations	Limited Assurance		-	3	2	-	Three high risk exceptions arose which related to inadequate completion of relevant training, corporate sites that did not have a risk assessment and lack of responsibility for monitoring results of water quality testing.
L&G - Social Media	Strategy	Limited Assurance		-	3	1	-	Three high risk exceptions relating to guidance on viewing social media accounts, no records of surveillance undertaken and lack of training in certain departments
P&H - Public Health	Strategy	Reasonable Assurance		-	-	1	-	
C&F - Adoption	Operations	Reasonable Assurance		-	1	1	2	One high risk exception relating to timescales and signatories as part of the assessment process.
HAC - Continuing Health Care	Operations	Reasonable Assurance		-	-	2	-	Two medium risk exceptions relating to out of date policy and procedures and weaknesses in supporting documentation.
HAC - Adults Safeguarding	Operations	Assurance		-	-	-	-	

Audits in Draft Report Stage:

Project Name	Hub	Project Status	Projected Reporting Date
DBO - Disaster Recovery Business Continuity	Operations	Draft Report	July 2018
DBO - Procurement	Strategy	Draft Report	July 2018
F&C - Annual Governance Statement 17/18	Strategy	Draft Report	July 2018
C&F - Out of City Placements Special Education Needs	Operations	Draft Report	July 2018
DBO - British Gas	Operations	Draft Report	July 2018
F&C - Financial Management	Strategy	Draft Report	July 2018
DBO - Leisure Contract	Operations	Draft Report	July 2018
DBO - Contract Strategic Framework	Operations	Draft Report	July 2018
F&C - Accounts Payable	Strategy	Draft Report	July 2018
HR - Health & Safety	Strategy	Field Work	July 2018

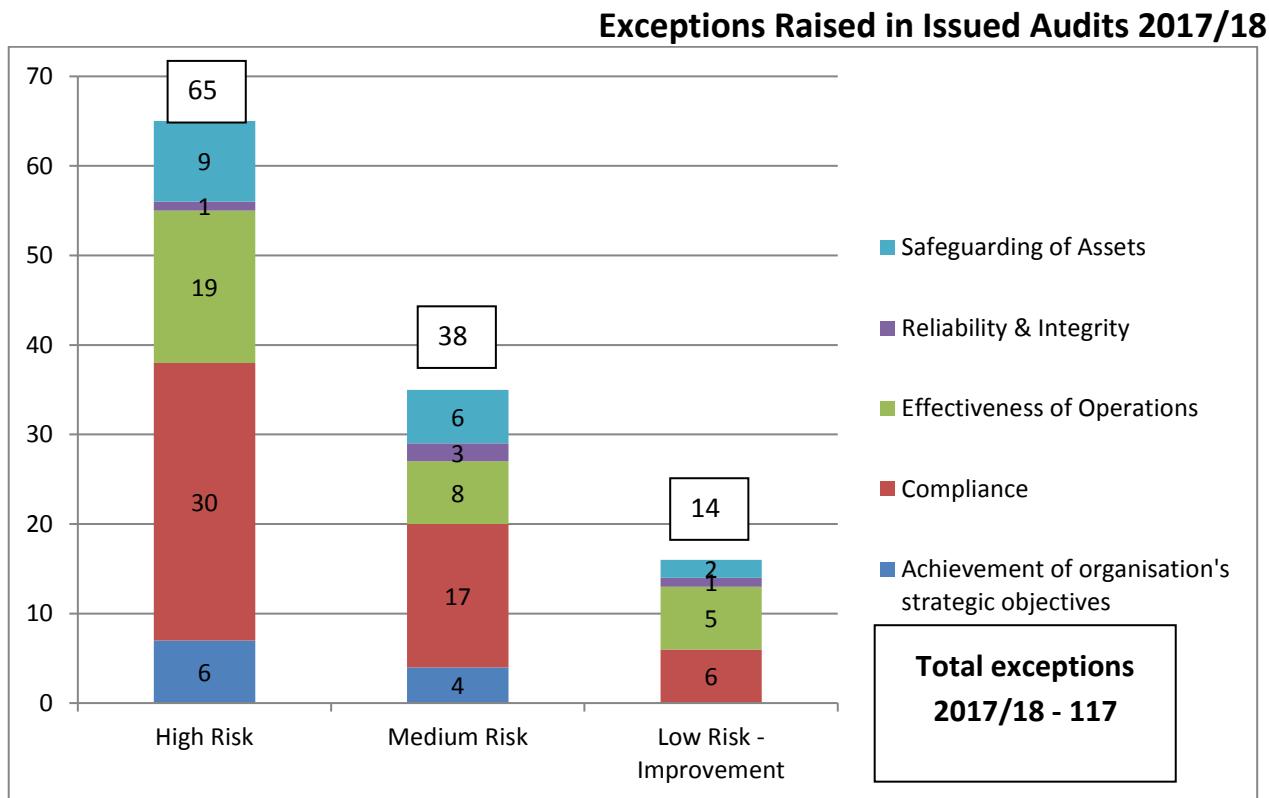
Audits in progress:

Project Name	Hub	Project Status	Projected Reporting Date
DBO - IT Telecommunications	Strategy	Field Work	July 2018
C&F - Children's Safeguarding (Protection & Court Teams)	Operations	Field Work	July 2018
DBO - Mobile Devices	Operations	Field Work	July 2018
DBO - Partnership Arrangements	Operations	Field Work	July 2018

Unplanned Work:

Since 6th April 2018 to 30th April 2018, Internal Audit has provided advice in the following area. (For reference, Advice is only recorded when the time taken to provide the advice exceeds 1 hour.

- Direct Payments - The Audit Manager is attending regular meetings to discuss the progress of the improvements made in the direct payment process following attendance at the workshops.
- Direct Payments – The Audit Manager is now a member of the Direct Payment Board overseeing the implementation of the new direct payment process.
- Direct Payments - The Audit Manager is coordinating the introduction of two new posts relating to Direct Payment Auditing.
- Travis Perkins – Audit was contacted directly by Travis Perkins to investigate the use of their Purchas Cards by SCC tradespersons. The use of these cards needs to be compliant with SCC Procurement rules and also in line with the current contract that the Council has in place with Travis Perkins for the provision of materials. Advice has been given to the relevant Service Manager in Housing and also discussions held with the Service Lead – Supplier Management.



The above table shows the number of exceptions raised based on the risk level and the category in which they were tested. At the current time, no significant trends are present in the data.

Audit Plan Status/Changes: There have been no changes to the Audit Plan since the last update.

Areas of Concern: No new areas of concern have arisen since the last audit update report.

Category	Example
Achievement of Organisational Objectives (AO)	Policy is out of date and not in line with current process
Compliance with Laws, Regulation and Policy (CMP)	Authority process /action is breaching legislation
Safeguarding of Assets (SOA)	Inventory of assets is not being maintained
Effectiveness of Operations (EOO)	Duplicate authorisation within a process
Reliability and Integrity of Data (R&I)	Reports used for decision making are inaccurate

KEY:

Overall Assurance Levels:	Description / Examples	Exception Priority Level	Description
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority	Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority	Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority	High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit	Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.

Agenda Item 8

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	QUARTERLY HR STATISTICS		
DATE OF DECISION:	11 th June 2018		
REPORT OF:	Service Director, HR and OD		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name: Janet King	Tel: 023 8083 2378	
	E-mail: Janet.king@southampton.gov.uk		
Chief Executive:	Name: Richard Crouch	Tel: 023 8083 4428	
	E-mail: Richard.crouch@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY			
None. This report contains no personal information relating to specific individuals.			

RECOMMENDATIONS:

- i. To note the Quarter 4 2017/8 HR statistics as requested.

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee requested quarterly, council wide information on key employment data covering disciplinaries, dismissals, and referrals to the police, suspensions and grievances. The format for the information was agreed with the Committee for reports from November 2017 onwards.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None.

DETAIL (Including consultation carried out)

3. **Quarter 4:** In the period January – March 2018 the Council had:

- 1- Final Written Warnings;

A total of 11 dismissals:

- 1 on disciplinary grounds
- 7 as a result of Phase 3 service restructures (2 in Adult, Housing and Communities, 4 in Children and Families, 1 in Transaction and Universal Services)
- 1 on capability
- 1 for ill health reasons
- 1 “other” (settlement agreement)

- No referrals to the police
- 2 suspensions which are both concluded
- No Step 3 grievance resolution cases

4. Our HR policies are regularly reviewed for legislative compliance and business effectiveness. There have been no revisions since those approved at HR and OD Board and CMT and formally published in November 2017.
5. Case work is supported by the HR Advisor to the service area to ensure application of correct policies and procedures and consistency of practice. The monitoring is tracked by the HR Management team to help identify any specific areas or issues of concern which require additional investigation, specific interventions or support. The data highlights no key areas of concern in respect of any specific service at this time.

