
NOTICE OF MEETING

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

THURSDAY, 13 MARCH 2014 AT 3.00 PM

CONFERENCE ROOM A - CIVIC OFFICES

Telephone enquiries to 023 9283 4058

Email: Vicki.plytas@portsmouthcc.gov.uk

Membership

Councillor Darron Phillips (Chair)
Councillor David Fuller (Vice-Chair)
Councillor Michael Andrewes
Councillor Donna Jones
Councillor John Ferrett
Councillor Phil Smith

Standing Deputies

Councillor Peter Eddis
Councillor Aiden Gray
Councillor Les Stevens
Councillor Steven Wylie
Councillor Alistair Thompson
Councillor Neill Young

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendations). Email requests are accepted.

A G E N D A

1 Apologies for Absence

2 Declarations of Members' Interests

3 Minutes of the meeting held on 30 January 2014 (Pages 1 - 12)

To confirm the minutes of the meeting held on 30 January as a correct record.

RECOMMENDED that the minutes of the meeting held on 30 January 2014 be confirmed and signed by the Chair as a correct record.

4 Updates on actions identified in the minutes

5 School Transport & Student Awards Appeal Committee

At its meeting on 3 March, the Cabinet resolved that Elected Members of the Council will not sit on the new Transport Appeal Panel. As a consequence, the new Transport Appeal Panel will no longer be part of the political management structure.

RECOMMENDED that the Committee recommends to Council that the Constitution be amended to reflect the Cabinet decision so as to delete the section in Part 2 Section 2 entitled "School Transport & Student Awards Appeals committee" and make any other consequential amendments.

6 External Audit Reports - Ernst & Young (Pages 13 - 40)

(1) Audit Plan - year end 31 March 2014

The purpose of this report is to provide the Audit Committee with a basis to review the proposed audit approach and scope for the 2013/14 audit in accordance with the Audit Commission Act 1998, the Code of Audit practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that the audit is aligned with the Committee's service expectations.

RECOMMENDED that the Audit Plan for year ending 31 March 2014 be noted.

(2) Local Government Audit Committee Briefing (information only)

7 Proposed Minor Revisions to Members' Allowance Scheme (Pages 41 - 48)

The purpose of the report is to present the independent report and recommendations produced by the Independent Remuneration Panel (IRP) 2014, chaired by Professor John Craven

- (1) For the Governance and Audit and Standards Committee to consider whether it is satisfied with the way the Independent panel undertook the review and
- (2) For consideration and determination at Full Council

RECOMMENDED that Governance and Audit and Standards Committee confirms that it is satisfied with the way the Independent Panel undertook the review.

8 Treasury Management Policy for 2014/15 (Pages 49 - 106)

The purpose of this report is to obtain the Council's approval for 2014/15 to the following (attached):

- Treasury Management Policy Statement
- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

RECOMMENDED that the report be noted.

9 Performance Management Update - Quarter 3 - 2013-14 (Pages 107 - 126)

The purpose of the report is to inform members of performance issues arising in the third quarter of the 2013-14 reporting period, and update on work relating to cost benchmarking.

RECOMMENDED that the Governance and Audit and Standards Committee are asked to note the report and comment on:

- (1) The performance issues highlighted in section 4; and
- (2) The cost benchmarking activity outlined in section 6.

10 Audit Performance Status Report to 10 February 2014 for Audit Plan 2013/14 (Pages 127 - 178)

This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2013/14 to 10 February 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

RECOMMENDED that members note

- (1) the Audit Performance for 2013/14 to 10 February 2014.

(2) the changes in the Audit Plan.

11 Regulation of Investigatory Powers Act (RIPA) Report (Pages 179 - 182)

The purpose of the report is to inform members that there has been one RIPA authorisation since the last report to Members dated 26/6/13, that numbers of RIPA applications have declined and the reasons for this.

RECOMMENDED that Members note the fact that there has only been one RIPA application since the last report and the reasons why the use of RIPA applications has declined.

12 Date of Next Meeting

The next meeting is scheduled for 26 June 2014.

Agenda Item 3

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Thursday, 30 January 2014 at 3.00 pm in Conference Room A - Civic Offices

(NB These minutes should be read in conjunction with the agenda for the meeting which can be found at www.portsmouth.gov.uk.)

Present

Councillor Terry Hall (in the chair)
Councillor David Fuller (Vice-Chair)
Councillor Michael Andrewes
Councillor John Ferrett
Councillor Phil Smith
Councillor Neill Young (deputising for Councillor Donna Jones)

Officers

Michael Lawther, City Solicitor
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)
Lyn Graham, Chief Internal Auditor
Elizabeth Goodwin, Deputy Chief Internal Auditor
David Pennery, Auditor
Jon Bell, Head of HR, Legal & Performance
Iwona Defer, Equalities & Customer Research Officer
Kelly Nash, Corporate Performance Manager
Megan Southcott, Strategy Advisor
Mark Justesen, External Auditor

1. Apologies for Absence (AI 1)

Apologies for absence were received from Councillor Donna Jones.

2. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

3. Minutes of the Meeting held on 7 November 2013 (AI 3)

RESOLVED that the minutes of the meeting held on 7 November 2013 be confirmed and signed by the chair as a correct record.

4. Updates on actions identified in the minutes (AI 4)

The City Solicitor confirmed that the new Director of Public Health, Janet Maxwell would be arranging the provision of training as mentioned in minute number 69.

5. External Audit Progress Report - Ernst & Young (AI 5)

(TAKE IN REPORTS)

- (1) Certification of Claims and Returns - Annual Report 2012-13 (Summary of Results of Work Done on Portsmouth City Council's Claims and Returns)

Mr Mark Justesen, External Auditor, Ernst & Young, introduced the report. He said that section 1 of the report outlines the results of the 2012-13 certification work and highlights the significant issues. Six claims and returns were certified with a total value of £226,361,455. He advised the committee that two qualification letters for the housing and council tax benefits and teachers' superannuation claims were issued. Details of the qualification matters were included in section 2 of the report. He said that they have not made any recommendations for improvement as errors made were administrative and were not viewed as significant failures. He said that the processes in place were sufficiently robust from the external auditor's point of view.

Mr Justesen said that the fees for certification work are summarised in section 2 and that the Audit Commission applied a general reduction of 40% to certification fees in 2012-13.

- (2) Audit Progress Report to December 2013

Mr Justesen advised the committee that the purpose of this report is to provide the committee with an overview of progress against the milestones set out in the 2012-13 audit plan. He said that there was only one matter that he wished to draw to the committee's attention and that was the statutory requirement for the harbour authority to produce accounts for the external auditors to audit.

In response to a query it was confirmed that it would fall to Ernst & Young to carry out this audit under their general appointment. The City Solicitor confirmed that the city council would comply with the statutory requirements in due course.

RESOLVED that (1) the certification of claims and returns 2012-13 annual report be noted; and

(2) The audit progress report from the external auditor to December 2013 be received and that no action is required to be taken by the Chief Executive in this regard.

6. Update on the council's compliance with its Equality Duty and Equality Impact Assessment Process (AI 6)

(TAKE IN REPORT)

The Equalities & Customer Research Officer introduced the report which was to update the committee on the compliance of council services with the equality duty and equality impact assessment process since the last report dated 26 September 2013. The committee's attention was drawn to paragraph 3.2.1 which included a table showing that the majority of services continued to be 100% compliant with the 3 yearly rolling EIA process. Adult Social Care has significantly improved its compliance over the last few months and currently has no outstanding EIAs. Transport & Environment services have also made notable progress and the 3 outstanding EIAs are being worked on. Although the report shows that Housing & Property Services' compliance has seen a decline in the last quarter, there is now a planned review of all policies in the services. As a result the services have been given an extension of time to review their EIAs. Financial Services also have some outstanding EIAs. It was confirmed that the Equality & Diversity team is working with the services concerned to ensure that EIAs are completed without further delay.

In response to questions the following matters were clarified:

- The EIAs were not dealt with by just one person in each department but several people and training was provided when needed.
- Where services were not fully compliant, the City Solicitor confirmed that this was addressed by ensuring that training and help was given. Staff were aware that claims would result if EIAs were not properly carried out. He said that embedding the process took time but there was evidence that progress was being made.
- It was agreed that in future the report would include details of how long individual EIAs had been outstanding ie to include the dates by which EIAs should have been completed.

RESOLVED (1) that the committee notes the contents of the report;

(2) that the committee continues to monitor the compliance of the council services with the equality duty and the equality impact assessment process adopted by the council, on a quarterly basis;

(3) that the City Solicitor continues to report on such compliance to the committee on a quarterly basis.

7. Treasury Management Monitoring Report for the Third Quarter of 2013/14 (AI 7)

(TAKE IN REPORT)

Mr Michael Lloyd introduced the report and said that it was no longer going to be taken to Cabinet as well as the Governance & Audit & Standards Committee as it had been agreed that this committee was better placed to consider matters contained in the report. He advised that the purpose of the

report in Appendix A is to inform members and the wider community of the council's treasury management position at 31 December 2013 and of the risks attached to that position.

The committee's attention was drawn to paragraph 5 of the report - Borrowing Activity. Mr Lloyd confirmed that there had been no new borrowing during the first three quarters of 2013/14. With regard to investment activity Mr Lloyd said that the council held £229 million of investments as at 31 December 2013 and the investment portfolio yield for the first eight months of the year is 0.61%.

In response to a query it was confirmed that the Co-operative Bank had not been mentioned in the report as the city council's exposure is not in regard to the Co-operative Bank in terms of the investments of the city council. The city council's exposure is that the Co-operative Bank are the city council's main transactional bank.

However efforts are always made to only have a maximum of £300k being held by the bank at any one time and an average balance of £150k.

The City Solicitor confirmed that other options were also in place.

RESOLVED that the actual treasury management indicators for the third quarter of 2013/14 as set out in item 4 of the report be noted.

8. Performance Management Update - Quarter 2 - 2013/14 (AI 8)

(TAKE IN REPORT)

Ms Kelly Nash introduced the report which provides a summary of information received as part of quarter 2 reporting for 2013/14 and an indication of how work around cost benchmarking is developing. Ms Nash said that a detailed summary of issues raised are attached as Appendix A of the report and that key issues were listed in paragraph 4.2 of the report. She explained that the process for reporting on performance has now started to embed across the organisation and there is more rigour that has been the case for a few cycles. Ms Nash advised that a regular report on benchmarking would be brought to this committee and that the next cycle is likely to be even more thorough.

In response to queries the following matters were clarified:

- There was nothing about finance in this report because there were no issues of note this quarter.
- With regard to City Help Desk, it was too early to tell whether calls were being diverted away from the help desk as a result of information being obtained instead by internet searching. This item would be included in the next report. The City Solicitor said that much work is being done to update the web and this included e-commerce interactions that should result in savings to the city council.

- With regard to Revenues & Benefits in section 4.2, members noted that discretionary housing payment demand has already outstripped supply. A query was raised about whether this meant that people would not receive the benefit and Ms Nash said she would find out and report back. It was also confirmed that the words "social sector size criteria" equated to what in colloquial terms has been called "the bedroom tax". A query was also raised about what was happening to those previously in receipt of 100% council tax benefit who now received 80% council tax benefit? This would also be reported back to members.

The City Solicitor said that a paper to all members on the impact of recent benefit changes would be useful.

The City Solicitor said that the number of repossessions had not so far increased but the council did not have a "no eviction" policy.

Members were advised that a paper had been brought to Scrutiny Management Panel on the effect of welfare reforms which had been largely positive. Ms Nash said she would append the report to the further information on welfare implications that would be circulated outside of the meeting.

In response to a query on targeted interventions in areas of high staff sickness, it was confirmed that the working group on sickness absence had not met recently owing to difficulties in getting the relevant people together. However sickness absence has reduced to under nine days per person per year and this was much more in line with other comparable authorities. The HR, Legal & Performance service had been working across services to reduce sickness absence and this appeared to be paying dividends.

RESOLVED that the Governance & Audit & Standards Committee noted the report and commented on

- (1) The performance issues highlighted in section 4 and**
- (2) The cost benchmarking activity outlined in section 6.**

9. Progress on actions to address the 2012/13 significant governance issues and review of the internal corporate governance controls (AI 9)

(TAKE IN REPORT)

Ms Southcott, Strategy Adviser, introduced the report which was to update the Governance & Audit & Standards Committee on the actions relating to the 2012/13 annual governance statement and to inform members of steps taken to review the current internal corporate governance controls and to put forward a set of revised controls for 2014. Ms Southcott explained that a summary of progress made in tackling the significant governance issues can be found in Appendix A. Appendix B showed the internal corporate governance controls for 2014. Ms Southcott drew members' attention to paragraphs 4.7 and 4.8 of the report.

Following discussion, members confirmed that in the light of assurance they received from other sources eg internal audit reports, external audit reports and sources such as the corporate risk register and performance reports, they were comfortable that the current controls on supporting councillors as strategic leaders, effectively engaging with local people and other stakeholders and managing energy usage to ensure efficiency were adequate.

In response to queries the following matters were clarified:

- With regard to Appendix A Employment Committee Issues on page 1, the requirement was for 100% of staff to have PDRs but the update on progress stated that the council's arrangements were still felt to be inadequate. The Head of HR, Legal & Performance said that there were conflicting views about the efficacy of PDRs and that a report would be brought back to Employment Committee once the arrangements have been reviewed and a proposal developed.
- With regard to a query on staff completing the equalities health check being 25% of the workforce, the Head of HR, Legal & Performance said that work was being done to ensure that the training was aimed at an appropriate level as it is not appropriate for all jobs.

The City Solicitor said he would set up a meeting of the equalities project group in the next week and that equalities training would be put on the agenda.

There was a discussion concerning member training during which it was confirmed that there was no specific budget for this. In the past much training had been arranged but it was not well attended. This was not just a problem for this authority but was a general problem across all authorities. Mandatory training such as that put on for Governance & Audit & Standards, Planning etc was well attended.

The City Solicitor confirmed that there was much e-training available and the Head of HR, Legal & Performance said he would let members know what e-training and training via DVDs is available. there was a discussion around member training and political development. He also advised that a discussion paper was due to be taken to the Group Leaders' meeting.

The City Solicitor advised that if any members wished to receive reimbursement or a contribution towards travel costs in relation to off site training, members should contact the service concerned to see if there was any budget available.

RESOLVED that the Governance & Audit & Standards Committee

- (a) **Notes the progress made in addressing the significant governance issues highlighted in the 2012/13 annual governance statement;**
- (b) **Approves the new internal corporate governance control.**

10. Agenda Item re Standing Order 17 - Questions by Councillors (AI 10)

The chair introduced this item and said that it was aimed at changing Standing Order 17(1)(a) so that members submitting a question or seeking a resolution must first have contacted the relevant council officer and cabinet member and considered that they had not received a satisfactory response.

During discussion members felt that the revised wording was not in a suitable form to be adopted and that more thought should be given to this issue before it progressed further.

In addition they felt that it would be better to get a consensus from the various groups rather than taking it straight to council. Members suggested that the issue should be referred back to the Constitution Working Group.

Members felt that standing orders should be looked at again generally. Members were also concerned that the Constitution Working Group lacked continuity of membership.

A view was put forward that council was a public forum and should be opened up rather than being further restricted.

It was proposed by Councillor Michael Andrewes, seconded by Councillor Phil Smith that the item should be referred back to the Constitution Working Group to consider how to revise the standing order relating to questions at council. Upon being put to the vote this was carried.

RESOLVED that the matter be referred back to Constitution Working Group to consider how to revise the standing order relating to questions by Councillors.

11. Consideration of the political balance rules in relation to the constitution of Sub-committees considering complaints against Members (AI 11)

(TAKE IN REPORT)

The City Solicitor introduced the report explaining that the political balance rules apply across council committees unless they are dis-applied. He explained that if the committee wished to dis-apply the political balance rules in respect of its sub-committees, this would mean that wherever possible, the three member sub-committee would be made up of a representative of each of the three groups, all the time those groups are represented on the main committee. He confirmed that the decision today would only apply to Governance & Audit & Standards sub-committees. He also explained that if

any member voted against dis-applying the political balance rules, then the matter would fall and political balance rules would be applied. (This would mean that sub-committees under the Council's current political make-up would be made up of two Lib Dems and one member of the next largest political group ie a Conservative Member.)

The City Solicitor advised that the political balance rules would be applied to the Governance and Audit and Standards sub-committees **unless** there was a formal decision to dis-apply them. He said that any vote to dis-apply the political balance rules would only remain in force until the end of the municipal year or until a future change to the political balance of the Council (as this would in turn trigger a change to the political balance on the Governance and Audit and Standards Committee.) He recommended that the Committee as a matter of course should include this item on the agenda for the first meeting of each municipal year and on the agenda of the next meeting following a change to the political balance of the Council .

During discussion the following matters were raised:

- The political balance rules were generally applied across council committees.
- A view was put forward that when there are three different groups, the political balance rules could be interpreted as trying to keep the third group out of all decisions made by sub-committees.
- When members of sub-committees are required to consider complaints against elected members, their decision should be arrived at on the case presented to them regardless of their political persuasion.
- The City Solicitor said that the political balance rules are complex.

Upon being put to the vote a majority of members did not wish to dis-apply the political balance rules in relation to the constitution of sub-committees considering complaints against members.

RESOLVED that the committee wishes the political balance rules to apply in respect of its sub-committees which are considering complaints against members.

12. Probate Applications (AI 12)

(TAKE IN REPORT)

The City Solicitor introduced the report which he explained was to seek to obtain a council resolution to appoint the City Solicitor as lawful nominee of the council for the purpose of obtaining grants of representation from the probate registry in order to recover debts owed to the council. He said that in the past a resolution of full council has been sought on an individual basis and that the report requested an extension of the powers delegated to the City Solicitor to avoid the need for a resolution of full council to be passed in every case where a debt is owed.

RESOLVED that Governance & Audit & Standards Committee recommend to council that the City Solicitor's delegation be amended by inserting the following additional delegation between paragraphs 30 and 31:

"To act in the capacity of lawful nominee of the council for the purpose of applications to the probate registry and in so doing to take such steps as shall be considered necessary to obtain a grant of representation in order to recover monies owed to the council."

13. Audit Performance Status Report to 30 January 2014 for Audit Plan 2013/14 and proposed Audit Strategy (AI 13)

(TAKE IN REPORT AND PROPOSED AUDIT STRATEGY)

Lyn Graham, the Chief Internal Auditor presented the report. She said that there were 13 new critical exceptions highlighted in the report for 2013/14 audit plan. There are 155 planned audits for 2013/14 made up of 126 new reviews and 29 follow-up audits. Of these, 94 (60%) have been completed or are in progress as at 16 December 2013. This represents 62 audits (40%) where the report has been finalised, eight audits (5%) where the report is in draft form and 24 audits (15%) currently in progress. She went on to explain that the areas of assurance are shown in Appendix A of the report ie completed audits from 2013/14 audit plan, Appendix B is the audit strategy for 2014/15 audit plan, Appendix C is the MMD critical exceptions and action plan, Appendix D is the school critical exceptions and action plan and Appendix E is the information governance arrangements and action plan.