RESOURCE IMPLICATIONS

Capital/Revenue

6. None

Property/Other

7. Not applicable.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

8. S.101 Local Government Act 1972 and associate employment legislation

Other Legal Implications:

9. None

POLICY FRAMEWORK IMPLICATIONS

10. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1.	Q1-Q4 table of data
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Documents In Members' Rooms

	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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Other Background Documents

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

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule

12A allowing document to be
Exempt/Confidential (if applicable)

1.	None	
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Agenda Item 8

Appendix 1

Southampton City Council - Quarterly Governance Stats

Service Area	Quarter 1 (April '17 - June '17)													
	Disciplinary			Dismissals						Resolutions		Suspensions		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Redundancy following Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Length of Suspensions
Adults, Housing & Communities	0	2	0	0	0	2	0	0	0	0		1	0	
Children & Families	0	0	0	0	0	0	0	0	0	0		0	0	
Digital & Business Operations	0	0	0	0	0	0	0	0	0	0		0	0	
Finance & Commercialisation	0	0	0	0	0	0	0	0	0	0		0	0	
Growth	0	0	0	0	0	0	0	0	0	0		3	0	
Human Resources & Org Development	0	0	0	0	0	0	0	0	0	0		0	0	
Intelligence Insight & Communications	0	0	0	0	0	0	0	0	0	0		0	0	
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0	
Public Health	0	0	0	0	0	0	0	0	0	0		0	0	
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0	
Transactions & Universal Services	1	0	0	0	0	0	0	0	0	2		0	0	
Southampton City Council (Total)	1	2	0	0	0	2	0	0	2	0		4	0	

Service Area	Quarter 2 (July '17 - Sept. '17)													
	Disciplinary			Dismissals						Resolutions		Suspensions		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Redundancy following Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Length of Suspensions
Adults, Housing & Communities	0	1	0	0	0	1	0	0	0	0		0	0	
Children & Families	0	0	0	0	0	0	0	0	0	1		0	0	
Digital & Business Operations	0	0	0	0	0	0	0	0	0	0		0	0	
Finance & Commercialisation	0	0	0	0	0	0	0	0	0	0		0	1	1 Suspension from 28th Sept until termination on 30/11/2017
Growth	0	1	0	0	0	0	1	0	0	0		0	0	
Human Resources & Org Development	0	0	0	0	0	0	0	0	0	0		0	0	
Intelligence Insight & Communications	0	0	0	0	0	0	0	0	0	0		0	0	
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0	
Public Health	0	0	0	0	0	0	0	0	0	0		0	0	
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0	
Transactions & Universal Services	0	0	0	0	0	0	0	0	1	1		1	0	
Southampton City Council (Total)	0	2	0	0	0	2	0	1	2	0		1	1	

Service Area	Quarter 3 (Oct. '17 - Dec. '17)													
	Disciplinary			Dismissals						Resolutions		Suspensions		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Redundancy following Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Length of Suspensions
Adults, Housing & Communities	0	0	0	8	0	0	2	0	6	0		0	0	
				9										1 suspension from 15.11.17 until current*
Children & Families	0	2	0	0	0	2	1	0	5	1		0	2	1 suspension from 18.10.17 - 05.12.17 when dismissed
Digital & Business Operations	0	0	0	2	1	0	0	0	0	1		0	0	
Finance & Commercialisation	0	0	0	1	0	0	0	0	0	1		0	0	
Growth	0	0	0	6	0	0	0	0	6	0		0	0	
Human Resources & Org Development	0	0	0	1	0	0	0	1	0	0		0	0	
Intelligence Insight & Communications	0	0	0	1	0	0	1	0	0	0		0	0	
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0	
Public Health	0	0	0	0	0	0	0	0	0	0		0	0	
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0	
Transactions & Universal Services	0	0	0	2	0	0	2	0	0	0		0	0	
Southampton City Council (Total)	0	2	0	30	1	2	6	1	17	3		0	2	

Service Area	Quarter 4 (Jan. '18 - Mar. '18)													
	Disciplinary			Dismissals						Resolutions		Suspensions		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Redundancy following Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Length of Suspensions
Adults, Housing & Communities	1	0	0	2	0	0	0	0	2	0		0	0	0
				5	0	0	0	0	4	1				1 suspension (* as above) until termination on 31/12/2018
Children & Families	0	0	0	0	0	0	0	0	0	0		0	2	1 suspension from 8/1/18 until resignation ahead of dismissal hearing 5/3/18
Digital & Business Operations	0	0	0	0	0	0	0	0	0	0		0	0	0
Finance & Commercialisation	0	0	0	0	0	0	0	0	0	0		0	0	0
Growth	0	0	0	1	1	0	0	0	0	0		0	0	0
Human Resources & Org Development	0	0	0	0	0	0	0	0	0	0		0	0	0
Intelligence Insight & Communications	0	0	0	0	0	0	0	0	0	0		0	0	0
Legal & Governance	0	0	0	0	0	0	0	0	0	0		0	0	0
Public Health	0	0	0	0	0	0	0	0	0	0		0	0	0
Quality & Integration	0	0	0	0	0	0	0	0	0	0		0	0	0
Transactions & Universal Services	0	1	0	3	0	1	1	0	1	0		0	2	0
Southampton City Council (Total)	1	1	0	11	1	1	1	0	7	1		0	2	1

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Agenda Item 9

DECISION-MAKER:	Governance Committee				
SUBJECT:	Annual Governance Statement				
DATE OF DECISION:	11 th June 2018				
REPORT OF:	Chief Finance Officer				
<u>CONTACT DETAILS</u>					
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835		
	E-mail:	peter.rogers@southampton.gov.uk			
Director	Name:	Mel Creighton	Tel: 023 8083 4897		
	E-mail:	mel.creighton@southampton.gov.uk			
STATEMENT OF CONFIDENTIALITY					
None					
BRIEF SUMMARY					
In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.					
The Governance Committee is responsible for receiving, reviewing and approving the draft AGS.					
RECOMMENDATIONS:					
	(i)	To review the draft 2017-18 AGS (Appendix 1); and			
	(ii)	To note the status of the 2016-17 AGS Action Plan (Appendix 2).			
REASONS FOR REPORT RECOMMENDATIONS					
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.				
2.	In accordance with CIPFA Guidance, Audit [Governance] Committees should be provided with early sight of a draft of the AGS noting that the final version will be signed as part of the Statement of Accounts.				
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED					
3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.				
DETAIL (Including consultation carried out)					
4.	Regulation 6 (1) (b) of the Accounts and Audit England Regulations 2015 requires that the council must, each financial year, conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.				
5.	The purpose of the AGS, which is required to be published with the statement of accounts, is to provide an accurate representation of the				

	corporate governance arrangements in place during the year and to identify where there are significant gaps or where improvements are required. The draft AGS, which has been developed in accordance with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)', reflects the seven core principles of good governance which are referred to in the council's Code of Corporate Governance.
6.	<p>In accordance with the CIPFA/Solace guidance, the key good practice features of an annual governance statement are as follows:</p> <ul style="list-style-type: none"> • The statement has been properly approved. • It is regarded as a valuable means of communications which will enable stakeholders to understand the authority's governance arrangements. • It is easily accessible by authority members and members of the public, for example: <ul style="list-style-type: none"> ▪ through its prominent display on the authority's website; ▪ publishing it with, but separately from, the statement of accounts. • It has been clearly thought out and reflects the vision, character and structure of the authority, i.e. the big picture and not the detail. • It demonstrates ownership by the authority and has a high status within senior management. • It is a genuinely shared effort with wide input from outside the finance and audit functions. • It is a key document for showing how the authority is achieving its strategic objectives. • It is in an open and readable style. • It demonstrates challenge. • Issues are clearly articulated and it communicates a clear and concise message. • Weaknesses together with areas for improvement are highlighted. • It clearly communicates what has been done to resolve significant control issues and what remains to be done. • Actions identified are specific, measurable, achievable, realistic, and time related (SMART). • Responsibility for those actions is clearly identified. • It is a 'living' document, i.e. it is not focused exclusively on year end and communicates significant issues which may change from year to year.
7.	The draft 2017-18 AGS has been developed by the council's 'Controls Assurance Management Group' comprising the Section 151 Officer (Service Director - Finance and Commercialisation), Monitoring Officer (Service Director - Legal and Governance), Chief Internal Auditor, Chief Strategy Officer and the Chair of Governance Committee in 2017-18.
8.	The AGS is produced following a review of the systems and processes that comprise the Council's governance arrangements. The key components of this process are completion of an 'Assurance Framework' document together with 'Self-Assessment Statements' completed by each Service Director. Both documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.
9.	The draft AGS has also been shared with the Council's Management Team.
10.	The AGS must be current at the time it is published so the final version of the 2017-18 AGS will be presented to the Governance Committee at the July

	meeting for approval prior to being signed by the Leader of the Council and the Interim Chief Executive respectively.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
11.	None
<u>Property/Other</u>	
12.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
13.	The Accounts and Audit (England) Regulations 2015 which require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.
<u>Other Legal Implications:</u>	
14.	None
RISK MANAGEMENT IMPLICATIONS	
15.	Production and publication of the AGS will ensure compliance with the Accounts and Audit Regulations.
POLICY FRAMEWORK IMPLICATIONS	
16.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
SUPPORTING DOCUMENTATION	
Appendices	
1.	Draft 2017-18 Annual Governance Statement
2.	2016-17 AGS Action Plan
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	
No	
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	
No	
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules /

		Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

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-corporate-governance-feb-2018_tcm63-396028.pdf

or can be obtained from the:

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

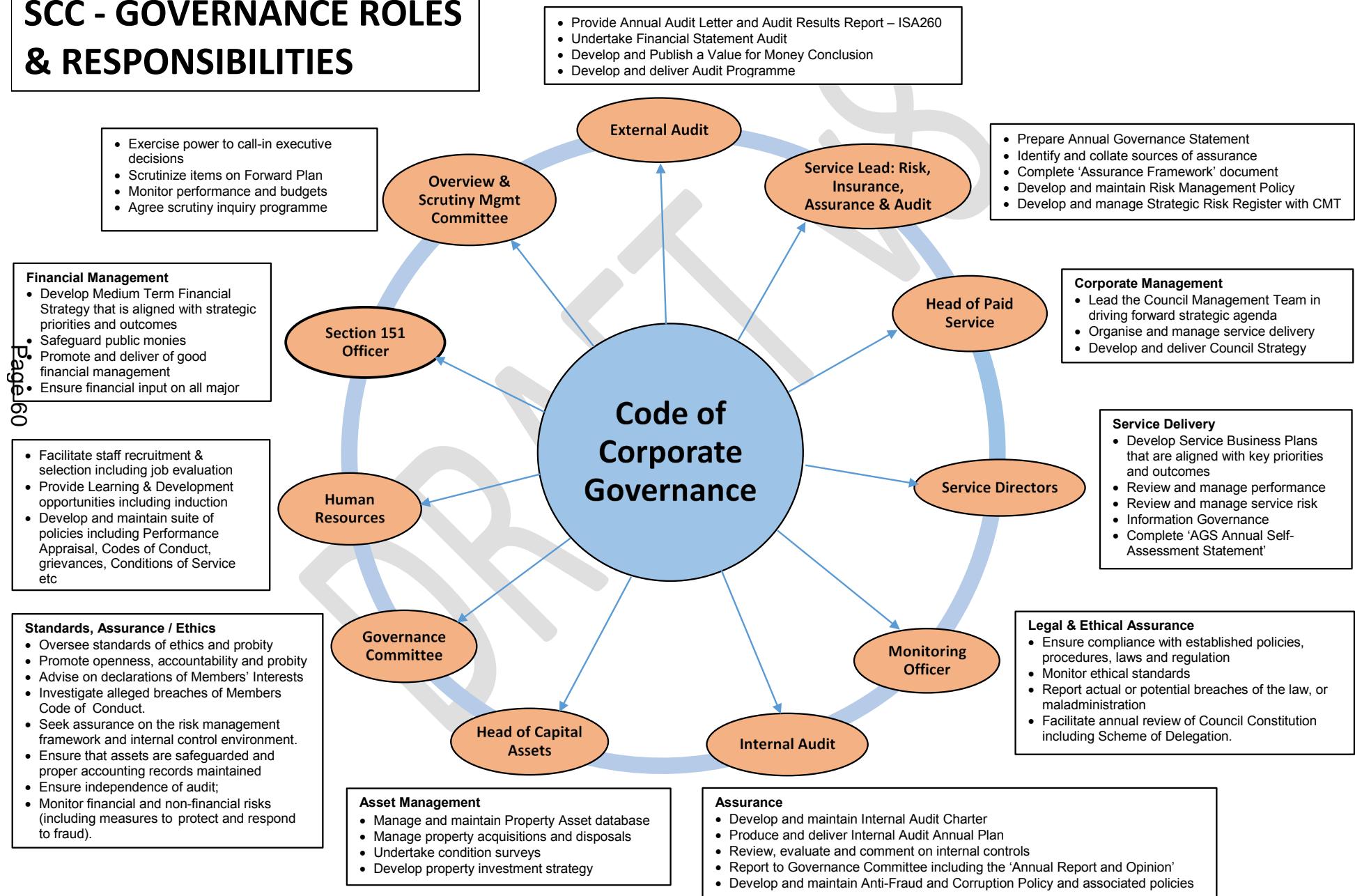
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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

The governance framework has been in place at the council for the year ended 31st March 2018 and up to the date of approval of the statement of accounts.

Annual Governance Statement

SCC - 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 characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

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

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the Council's business. The Constitution is published on the council's website at:

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

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

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

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

As part of the commitment to safeguard public funds there is an 'Anti-Fraud and Anti-Corruption Policy and Strategy' which outlines the process to be followed where there is suspicion of financial irregularity. The Council also has in place an 'Anti-Money Laundering' policy and a 'Bribery Policy' which set out both the expectations and responsibilities of both officers and Members. All such policies and strategies 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.

Complaints are managed via a formal Corporate Complaints policy and procedure in place which is published on the Council's website and set out how a complaint will be dealt with. In accordance with legislation there is a separate Children and Families Complaints Policy in place. Complaints about Members are dealt with under the Members' Code of Conduct complaints procedure. All such policies and strategies are subject to periodic review.

Annual Governance Statement

B. Ensuring openness and comprehensive stakeholder engagement

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

The Southampton City Council Strategy 2016-2020 ('Council Strategy') reflects feedback from residents, both from the 2015 Priorities Survey and the 2016 City Survey 2016. The Council Strategy sets out how the Council will work in order to deliver services in a modern, efficient and sustainable way that meets the needs of our residents.

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

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

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

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

The Council has established a 'People's Panel' which now has a membership of over 1,450. This Panel comprises a group of residents who take part in various forms of activity including surveys, quick polls, interviews and workshops. Their views are used to inform future decisions and services. Residents' views are also tracked over time to see how changes in the city affect their opinions and experience of the city.

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

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

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

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

Performance against the key indicators is actively monitored with performance reports published each quarter. We have been developing our approach to Outcomes Based Planning and Budgeting (OBPB) so that there is growing clarity between the outcomes that we want to achieve and how we prioritise resource allocation. Therefore we are now operating in a much clearer and streamlined strategic framework, to deliver outcomes set by elected Members. We now work to a suite of key strategies that drive our plans set within the framework of:

- *Council Strategy;*
- *Medium Term Financial Strategy;*
- *Customer Strategy; and*
- *Workforce Strategy.*

The 'golden thread' is further strengthened through changes to the performance management framework and annual performance reviews which make clear links between objectives set for staff and the council's priority outcomes.

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: '*Southampton a city of opportunity where everyone thrives*'. This Strategy has been developed by Southampton Connect which is a strategic partnership in the city that seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, currently chaired by the Chief Executive of Southampton City Council (Chair changing to another Connect member organisation in Spring 2018) and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authority Leaders, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. The Government's Industrial Strategy (Nov 2017) identifies LEPs as leads for the development of Local Industrial Strategies, identifying actions and resource requirements for enhanced local growth and productivity (where the area does not have a Mayoral Combined Authority) PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

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

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

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influences as well as local factors and priorities. An updated MTFS for the period 2018/19 to 2021/22 was approved by Full Council in February 2018.

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

- *To provide financial parameters within which budget and service planning should take place;*
- *To ensure the council sets a balanced 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.*

Development of the MTFS takes into account a number of other strategies including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties and improve the experience and outcomes for the service users. The associated Better Care Fund, which commenced in 2015, pools and aligns funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast. In recognition of the pressures in dealing with adult social care demand, local authorities are able to levy a "social care precept" of up to 3% in council tax which must be spent exclusively on social care. The Government has also provided £1.5 billion nationally - by way of an Improved Better Care Fund grant - for local authorities to spend on adult social care. Taken together, these two measures are estimated to provide £3.5bn nationally by 2019/20 to address the demographic pressures facing the social care system. Governance across this work is via Cabinet member and senior officer representation on the Commissioning Partnership Board and strategic oversight from the Health and Wellbeing board.

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 subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a details (including consultation carried out) section. The template also includes separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council's approved Policy Framework.

The Council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme, monitoring performance and budgets. Scrutiny provides the role of the "critical friend" to the decision makers and

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assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the Council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

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

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key priorities and outcomes as set out in the Council Strategy. These plans identify the key challenges and opportunities associated with the delivery of the respective key priority and outcomes and how they can be addressed. These plans reflect 'How we are performing' (against a base year 2015-2016) and 'How we will perform in 2019-2020' with a suite of key performance measures explicitly aligned with the individual key priority outcomes and the Council Strategy scorecard. Performance against these measures or indicators is subject to regular and robust review by both the Council Management Team and Members. The outcome plans also outline the budget allocated to the delivery of services aligned to delivering the outcome.

Each service area within the Council is also required to produce a business plan that includes what services will be provided (aligned to outcomes) and how these services will be delivered.

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

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

The Council has in place a Workforce Strategy which is intended to enable the Council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. This is managed by the Human Resources and Organisational Development service and covers pay and reward, recruitment, retention, performance management, and the training and development of the workforce.

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

The vision is for the Council to be an employer of choice and be recognised as a 'Great Place to Work' where employees have pride in their work, the Council and the city. The success measures are defined in the document and will be delivered through:

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

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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 2017-2020' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of sound risk management principles and practices across all service areas. A register of key Strategic Risks is in place and regularly reviewed by the Council Management Team, with Service Management Teams responsible for identifying and managing risks within their individual areas.

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. This Committee receives periodic reports regarding risk management and would be asked to approve any significant changes to the Risk Management Policy. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance.

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

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

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

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

The Council is committed to openness and transparency and publishing as much Council data as it can in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access a range of information that is published in accordance with the Local Government Transparency Code (2015).

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The 'Council Data' web page includes information on council spending with a link to the Council's budget book which provides a comprehensive summary of the Council's 2016/17 Revenue Budget and details the assumptions made and risks considered in setting the budget. It also provides a link to the Statement of Accounts which shows how public money has been used.

The Council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the Council and by Council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance.

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

REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment. [Reference to the Chief Internal Auditor's opinion for 2017-18 to be inserted once it has been presented to the Governance Committee].
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of 'Self-Assessment Statements' by Service Directors which cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;

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- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is still inconsistent. This notwithstanding that a suite of 'Essential Stuff' documents has been created which provide summarised versions of key policies that staff may need to have an awareness of. There are separate 'Essentials' documents in respect Anti-Fraud and Anti-Corruption, Anti-Money Laundering, Bribery Act and Whistleblowing'.

Planned Action: It is intended create e-learning modules that staff have to complete so that managers can be assured that their staff are aware.

Responsible Officer: Service Director, Human Resources & Organisational Development

Target for completion: March 2019

2. Governance Issue

Whilst the Workforce Strategy provides the framework in terms of the development the council's current and future workforce in terms of required skills and behaviours there is need for a robust and consistent approach to succession planning for key posts and/or a spread of skills to avoid over reliance on any particular individual.

Planned Action: The Chief Strategy Officer and Service Director, HR&OD to work with CMT to identify key posts or roles where succession planning may be required as part of the council's process for outcomes based planning and budgeting and business planning.

Responsible Officer: Service Director, Human Resources & Organisational Development

Target for completion: September 2018

3. Governance Issue

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The Anti-Fraud and Anti-Corruption Policy and Strategy needs to be reviewed and updated together with the Bribery Act Policy and Anti Money Laundering Policy.

Completed Action: Updated versions of the policies were reviewed and approved by the Governance Committee at the April 2018 meeting.

Responsible Officer: Service Director Finance & Commercialisation

4. Governance Issue

The capacity of officers to support and deliver a range of competing priorities will continue to be a challenge notwithstanding the implementation of the new operating model for the council and the associated organisational redesign programme. It is recognised that there will continue to be a range of competing priorities that will need to be managed such that the council is able to deliver better outcomes for our residents and to further improve customers' experiences.