During discussion the following matters were clarified:

- Members expressed surprise at item 17 of Appendix D relating to the loft and storage room of a school. The Deputy Chief Auditor explained what was being done to address the situation and said the Chair of Governors had resigned and three Officers of the Council had been appointed to the Board of Governors to help strengthen and develop the scrutiny role. There is also a new interim Head teacher who is aware of the issues that need addressing.
- Members raised concerns about the MMD transport audit as paragraph 6.2.1 refers to the existing exposure to the risk of fraud as reliance is placed on key individuals and the failure to safeguard assets appropriately. Reassurance was given that none of the MMD directors were involved in this and that the transport manager concerned had been prosecuted and sentenced to a term of imprisonment for fraud. It was confirmed that a follow-up audit review had already been prepared and would be brought to the next meeting of this committee.

RESOLVED that members

- (1) Note the audit performance for 2013/14 to 16 December 2013;**

- (2) Note the highlighted areas of control weakness for the 2013/14 audit plan;**
- (3) Note the changes in the audit plan;**
- (4) Approve the proposed audit strategy for the use of audit resources for 2014/15.**

14. Anti-Fraud and investigations update (AI 14)

(TAKE IN REPORT)

The City Solicitor explained that as an experiment, Appendix A which detailed completed investigations between November 2012 and October 2013 had been redacted to enable it to be published on the website rather than being classified as an exempt appendix that could not be published. However he said that members may need to raise queries about the redacted parts of the document in which case provision had been made on the agenda for the committee to move into exempt session if they wished to do so.

The Deputy Chief Internal Auditor introduced the report and said that the committee had agreed to receive these reports every six months. She explained that there had been nine investigations since the last report to the committee in November 2012 and these were detailed in Appendix A. She explained that special investigations were reported to this committee once all the disciplinary and appeals processes are exhausted.

During discussion, the following matters were clarified:

- With regard to case 2 - social worker, it was confirmed that the social worker concerned could be working elsewhere but that would be up to the Health and Care Professions Council (HCPC).
- With regard to item 5, it was confirmed that the recommendations outlined in paragraphs 5.37 to 5.41 were being followed up with a report going back to the Investigation Steering Panel to progress.
- It was confirmed that with regard to the concessionary travel tokens, travel tokens are no longer given and therefore this issue would no longer arise. It was confirmed that the only tokens used now by PCC were believed to be laundry tokens in Housing.

RESOLVED that members

- (1) Note the contents of the investigations report detailed as exempt in Appendix A.**
- (2) Note the anti-fraud, bribery and corruption action plan, Appendix B.**

15. Procurement Management Information (AI 15)

(TAKE IN REPORT)

Jon Bell, Head of HR, Legal & Performance presented the report which is a regular update to members of this committee on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services. He explained that the report updates members on progress made by services up to the end of October 2013 and provides members with a progress report to monitor the situation (outlined in Appendix 1 - year to date performance). An explanation of those service areas where conformance requires improvement is detailed in Appendix 2 which is exempt. He explained that conformance has improved year on year from 97% in October 2012 to 98% in October 2013 and year to date conformance is at 98%. He said that had contracts been entered correctly on Intend without admin errors the conformance figure would have been 99%.

Members requested that in future Appendix 1 should include an extra column to state how many contracts the figures related to in order to give a more realistic picture. Currently, if a service had only two contracts and one was non-compliant, this may give an unrepresentative picture. The Head of HR, Legal & Performance said that he would ensure that this was done in future.

RESOLVED that members

- (1) Note PCC has surpassed the target of 95% conformance and achieved 98% for October 2013; and**
- (2) Note the performance of PCC's suppliers and contractors and action in progress to address poor performance.**

16. Data Security Breach Reporting (AI 16)

(TAKE IN REPORT)

The City Solicitor introduced the report and said that many improvements had been made resulting in fewer breaches. However mistakes were still made occasionally. He advised that if members wished to discuss any of the breaches outlined in the exempt appendix the committee would need to move into exempt session. Members felt able to consider the report and breaches in open session.

RESOLVED that members of the committee note the breaches that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

17. Complaints received into alleged breaches of the Code of Conduct by Members of the Council (AI 17)

(TAKE IN REPORT)

The City Solicitor presented the report which was to update members of the committee on current progress in relation to complaints which allege that councillors may have breached the council's code of conduct. He said that on the whole the process was working well and that it was right to give people the opportunity to complain if they had concerns. He said that predominantly the results of the investigations were that no further action be taken but that much could be learnt from the complaints made.

The City Solicitor said that with regard to item 3, the requested review hearing had now taken place and that the review sub-committee (that was made up of three different Members from those on the original sub-committee) upheld the original decision.

The City Solicitor said that the aim is to deal with complaints as quickly as possible. He said that under the old procedures, there was no requirement to publish the meetings on the website and that this new process sometimes slowed matters down.

During discussion the following matters were raised:

- The chair requested that all members be given a paper copy of information that related to each councillor so that they could arrange for this to be updated as necessary.
- With regard to the use of electronic devices, members were advised that this matter was being considered at a future meeting of the Scrutiny Management Panel and would also be considered at a Constitution Working Group meeting in the future. It was suggested that the Lord Mayor and the Deputy Lord Mayor could be invited to that particular meeting so that their views could be put forward.

RESOLVED that members of the committee noted the report and considered if any further action is required by them.

The meeting concluded at 5.00 pm.

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Chair

Agenda Item 6

Audit Plan

Year end 31 March 2014

Portsmouth City Council

13 March 2014

Ernst & Young LLP



Governance, Audit and Standards Committee
Portsmouth City Council
Civic Offices
Guildhall Walk
Portsmouth
PO1 2AL

March 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan for Portsmouth City Council which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Governance, Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2013/14 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 13 March 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
Enc

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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of Portsmouth City Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit and value for money conclusion, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4, and are summarised below.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

Our process and strategy

- ▶ Financial Statement Audit
 - ▶ We set our materiality based on the Council's level of gross expenditure. We also consider a number of factors including levels of reserves, prior year errors, public profile and sensitivities. Our audit is designed to identify errors above materiality.
 - ▶ We aim to rely on the Council's internal controls wherever possible. We identify the controls we consider important and seek to place reliance on audit testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
 - ▶ To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit regarding arrangements for our review and re-performance of their work.
 - ▶ Tom Wilkins has replaced Helen Edgecombe as lead executive, as she is on maternity leave.
 - ▶ There has been no change to the scope of our audit.
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness
 - ▶ Our work has two underpinning elements.
 - We are required to give a statutory conclusion on the arrangements to secure VFM value for money based on two criteria specified by the Commission, and we design a programme of work to address identified risks: and
 - the Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources; ensure proper stewardship and governance; and review regularly the adequacy and effectiveness of these arrangements. We annually update our understanding and assessment of these corporate performance management and financial management arrangements.
 - ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness
 - ▶ In assessing risks relating to audited bodies' arrangements to secure economy, efficiency and effectiveness, we consider:
 - the audited body's own assessment of the risks it faces, and its arrangements to manage and address its risks;
 - evidence gained from previous audit work, including the response of the audited body to that work; and
 - the work of the Commission, other inspectorates and review agencies (where these come to the attention of the auditor and are relevant to the auditor's responsibilities under the Code the Audit Commission Code of Audit Practice).
 - ▶ We will keep our risk assessment under review taking into account: our discussions with the Council; our review of reports and minutes; the results of internal audit work; our opinion and certification work; review of the Annual Governance Statement; and the work of other regulators

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; and ▶ Evaluating the business rationale for significant unusual transactions.
Other financial statement risks	
Academy schools	
A number of schools, including Milton Cross, are expected to achieve academy status in 13/14.	We will review the accounting for transfers, including any related impairments, and whether they are disclosed correctly.
Pooled budgets	
This is the first full year of account for the Continuing Healthcare pooled budget, which now represents a material item of account.	We will review the Council's accounting for its share of the income, expenditure, asset and liabilities of the pooled budgets; and whether they are correctly presented in the accounts.
Changes to accounting for business rates	
From April 2013, there were changes to the arrangements for business rates that require the Council to make a provision for appeals against rating list valuations.	We will review the reasonableness of the provision and whether it is accounted for and disclosed correctly.
Pilots National Pension Fund	
Following a High Court determination the scheme's actuaries are determining the Council's share of the fund's liabilities.	We will review the reasonableness of the provision and whether it is accounted for and disclosed correctly.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Portsmouth City Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Other risks	Impacts arrangements for securing:	Our audit approach
Governance arrangements		
<p>Last year the Council developed a new corporate plan-on-a-page, which updated its strategic objectives in accordance with the vision of “working together to shape the great waterfront city”.</p> <p>Alongside this, the Council redeveloped its performance management arrangements, its risk management arrangements, and strengthened the corporate expectation that services prepare three year indicative financial plans.</p>	<p>Economy, efficiency and effectiveness</p>	<p>Our approach will focus on reviewing how this revised framework has been applied in the 2014/15 planning round. We will focus this by reviewing one service’s:</p> <ul style="list-style-type: none"> ▶ business and financial plans, ▶ indicators and targets chosen used to measure its performance, ▶ risk management processes, and ▶ corporate reporting against the above.
Integration of Health and Social Care		
<p>The aggregation of existing funding streams into the Better Care Fund has transformed and accelerated the integration agenda.</p> <p>The Council and Portsmouth CCG need to agree how to use funds in order to achieve better outcomes for patients, subject to some exacting national conditions attached to the grant.</p> <p>While planning initially has a two year horizon, local plans should be part of a five-year strategy for local health and care services. As such the Health and Wellbeing Board need to support the development of a shared vision of what future local services should look like.</p>	<p>Economy, efficiency and effectiveness</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the two year local plan submitted in February 2014 and assessing progress with the development of the linked 5 year strategy ▶ Assessing plans for the expansion of pooled budgets in April 2015 and evidencing of progress against national conditions and the performance measures set out in the locally agreed plan.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following where we will seek to place reliance on the operation of key controls, both manual and IT:

- Accounts receivable (Oracle)
- Accounts payable (Oracle)
- Payroll (Oracle)
- Cash and bank (Oracle)
- SWIFT (Oracle)
- Council tax (Northgate)
- Non domestic rates (Northgate)
- Housing benefits (Northgate)
- Housing rents (Northgate)

Property Plant and Equipment and schools expenditure will be tested substantively at year end. If control weaknesses are identified in other systems we may need to test them substantively instead. We will keep this strategy under review throughout the audit and may elect to test processes substantively where this would lead to audit efficiencies.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and valuations..