Planned Action: A review of the number and type of activities and projects in place or planned, to support delivery of key priorities, is being undertaken with a view to assessing both capacity and priority.

Responsible Officer: Chief Strategy Officer

Target for completion: September 2018

5. Governance Issue

A new Performance Management Framework was approved and implemented in 2017 which was intended to provide a consistent framework for Annual Performance Reviews (APRs). There are however still some significant inconsistencies across service areas in terms of compliance with the APR process.

The APR template was reviewed in early 2018 following feedback which suggested that the template and associated process could be much more straightforward to enable the emphasis to be on more meaningful dialogue rather than the process itself.

Planned Action: A redesigned Annual Performance Review template has been issued and includes an on-line "button" to auto submit / record that APRs are completed. This is intended to help managers, with support from the HR team, to track an overall picture so that they are able to take appropriate action where this is not being done. HR Advisors will be asking for feedback on the new template and will be checking for overall compliance to ensure that APRs are being held at all levels.

Responsible Officer: Service Director, Human Resources & Organisational Development

Target for completion: March 2019 - in terms of an overall review of compliance

6. Governance Issue

There are a range of controls in place to manage the risk of a cyber security incident and in the event of successful cyber-attack the council's Major Incident process would be followed. It is recognised however that there is a need to test the corporate response in the event of such an incident in order to identify any significant gaps or weaknesses.

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Planned Action: A draft 'Cyber Response Plan' is in development and will appear as an annex to the Corporate Business Continuity Plan. An appropriate desktop exercise to be identified and delivered in consultation with key stakeholders.

Responsible Officer: Service Director, Digital and Business Operations

Target for completion: October 2018

7. Governance Issue

For 2017-18 the number of internal audit reviews where the overall level of assurance has been assessed as 'limited' (and in a small number of cases assessed as 'no assurance') has increased compared with 2016-17. It is considered that this reflects a change in the delivery of the internal audit function which is now provided by an in-house audit team including a shared Chief Internal Auditor with Portsmouth City Council. The service has been repositioned in terms of its visibility and profile within the organisation and has developed and delivered a more directed and focussed audit programme.

Planned Action: Internal audit will undertake follow-up reviews of all 'limited' and 'no assurance' reports as part of the 2018-19 Internal Audit plan. This will not only assess the status and effectiveness of agreed actions relating to the individual audit reports but will also provide an overview in terms of overall management response to risk and controls. The foregoing will be reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and eventually in the Chief Internal Auditors Annual Report and Opinion.

Responsible Officer: Service Director Finance & Commercialisation

Target for completion: March 2019

8. Governance Issue

Whilst the H&S policy, arrangements, safe working procedures (including H&S training), management training, provide the framework in terms of the requirement to identify and deliver training to ensure staff H&S competency, there is a further need for guidance around application of training against roles.

Planned Action: Develop generic training matrices which may thereafter be amended and refined by service managers against local and specific need

Responsible Officer: Service Director, Human Resources & Organisational Development

Target for completion: August 2018

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

Signed

Richard Crouch
Interim Chief Executive

on behalf of Southampton City Council

Councillor Christopher Hammond
Leader of the Council

ANNUAL GOVERNANCE STATEMENT 2016/17

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 2016-17:

Governance Issue	Planned Action	Responsible Officer	Target Date	Status	Comments
1. The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.	A new Induction programme is being delivered to all new entrants to SCC and an Induction Plus programme for existing staff – this includes bespoke modules for Finance and financial regulations and Legal and Democratic Services – working with the subject matter experts for content and delivery. Specific e-learning to support the policies will be added to the L and D portal.	Service Director: Human Resources & Organisational Development	Dec 2017	COMPLETED	Induction in place and has been delivered to new starters and existing staff. A suite of 'Essential Stuff' documents has been created which provide summarised versions of key policies that staff may need to have an awareness of. There are separate 'Essentials' documents in respect Anti-Fraud and Anti-Corruption, Anti-Money Laundering, Bribery Act and Whistleblowing'.
2. The Council's Code of Corporate Governance needs to be reviewed and updated in order that it is aligned with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.	The Code of Corporate Governance to be reviewed and updated to reflect current best practice	Service Director - Legal and Governance	April 2017	COMPLETED	Revised Code of Corporate Governance presented to and approved by the Council's Governance Committee on 24 th April 2017
3. Information Governance - Not all staff have completed the Data Protection and Freedom of Information training which is mandatory for all Council employees at induction and annually	This is an ongoing concern. It was raised as part of the annual 'Information Governance' report at Council Management Team and actions agreed including, as a last resort, suspension of individual IT	Service Director - Legal and Governance	March 2018	COMPLETED	• During the course of 2017-18 the two individual FOI and DPA modules were merged into a single mandatory e-learning module. The overall compliance rate stands at circa 85%. Realistically a record of 100% compliance is not likely to be

	thereafter. The training made is available via e-learning together with alternative options available for those staff unable to access a computer as part of their day to day work.	user accounts and disciplinary action. Equally, confidence in the core supporting data produced by HR Pay is lacking given accuracy issues.				possible notwithstanding that there are still some concerns around confidence in the accuracy of the recording of the completions. Management information reports will continue to be issued to highlight any non-compliance within services areas.
PAGE 72	4. Performance Management - Not all staff have had an annual performance appraisal. The performance appraisal process is intended to allow for priorities and objectives for the forthcoming period to be determined and agreed which, in turn, should reflect the Service / Council's key outcomes and priorities.	A new Annual Performance review framework was rolled out across the Council for 2017 appraisals. This new framework included performance contracts for all staff and goals and targets for quarterly review for the year ahead and "golden thread" links to council outcomes and behaviours.	Service Director – Human Resources and Organisational Development	March 2018	COMPLETED	A more streamlined APR framework has been developed following feedback from staff in 2017; this includes "golden thread" links to council outcomes and behaviours.
	5. There is need for more a formal, robust and consistent approach to succession planning, for key posts and/or a spread of skills to avoid over reliance on any particular individual.	Delivery of a workforce strategy and action plan is addressing the issues that are highlighted as part of the Phase 3 restructures.	Service Director – Human Resources and Organisational Development	March 2018	COMPLETED	<ul style="list-style-type: none"> • The Workforce Strategy is being implemented through a comprehensive HR and OD work plan with governance through an HR OD Board. • The Org Design Board established confirmed principles for future change and this are being applied for all restructures and supported by HR Advisory service. • Workforce plan data collection now in place to help inform planning; apprentice programme in place.

Agenda Item 10

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2017/18		
DATE OF DECISION:	11 JUNE 2018 18 JULY 2018		
REPORT OF:	Service Director Finance and Commercialisation (S151)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name: Maddy Modha	Tel: 023 8083 3574	
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	E-mail: Mel.Creighton@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2017/18 against the approved Prudential Indicators for External Debt and Treasury Management.

This report specifically highlights that:

(i)	Borrowing activities have been undertaken within the borrowing limits approved by Council on 21 February 2018.
(ii)	Current Investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. Returns during 2017/18 were £1.41M at an average rate of 3.73%.
(iii)	The Council's strategy was to minimise borrowing to below its Capital Financing Requirement (CFR), the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.
(iv)	The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.31%, is lower than that budgeted and slightly lower than last year (3.33%). This includes £30M of short term debt which was taken during the year. No new long term loans were taken during the year due to

		slippage in the capital programme and higher than expected balances. The predicted forecast rate for longer term debt is already showing a steady increase. It is likely that any new long term borrowing will be taken out above this rate, leading to an increase in the CLIA rate. In line with the current Treasury Strategy it is the intention to continue to borrow in the short term markets during 2018/19 to take further advantage of the current interest environment.
In	(v)	In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.
	(vi)	Net loan debt decreased during 2017/18 from £278M to £254M (£24M) as detailed in paragraph 14.
	(vii)	There has been full compliance with the Prudential Indicators approved by Full Council on 21 February 2018

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance committee:

	(i)	Notes the Treasury Management (TM) activities for 2017/18 and the outturn on the Prudential Indicators.
	(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	(iii)	Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
	(iv)	Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

	(i)	Notes the Treasury Management (TM) activities for 2017/18 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.
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REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2017/18 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2. The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options are relevant to this report.

DETAIL (Including consultation carried out)

CONSULTATION

4. Not applicable.

BACKGROUND

5. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
7. The Authority's TM Strategy for 2017/18 was approved by full Authority on 15 February 2017. These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2018/19 on 21 February 2018.
8. Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

9.	This report:	
	a)	is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b)	presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c)	reports on the risk implications of treasury decisions and transactions;
	d)	gives details of the outturn position on treasury management transactions in 2017/18; and
	e)	confirms compliance with treasury limits and Prudential Indicators.
10.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2017/18.	

BORROWING REQUIREMENT AND DEBT MANAGEMENT

11.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below. Net borrowing has decreased due to a rise in both working capital and usable reserves. As detailed in paragraphs 21 to 24 below, the Authority's current strategy is to maintain borrowing and investments below their underlying levels in order to reduce risk and keep interest costs low.																																				
	<p>Table 1 – Balance Sheet Summary</p> <table border="1"> <thead> <tr> <th></th> <th>31/03/2017 Actual £M</th> <th>2017/18 Movement £M</th> <th>31/03/2018 Actual £M</th> </tr> </thead> <tbody> <tr> <td>General Fund CFR</td> <td>322.56</td> <td>(1.09)</td> <td>321.47</td> </tr> <tr> <td>Housing CFR</td> <td>163.25</td> <td>(4.77)</td> <td>158.48</td> </tr> <tr> <td>Total CFR</td> <td>485.81</td> <td>(5.86)</td> <td>479.95</td> </tr> <tr> <td>Less Other Long Term Liabilities*</td> <td>(77.18)</td> <td>3.79</td> <td>(73.39)</td> </tr> <tr> <td>Borrowing CFR</td> <td>408.63</td> <td>(2.07)</td> <td>406.56</td> </tr> <tr> <td>Less Usable Reserves</td> <td>(127.53)</td> <td>(18.75)</td> <td>(146.28)</td> </tr> <tr> <td>Less Working Capital</td> <td>(64.75)</td> <td>(0.91)</td> <td>(65.66)</td> </tr> <tr> <td>Net Borrowing</td> <td>216.35</td> <td>(21.73)</td> <td>194.62</td> </tr> </tbody> </table> <p>* finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt</p>		31/03/2017 Actual £M	2017/18 Movement £M	31/03/2018 Actual £M	General Fund CFR	322.56	(1.09)	321.47	Housing CFR	163.25	(4.77)	158.48	Total CFR	485.81	(5.86)	479.95	Less Other Long Term Liabilities*	(77.18)	3.79	(73.39)	Borrowing CFR	408.63	(2.07)	406.56	Less Usable Reserves	(127.53)	(18.75)	(146.28)	Less Working Capital	(64.75)	(0.91)	(65.66)	Net Borrowing	216.35	(21.73)	194.62
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12.	The forecast movement in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. This is shown in the tables below together with activity in the year.																																				