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section xx, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have determined that overall materiality for the financial statements of the Council is £11,991,700 based on 2% of gross revenue expenditure.

We will communicate uncorrected audit misstatements greater than £599,585 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £198,180.

4.5 Your audit team

The engagement team is led by Kate Handy, who has significant experience on the Portsmouth City Council audit. Kate is supported by Mark Justesen who is responsible for

the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the audit committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Committee in September 2014. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	April 2013		Audit Fee letter
Risk assessment and setting of scopes	February 2014	March 2014	Audit Plan
Testing of routine processes and controls	March/June	June 2014	Interim Report, if needed
Value for money conclusion	March/June	September 2014	Report to those charged with governance
Year-end audit	July – September	September 2014	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate Whole of Government Accounts certification
Reporting	October	November 2014	Annual Audit Letter
Grant claims	December	January 2015	Report on the audit of grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any.

Self- interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kate Handy, your audit engagement director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13
	£'000	£'000
Total Audit Fee – Code work	198,180	198,180
Certification of claims and returns*	28,600	30,900
Non-audit work	0	0

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified
- ▶ Suitable accommodation and access to Council ICT is provided;
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ Effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. In 2012/13 the scale fee was £26,500 but a variation of £4,400 was agreed by the Audit Commission for the certification of two additional Local Transport Plan Major Project claim

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off 	Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Report to those charged with governance and Annual Audit Letter if considered necessary</p>

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Local Government Audit Committee briefing

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Find out more

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.





Sector and economic news

Economic Outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.'

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'

Enhancements to Bellwin Grant

The government is changing the terms of the Bellwin scheme to help local authorities meet costs associated with the recent severe weather. The changes will ensure the grant is paid at 100% above the threshold instead of 85%, extend the eligible spending period to the end of March 2014, reduce the thresholds for county councils and unitary authorities, and allow upper tier authorities with fire responsibilities to claim on the same basis as standalone fire authorities for fire related costs.

The Bellwin scheme was activated in December 2013. Ministers have also committed to a longer term review of the Bellwin scheme to consider changes to its operation which may be required due to more frequent and challenging weather events.



Sector and economic news

Making best use of the Better Care Fund

Announced by the government in the June 2013 spending round, the £3.8bn Integration Transformation Fund now known as the Better Care Fund is described as 'a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities'. The Fund, available from April 2015, offers an opportunity to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care. The intention is that social care and health care be fully integrated by 2018.

For Local Authorities, this will require the contribution of the Social Care Capital grant and Disabled Facilities Grant allocations for 2015/16 to the pooled budget.

Health and Wellbeing Board areas were required to submit a draft plan for their use of this fund by 14th February, and the revised plan by 4th April 2014. The Kings Fund has published 'Making best use of the Better Care Fund – Spending to Save?' which 'offers an evidence-based guide to aid the discussions between clinical commissioning groups, local authorities and health and wellbeing boards' and presents evidence from The King's Fund and others in a number of different areas including primary prevention; self-care; and case management.



Accounting, auditing and governance

Greater Business Challenges call for Stronger Audit Committees

Audit committees have traditionally been comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- ▶ **Financial expertise:** the committee needs a keen understanding of internal controls and experience in disclosure to its key stakeholders.
- ▶ **Accounting and auditing expertise:** one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- ▶ **Leadership:** the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- ▶ **Industry or sector knowledge:** it's important to have members with sector-specific knowledge – including an understanding of the regulatory environment.



Regulation news

Business rates valuation: a consultation

The 2013 Public Service Pensions Act which received royal assent on 1 April 2013, local government has had a 50% share in business rates income, meaning that local authorities now carry a 50% share of the risk of reductions and refunds from challenges against rateable value. This means that local authorities have to forecast the impact of successful challenges on their future income, a task made difficult by the large number of speculative challenges. The government has launched a consultation, which lasts for 12 weeks until 3 March 2014, on proposals aimed at reforming the appeals process. The objectives of the proposals under consultation are to:

- ▶ Improve transparency of the valuation process
- ▶ Bring business rates into line with the way official decisions are normally challenged
- ▶ Enshrine in law a more formal separation between the Valuation Office Agency (a government taxation setting body) and the Valuation Tribunal for England (the judicial body which reviews decisions made by the VOA)

The government intends to implement these proposals from 1st October 2014.

Technical Reforms to Council Tax: national discount for annexes

Between August and October 2013, the government ran a consultation on the proposed introduction of a discount on the council tax for annexes, where such annexes are occupied by a member of the family of an occupier of the main dwelling. The responses to this consultation were published in December 2013, and the government is planning to implement its proposals. The majority of respondents supported the government's proposed discount of 50%. However, over half of respondents considered that the implementation of this policy would lead to extra costs, mainly in the areas of promotion, IT and administration. The government does not consider that the administration of the new discount will constitute a new burden, as under Regulation 14 of the Council Tax (Administration and Enforcement) Regulations 1992, billing authorities already have a statutory duty to ascertain whether a property is entitled to a discount. However, the overall cost of the discount will be reimbursed to billing authorities by DCLG.



Regulation news

Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits.

The Audit Commission has identified where some of its key functions will be transferred to. These include:

- ▶ The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- ▶ The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter-Fraud will be transferred to.



Find out more

Economic Outlook

See the full analysis at:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Enhancements to Bellwin Grant

Read more at:

<https://www.gov.uk/government/news/more-support-for-communities-affected-by-floods>

Making best use of the Better Care Fund

Find out more at:

<http://www.local.gov.uk/documents/10180/12193/Developing+plans+for+better+care+fund+guidance.pdf/734c155e-7820-4761-976a-6c56053c0e78>

<http://www.kingsfund.org.uk/publications/making-best-use-better-care-fund>

Audit Committee Challenges

Read the latest briefing at:

[http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/\\$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf)

Consultation on checking and challenging your rateable value

Find out more at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf

Technical Reforms to Council Tax: national discount for annexes

Find out more at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263411/131115-_Annex_A-_Draft_summary_of_responses_on_annexes_consultation-_pr.pdf

Local Audit and Accountability Act 2014

Find out more at:

<http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/>

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ED None

1481657.indd (UK) 02/14. Artwork by Creative Services Group Design.



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Agenda Item 7



Title of meeting: Governance & Audit & Standards Committee – 13 March 2014

Council – 18 March 2014

Subject: Proposed Minor Revisions to Members' Allowance Scheme

Report by: City Solicitor Portsmouth City Council

Wards Affected n/a

Key Decision No

Full Council Decision Yes

1. Purpose of report

The purpose of the report is to present the independent report and recommendations produced by the Independent Remuneration Panel (IRP) 2014, chaired by Professor John Craven

(1) For the Governance and Audit and Standards Committee to consider whether it is satisfied with the way the Independent Remuneration Panel undertook the review and

(2) For consideration and determination at Full Council.

2. Recommendations

To the Governance and Audit and Standards Committee

That Governance and Audit and Standards Committee confirms that it is satisfied with the way the Independent Remuneration Panel undertook the review

To the City Council

A. That the City Council considers and decides upon the recommendations of the Independent Remuneration Panel as set out in the Panel's report (attached as appendix 1).

Note – Having fully considered the Panel's report, the Council may choose to accept, reject or amend either or both of the recommendations or simply decide not to implement the Panel's recommendations and retain the existing members allowance scheme.

B. that the City Council's Constitution be amended as applicable and appropriate

C. that Members thank the Independent Remuneration Panel for their work in reviewing elements of the Members Allowance Scheme.

3. Background

Under the Local Authorities (Members Allowances) (England) Regulations 2003, Portsmouth City Council is required to have an Independent Remuneration Panel to review the Members' Allowances Scheme. This last took place just over a year ago.

At that time it was agreed that the Independent Remuneration Panel should be kept in place as a standing panel whose members can consider issues that arise before the next review. Under this arrangement the panel has been asked to review two elements of the scheme namely to enable (a) provision to be made for the inclusion of an interest free Bus loan scheme on the same basis as the Officers Scheme (b) changes to be made to the Dependent Carers allowance so that it is more flexible and is similar to the Local Government Association's Scheme which is based on an hourly rate rather than a fixed total annual limit.

The 2014 Independent Remuneration Panel comprised the following members as set out below:

- Professor John Craven, former Vice Chancellor - Portsmouth University (Chair);
- Mark Waldron, - Editor of The News, Portsmouth;
- Ursula Ward, Chief Executive – Portsmouth Hospital NHS Trust;
- Sue Dovey, Chief Executive - Community Action Hampshire;
- Walter Cha, Managing Director - Blake Laphorn

The business of the Panel was conducted via E-mail.

The Panel's membership will be reviewed prior to the next full review in accordance with the decision of the Governance and Audit and Standards Committee when it considered the last review.

4. Equality Impact Assessment

An equality impact assessment is not required as the recommendations do not have a negative impact on any of the protected characteristics as described in the Equality Act 2010.

5. City Solicitor Comments

Legal comments are embodied within this report.

6. Head of Finance's Comments

There is no financial implication arising from extending the interest free bus loan arrangement to members. Any additional costs arising from changes to the Carer's allowance for members will be met from existing budget provision.

.....
Signed by:

Appendices:

Appendix 1 – Report by the Independent Remuneration Panel

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

.....
Signed by:

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Appendix 1 – Report by the Independent Remuneration Panel

Title of meeting: Governance & Audit & Standards – 13 March 2014
Full Council – 18 March 2014

Subject: Proposed Minor Revisions to Members' Allowance Scheme

Report by: Independent Remuneration Panel

1. Purpose of report

- 1.1 To outline the recommendations of the Independent Remuneration Panel (IRP) 2014.

2. Background

The 2014 Independent Remuneration Panel comprising:

- Professor John Craven, former Vice Chancellor - Portsmouth University (Chair);
- Mark Waldron, - Editor of The News, Portsmouth;
- Ursula Ward, Chief Executive – Portsmouth Hospital NHS Trust;
- Sue Dovey, Chief Executive - Community Action Hampshire;
- Walter Cha, Managing Director - Blake Laphorn

was asked to review two elements of the City Council's Members' Allowance Scheme to enable (a) provision to be made for the inclusion of an interest free bus loan on the same basis as the officer scheme and (b) changes to be made to the Dependent Carers' Allowance so that it is more flexible and is similar to the Local Government Association's Scheme which is based on an hourly rate rather than a fixed total annual limit

A. Interest-free Bus loan

The City Council has adopted policies to help staff concerned about traffic congestion, air quality and their health to make a difference. These include a number of incentives to reduce unnecessary car use including catching the bus.

The scheme includes: -

1. An interest free loan facility for a bus ticket.
2. A substantially discounted price for an annual bus pass (unlimited travel within the area for 365 days) with Stagecoach Coastline and First Hampshire.

- Currently £434.70 for Portsmouth (Stagecoach Coastline)

Appendix 1 – Report by the Independent Remuneration Panel

- Currently £623.70 for Portsmouth and Havant + (Stagecoach Coastline)
- Currently £351.00 for Portsmouth (First Hampshire all zones at weekends)
- Currently £421.00 for South-East Hampshire (inc Waterlooville, Fareham, Gosport and Southampton) (First Hampshire)

It is considered that all the above options should be available for members to choose which best meets their respective needs for the primary purpose of attending meetings/carrying out business at the council offices.

Such an arrangement should be on the same terms of eligibility criteria, annual cost, interest free loan arrangements and the associated conditions as applies to Officers. However, in respect of new or renewal season tickets, for ease of administration it is proposed that they will only be approved if the member has more than 12 months left in office.

Note - It is understood that Members may only claim travel allowance whilst on Council business outside of the City boundaries, or in extreme circumstances a taxi after 11pm within the city when no other means of transport available.

Consequently any travel allowance payable would not cover the cost of a bus season ticket.

B. Dependent Carers' Allowance

This allowance is to enable a carer employed to look after a child or an elderly relative or disabled person who normally resides with a councillor and cannot be left alone.

A carers' allowance may be paid to those members with caring responsibilities for approved duties set out in approved members allowance scheme.

The member is required to complete and sign a form and submit for approval. The form includes details of the meeting, Civic function or other approved duty, proof of costs incurred and the name of the carer or carer group. By signing the form the member is agreeing that they have incurred the claimed for costs in carrying out their relevant duties as per the members allowance scheme, relevant codes of conduct etc.

A carers' allowance is not applicable for party group meetings, canvassing or electioneering but is available for ward work, advice centres and civic functions. Reimbursement for meetings is allowed beyond the actual duration of meetings, given that care must usually be booked in advance for a fixed period

The carers' allowance will be paid towards the cost of care for close relatives for whom the member is the main or joint main carer. This applies to children, or to

Appendix 1 – Report by the Independent Remuneration Panel

elderly or disabled relatives. The allowance will not be payable to a member of the claimant's own household.

The proposed change is to delete the following element in the current scheme (if supported there would also no longer be a need for provision to be made for an ad personam increase).

"This allowance will be subject to a maximum claim of £1000 per annum per member"

and replace it with the following -

"The rate of reimbursement for carers' allowance is equivalent to the minimum wage – currently £6.19 per hour for employees over 21. This is per person cared for and is unlimited "

The change is intended to offer more flexibility than the current maximum figure of £1000 per annum .

Whilst the current scheme has not been greatly used since its introduction, it is understood to have been somewhat limiting for those that have very heavy council workloads and commitments. This proposed hourly rate approach, based on the current minimum wage, is seen as a more practical and reflective approach and brings the Council into the line with similar schemes operated by many other Councils and the Local Government Association.

3. Panel's recommendations

RECOMMENDED that the above changes in respect of the interest free bus loan and the Dependent Carers' allowance be implemented.

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Agenda Item 8

Agenda item:

Decision maker: Cabinet
City Council

Subject: Treasury Management Policy for 2014/15

Date of decision: 3 March 2014 (Cabinet)
13 March 2014 (Governance and Audit and
Standards Committee – information only)
18 March 2013 (City Council)

Report by: Chris Ward, Head of Financial Services and
Section 151 Officer

Wards affected: All

Key decision: Yes

Budget & policy framework decision: Yes

1. Summary

This report includes the Treasury Management Policy, the Annual Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy.

2. Purpose of report

The purpose of this report is to obtain the Council's approval for 2014/15 to the following (attached):

- Treasury Management Policy Statement
- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

3. Background

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

4. Recommendations

4.1a the Head of Financial Services and Section 151 Officer and officers nominated by him is given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy;

4.1b the Head of Financial Services and Section 151 Officer is given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time

4.1c the upper limits for fixed interest exposures are set as follows:

2013/14 £362m

2014/15 £332m

2015/16 £343m

2016/17 £391m

4.1d the upper limits for variable interest exposure are set as follows:

2013/14 (£189m) – Investments up to £189m
2014/15 (£196m) – Investments up to £196m
2015/16 (£202m) – Investments up to £202m
2016/17 (£223m) – Investments up to £223m

4.1e the following limits be placed on principal sums invested for periods longer than 364 days:

31/3/2014 £179m
31/3/2015 £170m
31/3/2016 £158m
31/3/2017 £124m

4.1f the City Council set upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 Months	20%	0%
12 months & within 24 months	20%	0%
24 months & within 5 years	30%	0%
5 years & within 10 years	30%	0%
10 years & within 20 years	40%	0%
20 years & within 30 years	40%	0%
30 years & within 40 years	60%	0%
40 years & within 50 years	70%	0%

4.1g authority to reschedule debt during the year is delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council;

- 4.1h no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council;**
- 4.1i the principals upon which the apportionment of borrowing costs to the Housing Revenue Account (HRA) should be based are as follows:**
- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;**
 - The loans portfolio is managed in the best interests of the whole authority;**
 - The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA;**
- 4.1j the regulatory method of calculating Minimum Revenue Provision (MRP) be applied to pre 1 April 2008 debt and new government supported debt other than finance leases and service concessions (including Private Finance Initiative schemes);**
- 4.1k the asset life (equal instalment) method of calculating MRP is applied to post 1 April 2008 self financed borrowing other than finance leases, service concessions (including Private Finance Initiative schemes) and borrowing to fund long term debtors (including finance leases);**
- 4.1l MRP on finance leases and service concessions including Private Finance Initiative (PFI) arrangements equals the charge that goes to write down the balance sheet liability;**
- 4.1m the principal element of the income receivable from long term debtors be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**
- 4.1n the principal element of the rent receivable from finance leases be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**
- 4.1o the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;**

- 4.1p that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two credit rating agencies except registered social landlords for which a single credit rating will be required;
- 4.1q investments should only be placed with institutions based in either the United Kingdom or states with a AA+ credit rating;
- 4.1r the bodies meeting the criteria of categories 1 to 9 in paragraph 16.11 be approved as repositories of specified investments of the City Council's surplus funds;
- 4.1s credit ratings be reviewed monthly and that any institution whose credit rating falls below the minimum level stated in paragraph 16.11 of the Treasury Management Policy be removed from the list of specified investments;
- 4.1t institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;
- 4.1u non-specified investments are limited to the following:

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	170m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Community investment companies without a credit rating	£5m
Total	263m

4.1v the total amount that can be directly invested with any organisation at any time should be limited as follows (see paragraph 16.11):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£26m for up to 5 years
Category 3	£26m for up to 5 years or 10 years if secured
Category 4	£26m for up to 5 years
Category 5	£20m for up to 5 years or 10 years if secured
Category 6	£19m for up to 5 years for banks & building societies. £19m for up to 4 years for corporate bonds
Category 7	£13m for up to 5 years for banks & building societies. £13m for up to 4 years for corporate bonds
Category 8	£10m for up to 5 years for banks & building societies. £10m for up to 4 years for corporate bonds
Category 9	£6m for up to 4 years
Category 10	£10m for up to 364 days
Category 11	£6m for up to 364 days
Category 12	£5m for an unlimited period
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

4.1w the Head of Financial Services and Section 151 Officer in consultation with the Leader of the Council be given delegated authority to revise the total amount that can be directly invested with any organisation at any time

4.1x that the following investment limits be applied to sectors:

Money market funds	£80m
Building societies	£107m
Registered social landlords	£80m

4.1y that the following investment limits be applied to regions outside the United Kingdom:

Asia & Australia	£40m
Americas	£40m
Continental Europe	£40m

4.2 the Head of Financial Services and Section 151 Officer submits the following:

- (i) an annual report on the Treasury Management outturn to the Cabinet by 30 September of the succeeding financial year;**
- (ii) A Mid Year Review Report to the Cabinet;**
- (iii) the Annual Strategy Report to the Cabinet in March 2015;**
- (iv) quarterly Treasury Management monitoring reports to the Governance and Audit and Standards Committee.**

5. Reasons for recommendations

The recommendations within the attached Treasury Management Policy Statement reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and statutory guidance issued by the Government. are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provides for the repayment of supported borrowing in a way matches Government support for such borrowing
- Provides for the repayment of unsupported borrowing over the life of the assets financed
- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

6. Options considered and rejected

The Local Government Act 2003 requires the Council to have regard to both CIPFA's Code of Practice and the statutory guidance. Alternative recommendations that do not have regard to the CIPFA Code of Practice and the statutory guidance could be deemed not to comply with the Local Government Act 2003.