13.

Table 2: Borrowing and Investment Position

	31- Mar-17		31st March 2018	Average Rate	31-Mar-19	
	Actual £M	Average Rate %			£M	Forecast Average Rate %
External Borrowing:						
Fixed Rate – PWLB Maturity	139	3.90	139	3.9	139	3.90
Fixed Rate – PWLB EIP	46	3.38	35	3.41	23	3.39
Variable Rate – PWLB	35	0.60	35	0.44	35	0.85
Fixed Rate – LOBO	9	4.86	9	4.86	9	4.86
Long Term Borrowing	229	3.33	218	3.31	206	3.37
Short Term Borrowing						
Fixed Rate – Market	31	0.40	33	0.47	90	0.90
Other Long Term Liabilities						
PFI Schemes	62	9.51	59	8.59	57	8.83
Deferred Debt Charges (HCC)	15	3.08	14	2.74	14	2.93
Total Gross External Debt	337	4.36	325	4.02	367	3.77
Investments:						
Managed In-House						
Bank & Building Societies (unsecured)	(9)	0.62	(7)	0.50	(5)	0.75
Covered Bonds (secured)	(12)	1.10	(6)	1.39	(5)	1.17
Multi - National Bonds (not subject to bail in)	(4)	5.30	(4)	5.30	(3)	5.30
Corporate and Other Bonds (not subject to bail in)	(3)	0.87	0	0.00	0	0.00
Money Market Funds	(14)	0.29	(19)	0.43	(10)	0.75
Government & local Authority	0	0.00	(10)	0.85	0	0.00
Managed Externally						
Pooled Funds (LAPF)	(17)	4.77	(27)	4.63	(27)	4.50
Total Investments	(59)	2.74	(73)	3.98	(56)	2.75
Net Debt	278		254		311	

14.

Table 3: Movement in Borrowing during the year

	Balance on 01/04/2017	Debt Maturing or Repaid	New Borrowing	Balance on 31/03/2018	Increase/ (Decrease) in Borrowing for Year	Average Life / Average Rate %	
						£M	£M
Short Term	31	(31)	30	33	(1)	6 Months	0.40
Long Term	229	(5)	0	218	(5)	21 Years	3.43
Total Borrowing	260	(36)	30	251	(6)		

	<i>Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term.</i>
15.	When the strategy was last updated in February 2018, the CFR was estimated at £506.71M, the Council's actual CFR at the end of the year was £479.95M, as detailed in section 2 of Appendix 2. This decrease was mainly due to slippage in the capital programme.
16.	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.
17.	In undertaking of these objectives, no new long term borrowing was undertaken and short borrowing was kept to a minimum during the year, while existing loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The "cost of carry" analysis did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.
18.	The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However due to the continued depressed markets and the 'cost of carry' associated with long term debt, the Council deferred long term borrowing and has continued to use internal resources to finance the capital programme. This will be kept under review during 2018/19 with the need to resource an increasing capital programme.
<u>Loans at Variable Rates</u>	
19.	Included within the debt portfolio is £35M of PWLB variable rate loans which during 2017/18 averaged a rate of 0.44% this helps to mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's investments are deemed to be variable rate investments due to their short-term nature). This strategic exposure to variable interest rates will be regularly reviewed and, if appropriate, reduced by switching into fixed rate loans.
<u>Internal Borrowing</u>	
20.	Given the pressures on the revenue budget and significant reduction in revenue support grant, the strategy followed was to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
21.	As at the 31 March 2018 the Council used £155M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, approved by Council in February 2018 and adjusted for slippage from 2017/18, the Council is expected to borrow up to £186.13M between 2018/19 and 2021/22. Of this £138.61M relates to new capital spend (£89.10M General Fund [GF] and £49.51M Housing Revenue Account [HRA])

	and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the possible need to lock back into longer term debt prior to interest rises.
22.	As short-term interest rates have remained low, and are likely to remain low at least over the forthcoming year it is more cost effective in the short-term to use internal resources rather than borrowing.
23.	The benefits of this were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Our advisors assist with this 'cost of carry' and breakeven analysis.

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

24.	The council holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the 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.
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Debt Rescheduling

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

26.	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.																																																																										
27.	The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the council's investment balances have ranged between £64M and £80M. Movement in year is summarised in the table below:																																																																										
28.	<p><i>Table 4: Investment activity during the year</i></p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Balance on 01/04/2017 £M</th> <th rowspan="2">Investments Repaid £M</th> <th rowspan="2">New Investments £M</th> <th rowspan="2">Balance on 31/03/2018 £M</th> <th rowspan="2">(Increase)/ Decrease in Investment for Year £M</th> <th colspan="2">Average Life / Average Rate % of Current Investments</th> </tr> <tr> <th>Life</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Notice Account</td> <td>(5)</td> <td>10</td> <td>(8)</td> <td>(3)</td> <td>2</td> <td>79 days</td> <td>0.70</td> </tr> <tr> <td>Covered Bonds (secured)</td> <td>(12)</td> <td>6</td> <td></td> <td>(6)</td> <td>6</td> <td>1.27 years</td> <td>1.39</td> </tr> <tr> <td>Multi - National Bonds (not subject to bail in)</td> <td>(4)</td> <td>1</td> <td></td> <td>(3)</td> <td>1</td> <td>5.47 years</td> <td>5.30</td> </tr> <tr> <td>Corporate and Other Bonds (not subject to bail in)</td> <td>(3)</td> <td>3</td> <td></td> <td>0</td> <td>3</td> <td></td> <td></td> </tr> <tr> <td>Money Market Funds and Call Account</td> <td>(18)</td> <td>380</td> <td>(386)</td> <td>(24)</td> <td>(6)</td> <td>1 day</td> <td>0.43</td> </tr> <tr> <td>Government & Local Authority</td> <td>0</td> <td></td> <td>(10)</td> <td>(10)</td> <td>(10)</td> <td>18 days</td> <td>0.85</td> </tr> <tr> <td>Pooled Funds (CCLA)</td> <td>(17)</td> <td></td> <td>(10)</td> <td>(27)</td> <td>(10)</td> <td>Unspecified</td> <td>4.63</td> </tr> <tr> <td>Total Investments</td> <td>(59)</td> <td>400</td> <td>(414)</td> <td>(73)</td> <td>(14)</td> <td></td> <td>3.98</td> </tr> </tbody> </table>		Balance on 01/04/2017 £M	Investments Repaid £M	New Investments £M	Balance on 31/03/2018 £M	(Increase)/ Decrease in Investment for Year £M	Average Life / Average Rate % of Current Investments		Life	%	Notice Account	(5)	10	(8)	(3)	2	79 days	0.70	Covered Bonds (secured)	(12)	6		(6)	6	1.27 years	1.39	Multi - National Bonds (not subject to bail in)	(4)	1		(3)	1	5.47 years	5.30	Corporate and Other Bonds (not subject to bail in)	(3)	3		0	3			Money Market Funds and Call Account	(18)	380	(386)	(24)	(6)	1 day	0.43	Government & Local Authority	0		(10)	(10)	(10)	18 days	0.85	Pooled Funds (CCLA)	(17)		(10)	(27)	(10)	Unspecified	4.63	Total Investments	(59)	400	(414)	(73)	(14)		3.98
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29.	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 2017/18. 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-	

30.	Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.																																																											
31.	The table below summarises the Council's investment portfolio at 31 March 2018 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:																																																											
<p><i>Table 5: Credit ratings of Investments held at 31st March 2018</i></p> <table border="1"> <thead> <tr> <th rowspan="2">Credit Rating</th> <th colspan="2">Long Term</th> <th colspan="2">Short Term</th> </tr> <tr> <th>31 March 2017 £M</th> <th>31 March 2018 £M</th> <th>31 March 2017 £M</th> <th>31 March 2018 £M</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>8.31</td> <td>7.86</td> <td>4.64</td> <td>0.15</td> </tr> <tr> <td>AA+</td> <td>3.12</td> <td></td> <td>0.14</td> <td>13.36</td> </tr> <tr> <td>AA</td> <td></td> <td></td> <td>0.06</td> <td>6.91</td> </tr> <tr> <td>AA-</td> <td></td> <td></td> <td>8.28</td> <td>11.20</td> </tr> <tr> <td>A+</td> <td></td> <td></td> <td>5.64</td> <td>7.45</td> </tr> <tr> <td>A</td> <td></td> <td></td> <td>9.02</td> <td></td> </tr> <tr> <td>A-</td> <td></td> <td></td> <td>3.17</td> <td></td> </tr> <tr> <td>Shares in unlisted companies</td> <td>0.02</td> <td>0.05</td> <td></td> <td></td> </tr> <tr> <td>Unrated pooled funds</td> <td>16.65</td> <td>27.03</td> <td>0.14</td> <td>0.29</td> </tr> <tr> <td>Total Investments</td> <td>28.10</td> <td>34.94</td> <td>31.09</td> <td>39.36</td> </tr> </tbody> </table>		Credit Rating	Long Term		Short Term		31 March 2017 £M	31 March 2018 £M	31 March 2017 £M	31 March 2018 £M	AAA	8.31	7.86	4.64	0.15	AA+	3.12		0.14	13.36	AA			0.06	6.91	AA-			8.28	11.20	A+			5.64	7.45	A			9.02		A-			3.17		Shares in unlisted companies	0.02	0.05			Unrated pooled funds	16.65	27.03	0.14	0.29	Total Investments	28.10	34.94	31.09	39.36
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Credit Developments and Credit Risk Management

32.	In the first quarter of the financial year, UK bank credit default swaps (CDS) reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.
33.	The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would deal with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities. Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will

	<p>henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.</p>
34.	<p>Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.</p>
35.	<p>Credit Rating developments: the most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Changes to credit ratings included the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).</p> <p>Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.</p> <p>Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.</p>
36.	<p>Other developments: In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.</p> <p>In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.</p>
37.	<p>MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the</p>

	risks involved. The Authority met the conditions to opt up to professional status and has done so in order to maintain its MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. It should be noted that local authorities' investments are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service regardless of whether they are retail or professional clients.
38.	Benchmarking: Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authority's, this shows that on average we have a higher credit rating and have less exposure to Bail- in which reflects our change in strategy since 2015. Details can be seen in Appendix 3. It also shows that on average the return on our internal investments at 1.00 is higher than the average of 0.58 and our overall return including the LAPF fund is 2.66% as opposed to 1.40%.