7. Implications

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances. Effective Treasury Management will provide support to the organisation in the achievement of its business and service objectives.

8. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

9. City Solicitor's Comments

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

10. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

.....
Signed by Head of Financial Services & Section 151 Officer

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2013/14

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 3 March 2014.

.....
Signed by: the Leader

The recommendation(s) set out above were approved/ approved as amended/
deferred/ rejected by the City Council on 18 March 2014.

.....
Signed

**TREASURY
MANAGEMENT POLICY
STATEMENT, ANNUAL
MINIMUM REVENUE
PROVISION FOR DEBT
REPAYMENT
STATEMENT AND
ANNUAL INVESTMENT
STRATEGY 2014/15**

**Portsmouth City Council
Head of Financial Services and Section 151 Officer
(Written by Michael Lloyd, Financial Services)**

TREASURY MANAGEMENT POLICY STATEMENT 2014/15

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1 BACKGROUND

- 1.1 This Council defines its Treasury Management activities as “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.”
- 1.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 1.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.
- 1.4 The City Council’s treasury management activities are governed by various codes of practice and guidance that the Council must have regard to under Local Government Act 2003. The main codes and guidance that the Council must have regard to are:
 - Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) which sets out the key principles and practices to be followed.
 - The Prudential Code for Capital Finance in Local Authorities published by CIPFA which governs borrowing by local authorities.
 - The Guidance on Local Government Investments published by the Department for Communities and Local Government which governs local authorities investment activities and stipulates that investment priorities should be security (protecting the capital sum from loss) and liquidity (keeping money readily available for expenditure when needed), rather than yield.

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 12th November 2013.

i) Authorised Limit

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The Authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year

	£m
Borrowing	425
Other Long Term Credit Liabilities	<u>86</u>
	<u>511</u>

ii) Operational Boundary

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

	£m
Borrowing	359
Other Long Term Credit Liabilities	<u>86</u>
	<u>445</u>

iii) Other Prudential Indicators Contained in the Prudential Code

The following indicators are also included in the Prudential Code:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Capital financing requirement
- Housing Revenue Account (HRA) limit on indebtedness
- Incremental effect of capital investment decisions on council tax at band D
- Incremental effect of capital investment decisions on housing rents

These are contained in Appendix A.

The ratio of financing costs to net revenue stream approved by the Council in 12th November 2013 was calculated on the basis of the estimated net revenue stream contained in the 2013/14 original revenue budget. This has now been revised to reflect the 2013/14 revised budget and the 2014/15 original budget.

The Prudential Code also requires local authorities to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. These are guides to good practice that the City Council has adopted and followed for several years.

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The Code identifies the main Treasury Management risks, some of which may not apply to the City Council, as:

- Credit risk – ie. that the local authority is not repaid, with due interest in full, on the day repayment is due.
- Liquidity risk – ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs.
- Interest rate risk – ie. that the authority fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the authority has budgeted.
- Exchange rate risk – This is the risk that the authority enters into a contract priced in a foreign currency and the exchange rate fluctuates adversely between entering the contract and settling the contract.
- Maturity (or refinancing risk) – This relates to the authority's borrowing or capital financing activities, and is the risk that the authority is unable to repay or replace its maturing funding arrangements on appropriate terms.
- Legal risk – ie. that one or other party to an agreement will be unable to honour its legal obligations.
- Procedures (or systems) risk – ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.
- Market risk – This is the risk of adverse market fluctuations in the value of the principal sums of tradable investments such as Government gilts.

3.2 The approved activities of the Treasury Management operation are as follows: -

- (a) Cash flow (daily balance and longer term forecasting);
- (b) Investing surplus funds in approved investments;
- (c) Borrowing to finance cash deficits;
- (d) Funding of capital payments through borrowing, capital receipts, grants or leasing;
- (e) Management of debt (including rescheduling and ensuring an even maturity profile);
- (f) Interest rate exposure management;
- (g) Dealing procedures;
- (h) Use of external managers for temporary investment of funds.

3.3 It is proposed that the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy **(Recommendation 4.1(a))**.

4 TREASURY MANAGEMENT STRATEGY FOR 2014/15

4.1 Objectives

It is estimated that the net interest and debt repayment costs for 2014/15 will amount to approximately £32.4m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2014/15 are:

(a) Borrowing

- To minimise the revenue costs of debt
- To manage the City Council's debt maturity profile to ensure that no single financial year exposes the authority to a substantial borrowing requirement when interest rates may be relatively high
- To match the City Council's debt maturity profile to the provision of funds to repay debt if this can be achieved without significant cost (see paragraph 4.11)
- To effect funding in any one year at the cheapest long term cost commensurate with future risk
- To forecast average future interest rates and borrow accordingly (i.e. short term and/or variable when rates are 'high', long term and fixed when rates are 'low').
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements
- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.

(b) Lending

- To ensure the security of lending (the maximisation of returns remains a secondary consideration) by investing in:
 - the United Kingdom Government and institutions or projects guaranteed by the United Kingdom Government;
 - Other local authorities in England, Scotland and Wales
 - Aaa rated money market funds;
 - British institutions including commercial companies that meet the City Council's investment criteria
 - Foreign institutions including commercial companies that meet the City Council's investment criteria within the jurisdiction of a AA+ government
- To maintain £10m in instant access accounts
- To make funds available to Council's subsidiaries
- To make funds available for the regeneration of Hampshire
- To optimise the return on surplus funds
- To manage the Council's investment maturity profile to ensure that no single month exposes the authority to a substantial re-investment requirement when interest rates may be relatively low to the extent that this can be managed without compromising the security of lending

4.2 Risk Appetite Statement

The Council attaches a high priority to a stable and predictable revenue cost from treasury management activities in the long term. This reflects the fact that debt servicing represents a significant cost to the Council's net revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated as follows:

To assist the achievement of the council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of long term interest cost stability. Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices. Ordinarily, the Council will not invest in share capital or property as it puts the capital sum at risk through movements in prices.

4.3 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term, debt will only be for a capital purpose, CIPFA's Prudential Code which the City Council is legally obliged to have regard to requires the City Council to ensure that debt does not, except in the short term, exceed the total of capital financing requirement. If in any year there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for the comparison with gross external debt. The Council's forecast gross debt is shown in the table below.

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Supported Borrowing	193,636	189,616	185,757	182,052	181,550
Housing Revenue Account (HRA) Self Financing (Unsupported)	82,712	79,759	76,806	73,853	70,899
Other Unsupported Borrowing	78,474	82,096	85,557	88,864	88,968
Sub Total - Borrowing	354,822	351,471	348,120	344,769	341,417
Finance leases (Unsupported)	3,775	3,027	2,279	1,658	1,007
Private Finance Initiative (PFI) Schemes (Supported)	73,221	73,596	73,371	71,694	69,367
Waste Disposal Service Concession Arrangement (Unsupported)	10,152	9,472	8,738	7,945	7,089
Sub Total Service Concession Arrangements (including PFIs)	83,373	83,068	82,109	79,639	76,456
Total Gross debt	<u>441,970</u>	<u>437,566</u>	<u>432,508</u>	<u>426,066</u>	<u>418,880</u>
Capital Financing Requirement (CFR):					
Opening CFR in 2013/14	420,208	-	-	-	-
Change in CFR in 2013/14	(3,098)	-	-	-	-
Closing CFR in 2013/14	417,110	417,110	417,110	417,110	417,110
Cumulative increase in CFR in future years	-	-	4,924	4,924	4,924
Closing CFR	<u>417,110</u>	<u>417,110</u>	<u>422,034</u>	<u>422,034</u>	<u>422,034</u>

Prior to 1 April 2004 local authorities were only permitted to borrow to the extent that the Government had granted credit approvals. When the Government granted credit approvals it also increased the Council's revenue grant to cover most of the cost of the resulting borrowing. This is known as supported borrowing and accounts for £190m (or 54%) of total borrowing.

From 1 April 2004 the Council was permitted to borrow without government support, known as unsupported borrowing. On 28 March 2012 the Council made a capital payment of £88.6m to the Government under the HRA Self Financing arrangements in order to avoid future and greater payments to the Government. This was funded by unsupported borrowing.

Revenue grants from the Government also cover most of the £74m financing element of the Milton Cross School, highways and learning disabilities facilities private finance initiative (PFI) schemes.

In essence the Government funds most of the financing costs associated with 60% of the Council's debt.

In 2011/12 the Council was required to pay the Government £88.6m under the Housing Revenue Account self financing scheme. With the expected direction of gilt yields being upwards, £84m was borrowed from the PWLB in the spring and summer of 2011 for between 20 and 50 years at rates between 4.19% and 5.01%. On 29 September the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The Council therefore took advantage of this and borrowed the £88.6m required from the PWLB at NLF rates. This has resulted in the Council's gross debt exceeding its estimated capital financing requirement by £24.9m at the end of 2013/14. The Council's gross debt is forecast to exceed its capital financing requirement by £20.5m at the end of 2014/15 and by £4.1m at the end of 2016/17. This balance will be used to fund future capital investment by the Council resulting in the Council's gross debt falling below the Council's capital financing requirement in 2017/18.

4.4 Gross and Net Debt

4.4.1 The borrowing and investment projections for the Council are as follows:

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2018/19 £'000
Gross Debt at 31 March	441,970	437,566	432,508	426,066	418,880
Investments at 31 March	(218,741)	(210,017)	(197,815)	(177,000)	(166,000)
Estimated Net Debt	223,229	227,549	234,693	249,066	252,880

4.4.2 The Council has a high level of investments relative to its gross debt due to having a high level of reserves and provisions, mainly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. In addition Councils are required to set aside a minimum revenue provision (MRP) for the repayment of debt, but it is often not economic to actually repay debt because of the premiums that would be incurred if loans are repaid early which therefore gives rise to investments pending the repayment of debt.

4.4.3 The high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. There is a short term risk that the rates at which the money can be invested will be less than the rates at which the loans were taken out. The level of investments will fall as capital expenditure is incurred, commitments under the PFI schemes are met and loans are repaid.

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2014/15

No treasury consultants are currently employed by the City Council to advise on the borrowing strategy. However, the City Council does employ Capita Asset Services to provide an economic and interest rate forecasting service and maintains daily contact with the London Money Market.

4.5.2 Long Term Borrowing Interest Rates

Most City Council borrowing in the past has been through the Public Works Loans Board (PWLB). The PWLB interest rates are determined by HM Treasury and are set by reference to the rates in the secondary market for gilts; the public sector is therefore able to benefit from Government borrowing rates. However the Government introduced a mark up between gilt rates and PWLB rates in October 2010 as part of the Comprehensive Spending review. The current mark up for councils that are eligible for the certainty rate, including Portsmouth, is 0.8%. Within a highly uncertain environment, the Bank of England must decide the stance of monetary policy. The consensus is that policymakers will pursue loose policy by keeping interest rates low. Capita's interest rate forecasts are conservative for the next three financial years and reflect limited economic growth and a prolonged, but successful management of the Euro zone crisis. Capita's view is that the economy faces strong headwinds due to the current limited growth in productivity and business investment, together with only limited opportunities to increase exports due to weaknesses in the economies of our main trading partners. Capita Asset Services' estimate that 25-year PWLB rates will be 4.4% at the start of 2014/15, rising to 4.6% by the end of 2014/15 and 5.1% in the end of 2016/17. On this basis the estimated interest rate on any new long-term loans in 2014/15 will be between 4.4% and 4.6%.

4.5.3 Short Term Investment Interest Rates

The Bank of England's base rate is currently 0.5%. Capita Asset Services do not expect the base rate to increase until the second quarter of 2016 rising to 1.25% by the first quarter of 2017.

4.6 Borrowing / Lending Requirements

Because the Council has a high level of surplus cash invested it will have an overall net lending requirement as follows:

	2014/15	2015/16	2016/17
	£000	£000	£000
Loans Minimum Revenue Provision (MRP) on existing Capital Financing Requirement (excluding credit arrangements)	(8,541)	(7,829)	(7,951)
Planned capital expenditure financed from borrowing	8,938	15,026	396
Net Cash Requirement	397	7,197	(7,555)
Plus maturing loan debt	3,351	3,351	3,351
Less maturing investments	(177,609)	(20,548)	(51,000)
Add top-up for liquidity allowance	10,000	10,000	10,000
Lending Requirement for Year	(163,861)	0	(45,204)

As part of the budget for 2014/15 it has been assumed that existing maturing debt of £3.4m in 2014/15 will not be replaced. Instead this debt will be repaid using internal funds (see paragraph 6.1(f)). It is recommended however, that the Head of Financial Services and Section 151 Officer be given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time (**Recommendation 4.1(b)**).

4.7 Volatility of Budgets

The budget for interest payments and receipts is based on both the level of cash balances available and the interest rate forecasts contained in paragraph 4.5. Any deviation of interest rates from these forecasts will give rise to budget variances.

The Council is exposed to interest rate fluctuations through the need to invest up to £204m of surplus cash per annum in the medium term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council's investments will be £819k below budget in 2014/15. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council's investments will exceed the budget by £819k in 2014/15.

4.8 Upper limits for fixed interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures.

The City Council's maximum fixed interest rate exposure throughout each year is anticipated to be as follows:

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Maximum Projected Gross Borrowing – Fixed Rate	401	398	394	391
Minimum Projected Gross Investments – Fixed Rate	(39)	(66)	(51)	-

It is recommended that the upper limits for fixed interest rate exposures be set as follows (**Recommendation 4.1(c)**):

2013/14	£362m
2014/15	£332m
2015/16	£343m
2016/17	£391m

The recommended upper limits for fixed interest rate exposure are set to provide sufficient flexibility for the Head of Financial Services and Section 151 Officer to take out fixed rate loans to finance capital expenditure if interest rates fall or are expected to rise significantly.

4.9 Upper limits for variable interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for variable interest rate exposures.

The City Council's maximum variable interest rate exposure throughout each year is anticipated to be as follows:

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(189)	(196)	(202)	(223)

The Council's variable interest rate exposure is negative because it has no variable rate loans and a high proportion of its investments are either variable rate or will need to be reinvested within a year. The Council's requirement for cash varies considerably through the year. Therefore the Council needs to invest a proportion of its surplus cash either in instant access accounts or short term investments to avoid becoming overdrawn. The Council is exposed to an interest rate risk in that its investment income will fall if interest rates fall, whilst its borrowing costs will remain the same as all its loans are fixed at rates that will not fall with investment rates. Investment rates are currently very low and the scope for further reductions is very limited. The Council could mitigate this risk through making long term investments. However, this will increase credit risk. It would also be prudent to maintain an even maturity profile so that the Council can benefit from rising interest rates in the future.

It is recommended that the upper limits for variable interest rate exposures be set as follows (**Recommendation 4.1(d)**):

2013/14	(£189m) – Investments up to £189m
2014/15	(£196m) – Investments up to £196m
2015/16	(£202m) – Investments up to £202m
2016/17	(£223m) – Investments up to £223m

4.10 Limits on total principal sums invested for periods longer than 364 days

Under the Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. investments exceeding 364 days that have maturities beyond year end.

Appendix B shows the City Council's core cash which could be invested long term, ie. in excess of 364 days. Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1.25% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. Cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. It is recommended that the limits on sums invested for periods longer than 364 days be set on the basis of the forecast core cash (see Appendix B) after allowing a safety margin for forecasting error so that there is flexibility to take advantage of the yield. It is recommended that the following limits be placed on total principal sums invested for periods longer than 364 days to (**Recommendation 4.1(e)**):

31/3/2014	= £179m
31/3/2015	= £170m
31/3/2016	= £158m
31/3/2017	= £124m

4.11 Limits for the maturity structure of borrowing

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council's debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in Appendix C. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.12).

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing.

It is recommended that the upper limit should be set high enough to allow for debt to be rescheduled into earlier years and for any new borrowing to mature over a shorter period than that taken out in the past. The high upper limit for debt maturing in over 40 years time reflects existing borrowing as the upper limit cannot be set lower than the existing maturity profile and is also necessary because no provision is being made for the repayment of debt incurred by the Housing Revenue Account apart from the Self Financing payment.

It is recommended that the lower limit be set at 0%.

4.11 Limits for the maturity structure of borrowing (Continued)

In order to ensure a reasonably even maturity profile (paragraph 4.1(a)), it is recommended that the council set upper and lower limits for the maturity structure of its borrowings as follows (**Recommendation 4.1(f)**).

Amount of fixed rate borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Loan Debt Maturity	Loans Minimum Revenue Provision (MRP)	% Over / Under Loans MRP	Upper limit	Lower limit
Under 12 months	4%	4%	0%	20%	0%
12 months and within 24 months	1%	4%	-3%	20%	0%
24 months and within 5 years	3%	12%	-9%	30%	0%
5 years and within 10 years	5%	18%	-13%	30%	0%
10 years and within 20 years	9%	26%	-17%	40%	0%
20 years and within 30 years	13%	17%	-4%	40%	0%
30 years and within 40 years	16%	12%	4%	60%	0%
40 years and within 50 years	49%	7%	42%	70%	0%

The current maturity pattern contained in Appendix C is well within these limits.

4.12 Debt Rescheduling

4.12.1 At the present time, all the City Council's long term external debt has been borrowed at fixed interest rates ranging from 3.48% to 5.01%. 49% of the Council's debt matures in over 40 years' time. Appendix C shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.12.2 In the event that it was decided to further reschedule debt, account will need to be taken of premium payments to the PWLB. These are payments to compensate the PWLB for any losses that they may incur.

4.12.3 The HRA will be responsible for its proportion of the premium due for early redemption of debt, based on the percentage of debt attributable to the HRA at the start of the financial year. The premiums would be charged to the General Fund and the HRA. Regulations allow the City Council to spread the cost of the premiums over a number of years, during which the accounts would benefit from reduced external interest rates.

4.12.4 The Head of Financial Services and Section 151 Officer will continue to monitor the Council's debt and will undertake further rescheduling if it would be beneficial.

4.12.5 It is recommended that authority to reschedule debt during the year be delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council (**Recommendation 4.1(g)**).