Liquidity Management

39.	In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the Council's fixed rate debt at 31 March 2018 can be seen in section 6 of Appendix 2.
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Externally Managed Funds

40.	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.
41.	During 2017/18 this investment returned an average yield of 4.63% against the initial investment, but made a notional "gain" at year end of £0.03M being valued at £27.03M.
42.	Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. In light of their strong performance and the Authority's latest cash flow forecasts and income generation target, further investment in these funds is a possibility in the future.

COMPLIANCE WITH PRUDENTIAL INDICATORS

43.	It can be confirmed that the Council has complied with its Prudential Indicators for 2017/18, approved by Full Council on 15 February 2017.
44.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2017/18.

	<p>None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators other indicators can be found in Appendix 2.</p>																					
45.	<p><i>Table 6: Key Prudential Indicators</i></p> <table border="1"> <thead> <tr> <th>Indicator</th><th>Limit</th><th>Actual at 31 March 2018</th></tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt £M</td><td>£898M</td><td>£325M</td></tr> <tr> <td>Operational Limit for external debt £M</td><td>£647M</td><td>£325M</td></tr> <tr> <td>Maximum external borrowing in year</td><td></td><td>£269M</td></tr> <tr> <td>Limit of fixed interest debt %</td><td>100%</td><td>95%</td></tr> <tr> <td>Limit of variable interest debt %</td><td>50%</td><td>18%</td></tr> <tr> <td>Limit for Non-specified investments £M</td><td>£55M</td><td>£10M</td></tr> </tbody> </table>	Indicator	Limit	Actual at 31 March 2018	Authorised Limit for external debt £M	£898M	£325M	Operational Limit for external debt £M	£647M	£325M	Maximum external borrowing in year		£269M	Limit of fixed interest debt %	100%	95%	Limit of variable interest debt %	50%	18%	Limit for Non-specified investments £M	£55M	£10M
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OTHER ITEMS																						
<u>Future Developments and Amendment to Prudential Indicators</u>																						
46.	<p>Local Authority Regulatory Changes</p> <p>Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions in particular the need to prepare and publish a Capital Strategy, which we already do as part of the budget setting process.</p> <p>In the 2017 Treasury Management Code the definition of ‘investments’ has been widened to include non-financial assets as well as financial assets. The non-financial assets are those held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.</p>																					
47.	<p>MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP). Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest</p>																					

	<p>and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.</p> <p>The definition of prudent MRP has been changed to “put aside revenue over time to cover the CFR”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.</p>
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Investment Training

48.	<p>The needs of the Authority’s treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2017/18 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA.</p>
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RESOURCE IMPLICATIONS

Capital/Revenue

49.	<p>This report is a requirement of the TM Strategy, which was approved at Council on 21 February 2018.</p>
50.	<p>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 £7.99M in 2017/18. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and the deferment of any new long term borrowing.</p>
51.	<p>In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2017/18 £1.41M was earned which was higher than budgeted mainly due to continuing investment in bonds and LAPF as detailed in paragraphs 27 - 32 above.</p>
52.	<p>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 £0.29M in 2017/18 compared to an estimate of £0.19M. This increase was mainly due to a realignment of internal staff costs to accurately reflect the cost of the TM function. This is offset by a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing resulting in a saving on commission paid in year.</p>

Property/Other

53.	None.
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

55. None.

RISK MANAGEMENT IMPLICATIONS

56. Not Applicable

POLICY FRAMEWORK IMPLICATIONS

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

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	NONE

SUPPORTING DOCUMENTATION

Appendices

1. 2017/18 Economic Background
2. Compliance with Prudential Indicators During 2017/18
3. Southampton Benchmarking 31st March 2018
4. Glossary of Treasury Terms

Documents In Members' Rooms

1. None.

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out. 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.	
2.	

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APPENDIX 1 Appendix 1

A summary of the external factors in 2017-18 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

Economic background: 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing Gross Domestic Product, helped by an improving global economy, grew by 1.8% in calendar year 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely, however this did not materialise.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The FOMC is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar year 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2017/18

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

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

1. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. Council approved the Capital Programme for 2017/18 to 2021/22 in February 2018. Planned capital expenditure and financing is summarised below, together with actual for 2017/18. The forecast has been amended to reflect the Capital update being submitted to council on 21 July 2018.

Capital Expenditure and Financing	Actual 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M
General Fund	30.43	84.43	25.05	23.80	29.48
HRA	31.99	66.05	41.15	43.69	34.01
Total Expenditure	62.42	150.48	66.20	67.49	63.49
Capital receipts	5.89	21.05	0.00	0.96	1.66
Capital Grants	17.03	25.90	20.37	5.70	0.00
Contributions	3.22	8.51	0.00	0.00	0.00
Major Repairs Allowance	19.26	19.76	23.48	22.47	21.10
Direct Revenue Financing	11.80	14.68	1.72	10.44	11.25
Total Financing	57.20	89.90	45.57	39.57	34.01
Council Resources - borrowing	5.22	60.58	20.63	27.92	29.48
Total Financing & Borrowing	62.42	150.48	66.20	67.49	63.49

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2017/18, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off

the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below detail our expected debt position and the year-on-year change to the CFR, updated to reflect the latest capital programme:

Gross Debt	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M	31/03/2022 Estimate £M
Borrowing (Long Term)	59.33	30.16	123.67	140.85	169.62
Borrowing (Short Term)	33.35	90.13	10.35	10.35	10.35
Finance leases and Private Finance Initiatives	58.84	56.74	53.73	50.55	46.98
Transferred Debt	14.55	14.19	13.83	13.46	13.10
Total General Fund Debt	166.08	191.22	201.58	215.23	240.06
HRA	158.48	176.19	174.90	175.74	174.42
Total Debt	324.56	367.40	376.50	391.00	414.50

Capital Financing Requirement	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M	31/03/2022 Estimate £M
Balance Brought forward	322.62	321.47	351.60	346.71	355.46
New Borrowing	4.41	37.38	4.41	17.83	29.48
MRP	(7.13)	(5.46)	(5.92)	(5.54)	(5.73)
Appropriations (to) from HRA	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.78)	(2.46)	(3.38)	(3.54)	(3.94)
MRP Holiday	5.35	0.67	0.00	0.00	0.00
Total General Fund Debt	321.47	351.60	346.71	355.46	375.28
HRA	158.48	176.19	174.90	175.74	174.42
Total CFR	479.95	527.78	521.61	531.21	549.70

3. Authorised Limit and Operational Boundary for External Debt

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

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

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2017/18; borrowing at its peak was £268.9M plus other deferred liabilities of £80M.

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

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

	Limits for 2017/18 (%)	Maximum during 2017/18 (%)
Upper Limit for Fixed Rate Exposure	100	95
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	18
Compliance with Limits:	Yes	Yes

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

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £80M. In 2017/18 the actual principal sum invested for periods longer than 364 days peaked at £41M, (compared to £32M in 2016/17). This reflects the continued investment into the longer term secured bond market and LAPF property fund.

6. Maturity Structure of Fixed Rate Borrowing

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

Fixed Rate Debt	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/3/2018 £M	Average Fixed Rate as at 31/3/2018 %	% of Fixed Rate as at 31/3/2017	Compliance with set Limits?
Under 12 months	0	45	39.36	3.08	18	Yes
12 months and within 24 months	0	45	4.78	3.05	2	Yes
24 months and within 5 years	0	50	35.92	3.31	16	Yes
5 years and within 10 years	0	55	0.00	0.00	0	Yes
20 years and within 30 years	0	65	15.00	4.65	7	Yes
30 years and within 40 years	0	75	84.10	3.81	38	Yes
40 years and within 50 years	0	75	39.75	3.55	18	Yes
			218.90	3.57	100	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme (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, which is the main contributor for the increase in 2019/20 and 2020/21. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Actual %	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %	2021/22 Forecast %
General Fund*	9.61	7.79	9.63	9.76	10.31
HRA	15.25	16.28	33.63	21.33	9.78
Total	11.89	10.97	17.53	14.27	11.50

*The figure quoted as the actual for 2017/18 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

8. Adoption of the CIPFA Treasury Management Code

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

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code* on 19 February 2003 and all its subsequent updates. (latest 2011 edition)

9. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing. Forecast figures have been update to reflect capital programme being submitted to Council on 21th July 2018.

HRA Limit on Indebtedness	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M
Brought Forward	163.19	158.48	176.19	174.90	175.74
Maturing Debt	(5.52)	(5.50)	(17.50)	(9.25)	(1.32)
New borrowing	0.81	23.21	16.21	10.09	0.00
Appropriations (to) from HRA	0.00	0.00	0.00	0.00	0.00
Carried forward	158.48	176.19	174.90	175.74	174.42
HRA Debt Cap (as prescribed by CLG)	199.60	199.60	199.60	199.60	199.60
Headroom	41.12	23.41	24.70	23.86	25.18

10. Summary

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

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Appendix 3 – Southampton Benchmarking Scores 31st March 2018 Appendix 3



Investment Benchmarking

31 March 2018

Southampton
21 English Unitaries Average
135 LAS Average

Internal Investments	£46.2m	£51.0m	£57.1m
External Funds	£27.0m	£13.5m	£10.2m
TOTAL INVESTMENTS	£73.2m	£62.0m	£67.4m

Security

Average Credit Score	3.67	4.24	4.24
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	1.34	3.97	4.03
Average Credit Rating (time-weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	19	15	15
Proportion Exposed to Bail-in	55%	61%	55%

Liquidity

Proportion Available within 7 days	35%	51%	42%
Proportion Available within 100 days	49%	71%	69%
Average Days to Maturity	171	68	35

Market Risks

Average Days to Next Rate Reset	140	80	58
External Fund Volatility	2.2%	1.2%	2.1%

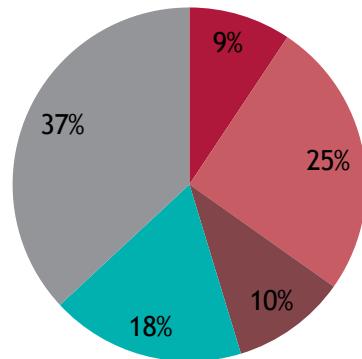
Yield

Internal Investment Return	1.00%	0.58%	0.63%
External Funds - Income Return	4.65%	3.34%	3.22%
External Funds - Capital Gains/Losses	0.85%	1.18%	0.19%
External Funds - Total Return	5.51%	4.52%	3.41%
Total Investments - Income Return	2.35%	1.08%	1.05%
Total Investments - Total Return	2.66%	1.40%	1.08%

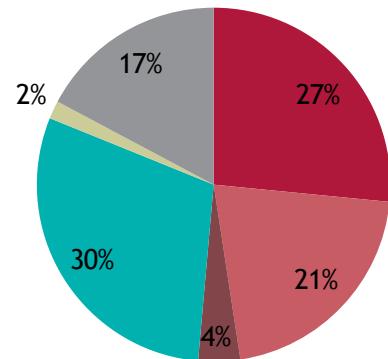
Notes

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

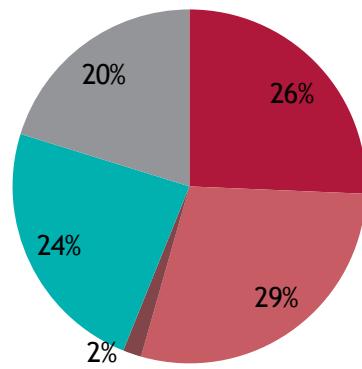
Southampton



All Arlingclose Clients



English Unitaries



- Bank Unsecured
- MMF Unsecured
- Bank Secured
- Government
- Corporate/RP
- External Funds

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GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit):

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

Balances and Reserves:

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

Bail - in (Risk):

Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.

A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Bank Rate:

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

Bond:

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

Capital Expenditure:

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

Capital Financing Requirement (CFR):

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

CD's:

Certificates of Deposits with banks and building societies

Capital Receipts:

Money obtained on the sale of a capital asset.

Constant Net Asset Value (CNAV)

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that any investment will not fluctuate in value.

Corporate Bonds:

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

Cost of Carry:

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

Counterparty List:

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

Covered Bond:

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI :

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

Credit Rating:

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

Department for Communities and Local Government (DCLG) :

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

Diversify /diversified exposure:

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

Federal Reserve:

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

FTSE 100 Index:

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

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

General Fund:

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

Gilts:

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

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

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

IFRS:

International Financial Reporting Standards.

LIBID:

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

LOBO:

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

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

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

Minimum Revenue Provision (MRP):

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

Money Market Funds (MMF):

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

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

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

Non Specified Investment:

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

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

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

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

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

Property:

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

Prudential Code:

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

Prudential Indicators:

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

Public Works Loans Board (PWLB):

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

Quantitative Easing (QE):

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

Regularity Method - MRP:

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

Revenue Expenditure:

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

RPI:

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

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

Agenda Item 11

DECISION-MAKER:	GOVERNANCE COMMITTEE				
SUBJECT:	DRAFT FINANCIAL STATEMENTS FOR 2017/18				
DATE OF DECISION:	11 JUNE 2018				
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)				
<u>CONTACT DETAILS</u>					
AUTHOR:	Name: Sue Cuerden	Tel: 023 80 834153			
	E-mail: Sue.cuerden@southampton.gov.uk				
Director	Name: Mel Creighton	Tel: 023 80 834897			
	E-mail: Mel.creighton@southampton.gov.uk				
STATEMENT OF CONFIDENTIALITY					
NOT APPLICABLE					
BRIEF SUMMARY					
In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2017/18 were signed by the Section 151 (S151) Officer on 8 May 2018 which is earlier than the statutory requirement to have the statements signed by the 31st May 2018. A copy of the draft unaudited Financial Statements is available in the Members Room.					
The Annual Audit, carried out by our auditors Ernst & Young, commenced on 21 st May 2018 and is due to be completed by the 22 nd June 2018. Any major changes to the Financial Statements arising from the annual audit will be reported to the 30 th July 2018 Governance Committee after the completion of the audit.					
RECOMMENDATIONS:					
	(i)	Notes that the Draft Financial Statements 2017/18 have been signed by the S151 Officer.			
	(ii)	Notes that the approval of the audited Financial Statements 2017/18 by the Governance Committee will take place on the 30 th July 2018.			
REASONS FOR REPORT RECOMMENDATIONS					
1.	It is a legal requirement that the S151 Officer signs the Financial Statements by 31 May 2018 and certifies that they present 'a true and fair position of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year'. It should be noted that this has again been completed earlier than required, allowing early start to the annual audit of the accounts.				
2.	The draft statements have been brought to the June committee in order to give members plenty of opportunity and time to scrutinise them before final approval in July. It is envisaged that the July report will detail any non-trivial amendments made as a result of the audit along with an amended set of statements.				
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED					
3.	The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal				

	requirement that the Financial Statements are prepared and signed by the S151 Officer no later than 31 May.																		
DETAIL (Including consultation carried out)																			
	FINANCIAL STATEMENTS																		
4.	The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.																		
GENERAL FUND REVENUE EXPENDITURE AND INCOME																			
5.	Within the Financial Statements, the Comprehensive Income & Expenditure Account (CIES) presents the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 12 of the Final Accounts presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. The council did complete the year with a balance position and where able to contribute £4M to reserves																		
6.	The following table shows actual expenditure compared to the 2017/18 budget. <u>Table 1 – General Fund Outturn Variance 2017/18</u>																		
	<table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">(Under)/ Over Spend £M</th> </tr> </thead> <tbody> <tr> <td>Portfolio Total</td> <td style="text-align: right;">3.32</td> </tr> <tr> <td>Levies & Contributions</td> <td style="text-align: right;">0.07</td> </tr> <tr> <td>Capital Asset Management</td> <td style="text-align: right;">(1.69)</td> </tr> <tr> <td>Other Expenditure & Income</td> <td style="text-align: right;">(3.93)</td> </tr> <tr> <td>Non-Specific Grants & Other Funding</td> <td style="text-align: right;">(1.26)</td> </tr> <tr> <td>Business Rates</td> <td style="text-align: right;">(0.58)</td> </tr> <tr> <td>Contribution to Reserves</td> <td style="text-align: right;">4.07</td> </tr> <tr> <td>Net (Surplus)/Deficit</td> <td style="text-align: right;">0.00</td> </tr> </tbody> </table>		(Under)/ Over Spend £M	Portfolio Total	3.32	Levies & Contributions	0.07	Capital Asset Management	(1.69)	Other Expenditure & Income	(3.93)	Non-Specific Grants & Other Funding	(1.26)	Business Rates	(0.58)	Contribution to Reserves	4.07	Net (Surplus)/Deficit	0.00
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7.	This position incorporates requests from service areas to carry forward £0.52M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2017/18 that will go to Council on 18 th July 2018.																		
GENERAL FUND BALANCE AND RESERVES																			
8.	The General Fund balance stands at £11.3M, which is the approved minimum level as per the February 2018 Medium Term Financial Strategy (MTFS).																		
9.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.																		
10.	In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. Full details can be found on page 17 of the Final Accounts.																		

	HOUSING REVENUE ACCOUNT (HRA)																		
11.	The table on page 14 of the Final Accounts presents the HRA expenditure and income in a format that shows the net expenditure compared to budget. The budget for the year was set at £1.0M deficit which was the actual outturn position for the year. The HRA balance at 31 March 2018 is £2M. <u>Table 2 – HRA Outturn Variance 2017/18</u>																		
	<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">(Under)/ Over Spend £M</th> </tr> </thead> <tbody> <tr> <td>Increase in Repairs</td><td style="text-align: center;">2.20</td></tr> <tr> <td>Increase in Supervision & Management</td><td style="text-align: center;">0.21</td></tr> <tr> <td>Reduction in Capital Financing Charges</td><td style="text-align: center;">(0.64)</td></tr> <tr> <td>Variation on day to day services</td><td style="text-align: center;">1.77</td></tr> <tr> <td>Reduction in Capital Funding from Direct Revenue Financing and Depreciation</td><td style="text-align: center;">(1.56)</td></tr> <tr> <td>Total Income</td><td style="text-align: center;">(0.21)</td></tr> <tr> <td>Total Variation</td><td style="text-align: center;">0.00</td></tr> </tbody> </table>		(Under)/ Over Spend £M	Increase in Repairs	2.20	Increase in Supervision & Management	0.21	Reduction in Capital Financing Charges	(0.64)	Variation on day to day services	1.77	Reduction in Capital Funding from Direct Revenue Financing and Depreciation	(1.56)	Total Income	(0.21)	Total Variation	0.00		
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	CAPITAL EXPENDITURE																		
12.	In 2017/18 the Council spent £62.43M on capital projects, (£30.44M General Fund expenditure, and £31.99M HRA expenditure). This was £31.12M less than the latest approved estimates, largely due to re-phasing and slippage of expenditure which will now be incurred in 2018/19.																		
13.	The capital outturn position for 2017/18 will be reported to Council in July. This report will contain further details of variances, including setting out how the expenditure has been financed.																		
	THE COLLECTION FUND																		
14.	There is an overall surplus on the Collection Fund of £5.93M to be carried forward into 2018/19. The following table shows how the surplus has been derived: <u>Table 3 – Collection Fund Outturn 2017/18</u>																		
	<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">Budget £M</th> <th style="text-align: center;">Actual £M</th> </tr> </thead> <tbody> <tr> <td>NDR Deficit for Year</td><td style="text-align: center;">4.74</td><td style="text-align: center;">2.64</td></tr> <tr> <td>Council Tax Deficit for Year</td><td style="text-align: center;">2.07</td><td style="text-align: center;">1.45</td></tr> <tr> <td>Total Deficit Collection Fund 2017/18</td><td style="text-align: center;">6.81</td><td style="text-align: center;">4.09</td></tr> <tr> <td>Collection Fund Surplus B/Fwd 2016/17</td><td style="text-align: center;">(10.02)</td><td style="text-align: center;">(10.02)</td></tr> <tr> <td>Collection Fund Surplus to C/Fwd 2018/19</td><td style="text-align: center;">(3.21)</td><td style="text-align: center;">(5.93)</td></tr> </tbody> </table>		Budget £M	Actual £M	NDR Deficit for Year	4.74	2.64	Council Tax Deficit for Year	2.07	1.45	Total Deficit Collection Fund 2017/18	6.81	4.09	Collection Fund Surplus B/Fwd 2016/17	(10.02)	(10.02)	Collection Fund Surplus to C/Fwd 2018/19	(3.21)	(5.93)
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Collection Fund Surplus to C/Fwd 2018/19	(3.21)	(5.93)																	

	<u>Council Tax</u>
15.	The council tax element of the Collection Fund had a deficit for the year of £1.45M, against an expected deficit of £2.07M. This improved position resulted in the balance to be carried forward of £2.39M, rather than £1.77M.
16.	When setting the Council Tax and budget for 2018/19 in February 2018, the expected surplus to be carried forward of £1.77M was taken into account. This leaves a surplus of £0.62M that will be carried forward to 2018/19 to be shared between the council, the Police and Crime Commissioner, and Hampshire Fire & Rescue Authority in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when setting the council tax and budget for 2019/20.
	Non Domestic Rates (NDR)
17.	The NDR element of the Collection Fund had a deficit for the year of £2.64M against an expected deficit of £4.74M. This improved position has resulted in a balance to be carried forward of £3.54M rather than £1.44M
18.	When setting the Council Tax and budget for 2018/19 in February 2018, the expected NDR surplus to be carried forward of £1.44M (the Council's share of this surplus was £0.70M) was taken into account in setting the 2018/19 budget for the council. The additional surplus of £2.10M, will be carried forward to 2018/19, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%).
	PENSIONS
19.	In 2017/18 the Council paid an employer's contribution of £24.5M into Hampshire County Council's Pension Fund. The employer's rate set for 2017/18 was 14.1% 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.
20.	The Council's share of the assets in the Hampshire County Council pension fund at 31 st March 2018 was £793.41M, compared to its estimated liabilities of £1,257.7M, giving an estimated deficit on the Fund of £464.3M (£425.0M in 2016/17). The increase is due to changes in the actuarial assumptions used in relation to demographics, financial and experience.
21.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.
	ACCOUNTING AND OTHER POLICIES
22.	The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2015.
23.	The Accounting Policies are described in detail on pages 29 to 40 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> • Property, Plant and Equipment • Depreciation • Heritage Assets

	<ul style="list-style-type: none"> • Pensions • Accruals • PFI contracts • VAT <p>There have been no significant changes to the Accounting Policies in 2017/18.</p>
24.	The majority of the accounting policies adopted by the Council are in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

RESOURCE IMPLICATIONS

Capital/Revenue

25.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
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Property/Other

26.	There are no specific property implications arising from this report.
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

27.	Accounts and Audit Regulations 2015.
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Other Legal Implications:

28.	None
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RISK MANAGEMENT IMPLICATIONS

29.	Not Applicable
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POLICY FRAMEWORK IMPLICATIONS

30.	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.
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KEY DECISION?	Yes/No
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WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	Draft Unaudited Financial Statements 2017/18.
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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.	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	

Agenda Item 12

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT FEE LETTER FOR YEAR ENDING 31 MARCH 2019		
DATE OF DECISION:	11 JUNE 2018		
REPORT OF:	EXTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	MARTIN YOUNG	Tel: 02380 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Helen Thompson	Tel: 02380 382099
	E-mail:	HThompson2@uk.ey.com	

STATEMENT OF CONFIDENTIALITY					
N/A					
BRIEF SUMMARY					
<p>From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of their accounts and certification of their housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies (such as Southampton City Council) that have opted into the national scheme. Appointments were made for a 5 year period, covering the audits of the accounts for 2018/19 to 2022/23. EY are writing to confirm the audit work that they propose to undertake for the 2018/19 financial year at Southampton City Council under those arrangements.</p>					
RECOMMENDATIONS:					
	(i)	The Governance Committee is invited to comment on and note The External Audit Fee Letter for the Year Ending 31 March 2019 as attached.			
REASONS FOR REPORT RECOMMENDATIONS					
	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					
	None.				
DETAIL (Including consultation carried out)					
	The External Audit Fee Letter for the Year Ending 31 March 2019 has been provided to relevant senior managers for comment.				

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	N/A.
<u>Property/Other</u>	
	N/A.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	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>	
	N/A.
RISK MANAGEMENT IMPLICATIONS	
	N/A.
POLICY FRAMEWORK IMPLICATIONS	
	N/A.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
SUPPORTING DOCUMENTATION	
Appendices	

1. The External Audit Fee Letter for the Year Ending 31 March 2019

Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at: 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)
N/A	

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Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Tel: + 44 2380 382 100
Fax: + 44 2380 382 001
ey.com

Richard Crouch
(Interim) Chief Executive
Southampton City Council
Civic Centre
Southampton
SO14 7LY

24 April 2018

Ref: FeeLetter201819
Direct line: 023 8038 2099
Email: HThompson2@uk.ey.com

Dear Richard,

Annual Audit 2018/19

We are writing to confirm the audit work that we propose to undertake for the 2018/19 financial year at Southampton City Council.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of their accounts and certification of their housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 9 March 2017 were confirmed, following consultation, in December 2017.

Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that has opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

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

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- Whole of Government accounts.

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

- there is an effective control environment;



- the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year (this includes the assumption that no group financial statements are required);
- officers meeting the agreed timetable of deliverables;
- we can rely on the work of internal audit if planned;
- appropriate quality of documentation is provided by Southampton City Council;
- prompt responses are provided to our draft reports; and
- our accounts opinion and value for money conclusion being unqualified.

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

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	109,891	142,715	147,101
Certification of housing benefit subsidy claim	N/A	19,524	15,204

The appointment of an auditor to certify the Council's 2018/19 housing benefit subsidy claim is not covered by the PSAA appointment, hence is shown as not applicable here.

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

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £27,473.

Audit plan

Our plan is expected to be issued by February 2019. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Service Director Finance & Commercialisation (S151) and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Governance Committee.



We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me as your Engagement Lead. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

A handwritten signature in black ink that appears to read 'Helen Thompson'.

Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP

cc. Mel Creighton, Service Director Finance & Commercialisation (S151)
Councillor Stephen Barnes-Andrews, Chair of the Governance Committee
Councillor Eamonn Keogh, Vice-Chair of the Governance Committee

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Agenda Item 14

DECISION-MAKER:	GOVERNANCE COMMITTEE							
SUBJECT:	STRATEGIC CONTRACTS – ANNUAL REPORT (2017/18)							
DATE OF DECISION:	11th JUNE 2018							
REPORT OF:	Service Director – Digital and Business Operations							
<u>CONTACT DETAILS</u>								
AUTHOR:	Name:	Katie Renouard	Tel: 023 80833233					
	E-mail:	katie.renouard@southampton.gov.uk						
Director	Name:	James Strachan	Tel: 023 80833436					
	E-mail:	James.strachan@southampton.gov.uk						
STATEMENT OF CONFIDENTIALITY								
The appendix to this report is confidential in accordance with paragraph number 7(A) of the council's Access to Information Procedure Rules in Part 4 of the council's Constitution as it contains information about council contracts and contractors which may be deemed to be confidential.								
BRIEF SUMMARY								
This report provides the Governance Committee with an overview of the performance, governance and other contractual matters relating the council's most strategically important contracts. It also sets out how these contracts contribute to meeting the council's outcomes and achieve value for money.								
The report is produced on an annual basis and (unless stated otherwise) reports on the previous 12 month period between April and March.								
RECOMMENDATIONS:								
(i)	That the Governance Committee notes the Strategic Contracts – Annual Report for 2017-18 as attached as Appendix 1.							
REASONS FOR REPORT RECOMMENDATIONS								
1.	The report is provided for information.							
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED								
2.	N/A							
DETAIL (Including consultation carried out)								
3.	N/A							
RESOURCE IMPLICATIONS								
<u>Capital/Revenue</u>								
4.	N/A							
<u>Property/Other</u>								
5.	N/A							
LEGAL IMPLICATIONS								

<u>Statutory power to undertake proposals in the report:</u>		
6.	N/A	
<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: all		
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Strategic Contracts – Annual Report - Confidential	
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.		
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

Agenda Item 14

by virtue of paragraph number 7 of the Council's Access to information Procedure Rules

Appendix 1

Document is Confidential

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