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The following list specifies the various types of borrowing instruments which are available: -

	Variable	Fixed
PWLB	Y	Y
Market Long-term	Y	Y
Market Temporary	Y	Y
Overdraft	Y	
Negotiable Bonds	Y	
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	Y
Medium Term Notes	Y	Y
Leasing	Y	Y
Bills & Local Bonds	Y	Y

- 5.2 The main methods of raising capital finance used by the City Council are discussed in greater detail within Section 6 of this report. Other methods are not generally used because of the perceived risk or because administrative costs are high, such as in the case of Local Bonds.
- 5.3 Local authorities are not required to conform to the Money Laundering Regulations stipulated in the Financial Services Acts. However, these principles where practical will be applied when arranging future money market borrowing to ensure that funds are not obtained from potentially unscrupulous sources.

6 APPROVED SOURCES OF BORROWING

- 6.1 Further information on some of the main borrowing instruments used by the City Council is set out below: -

(a) Public Works Loans Board (PWLB)

The main source of longer term borrowing for the City Council for many years has been from the Government through the Public Works Loans Board. The PWLB offers fixed rate loans from 1 year to 50 years at varying rates with different methods of repayment.

Alternatively the PWLB offers variable rate loans for 1 to 10 years, where the interest rate varies at 1, 3 or 6 month intervals. These loans can be replaced by fixed rate loans before maturity at an opportune time to the authority.

(b) Money Market Loans – Long Term

Loans for 1 to 70 years are available through the London Money Market although, depending of the type of loan being arranged, the rates of interest offered may not match those available from the PWLB, especially for Equal Instalment of Principal loans (E.I.P. loans). Any loans to be taken are evaluated to ensure that the interest rate is the lowest the City Council could obtain.

Loans offered by the money market are often LOBO (Lenders Option, Borrowers Option) loans. This enables the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force. At the time when the interest rate becomes variable, the lender has the option to increase the rate charged every 6 months (or any other agreed review period). The borrower has the option to repay the loan with no penalties if the interest rate is increased on any of the review dates.

(c) Bonds

Bonds may be suitable for raising sums in excess of around £150m. The interest payable on bonds may be less than that charged by the PWLB, but considerable upfront fees would be incurred. To obtain the best interest rate, the Council would need to obtain a credit rating which would need to be maintained. This would incur a further upfront fee and an annual maintenance fee.

Because such a large amount needs to be borrowed to attract investors and also to reduce the upfront fees and negate the need for an individual credit rating a pooled issuance with other local authorities may be more viable.

(d) Money Market Loans – Temporary (Loans up to 364 days)

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2014/15 of £511m set by the City Council on 12 November 2013 must not be exceeded. It is anticipated that the City Council will not need to use the temporary borrowing facility in 2014/15.

(e) Overdraft

An overdraft limit of £2m has been agreed with the Co-operative Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2014/15 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(f) Internal Funds

Internal funds include all revenue reserves and other specific reserves maintained by the City Council, including the minimum revenue provision which is available to either repay debt or to be used instead of new borrowing. The cash held in internal funds such as earmarked reserves can be borrowed in the short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally.

- 6.2 It is recommended that no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council (**Recommendation 4.1(h)**).

7. APPORTIONMENT OF BORROWING COSTS TO THE HOUSING REVENUE ACCOUNT (HRA)

- 7.1 The Localism Act 2011 requires local authorities to allocate existing and future borrowing costs between council housing (the HRA) and the General Fund. It is for local authorities to choose an allocation method that achieves the principles detailed in their treasury management strategies.
- 7.2 As previously stated, the Council took advantage of the NLF rates and borrowed £88.6m and subsequently applied the borrowing to fund the HRA Self Financing “buy out”. The Council then switched the original PWLB borrowing of £84m taken earlier in the year and applied that to fund existing and future General Fund capital expenditure.
- 7.3 The approved Treasury Management Strategy for 2012/13 provided for a single loans pool to be maintained for both HRA and General Fund. This reflects the previous co-operation between the General Fund and the HRA and provides for the loans portfolio to be managed in the best interests of the whole authority. If the HRA had its own loans pool, having already borrowed £84m at an average rate of 4.51% to fund the Self Financing payment, it would not have been able to borrow much at the NLF rates that were subsequently offered. A single loans pool means that the HRA gets more of the long term benefits of the 3.49% NLF rate loans than it could have done on its own. Although a single loans pool does not allow the HRA to directly benefit from the NLF rate loans, it is felt that a single loans pool is broadly equitable between the HRA and the General Fund in the Council's circumstances.
- 7.4 It is proposed to continue to operate with a single loans pool and apportion costs according to locally established principles. It is recommended that the principles upon which the apportionment of borrowing costs should be based are as follows (**recommendation 4.1(i)**):
- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
 - The loans portfolio is managed in the best interests of the whole authority;
 - The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA.

- 7.5 For the purpose of apportioning borrowing costs it will be assumed that the HRA is under or over financed in the same proportion as the Council as a whole. The HRA will be charged interest at the Council's average cost of borrowing adjusted to take account of any under or over financing which will be charged at the average return on the Council's investments.

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

- 8.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to make "prudent provision" for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make "prudent provision" for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of "prudent provision" which the Council is legally obliged to "have regard" to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.
- 8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 9, 10, 11, 12 and 13 below.

9 GOVERNMENT- SUPPORTED BORROWING OTHER THAN FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

- 9.1 The Government has supported some local authority borrowing through the Formula Grant. Provision may be made for the repayment of existing and new government supported borrowing through the Capital Financing Requirement Method or the Regulatory Method.
- 9.2 For debt that is supported by Formula Grant, authorities are able to make revenue provision for the repayment by setting aside 4% of their Adjusted Non-Housing Capital Financing Requirement (CFR). The CFR represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The CFR is adjusted so that it excludes self-financed debt incurred after 1 April 2008. This is known as the CFR Method.

9.3 Alternatively, for debt that is supported by Formula Grant, authorities are able to continue to use the formulae in the previous regulations, since Formula Grant is calculated on that basis. This is known as the Regulatory Method. This method is also based on the CFR but is adjusted by the effect of the previous regulations. This method is more complex than the CFR method. However it is estimated that the MRP under this method will be £320k less per annum than under the CFR method. It is therefore recommended that the Regulatory Method of calculating MRP be applied to pre 1 April 2008 debt and new government supported debt (**Recommendation 4.1(j)**). This is the same method as that adopted for 2013/14.

10. SELF- FINANCED BORROWING OTHER THAN FINANCE LEASES, SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES, AND BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

10.1 For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, there are three options offered by the guidance, the Asset Life (Equal Instalment) Method, the Asset Life (Annuity) Method and the Depreciation Method. The guidance suggests that the Asset Life (Annuity) Method is only appropriate for projects where income or savings will increase over time. Both the Asset Life (Equal Instalment) Method and the Depreciation Method should result in a similar MRP. Of these two methods the Asset Life method is the simplest to calculate and therefore it is recommended that this method be used and that MRP begin to be made in the year after the asset is completed (**Recommendation 4.1(k)**). This is the same method as that adopted for 2013/14.

11 FINANCE LEASES AND ON BALANCE SHEET SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

11.1 The move to International Financial Reporting Standards has involved arrangements under the Private Finance Initiative (PFI) and service concessions coming onto the balance sheet. A part of the service charge or rent payable will be taken to reduce the balance sheet liability rather than being charged to the service revenue account. This accounting treatment is similar to that for finance leases. Under these leases the risks and rewards of asset ownership rest with the City Council and the assets are shown on the City Council's balance sheet. These leases are therefore in effect a form of borrowing. Statutory guidance allows, in the case of finance leases and on balance sheet service concessions including PFI contracts, the MRP requirement to be regarded as met by a charge equal to the element of the rent / charge that goes to write down the balance sheet liability. It is recommended that this methodology be used to calculate the MRP on finance leases and service concessions including PFI arrangements (**Recommendation 4.1(l)**).

12 SELF FINANCED BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

- 12.1 The income received from long term debtors has an interest and a principal element. The interest element is credited to the revenue account. The principal part of the income receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets with effect from 2013/14 (**recommendation 4.1(m)**). This is a departure from the MRP calculation for 2012/13 when the MRP on this borrowing was calculated using the Asset Life (Equal Instalment) method.
- 12.2 Under finance leases the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset value on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt which can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets (**recommendation 4.1(n)**). This is in line with the MRP policy adopted in 2012/13 for finance leases funded by unsupported borrowing.

13 HOUSING REVENUE ACCOUNT (HRA) BORROWING

- 13.1 There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self financing payment to the Government of £88.619m. It is recommended that the HRA provide for the repayment of this debt over 30 years in line with the HRA Business Plan (**recommendation 4.1(o)**). The HRA will continue its practice of not providing for the repayment of its other debts.

14 ANNUAL INVESTMENT STRATEGY

- 14.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 15, to 21 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice.
- 14.2 During the year the Council may be asked to approve a revised strategy if there are investment issues which the full Council might wish to have brought to their attention.

- 14.3 The guidance defines a prudent policy as having two objectives:
- achieving first of all security (protecting the capital sum from loss);
 - liquidity (keeping the money readily available for expenditure when needed).

Only when proper levels of security and liquidity have been secured should yield be taken into account.

- 14.4 Investment strategies usually rely on credit ratings and both the current and recommended Investment Strategies are based on credit ratings. Although the recommended Investment Strategy is based on credit ratings other sources of information will be taken into account prior to placing deposits such as information in the quality financial press and credit default swaps (CDS) prices.

- 14.5 CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay an agreed amount to the buyer of the credit default swap. Absolute prices can be unreliable; however trends in CDS spreads do give an indicator of relative confidence about credit risk.

15. INVESTMENT CONSULTANTS

- 15.1 The City Council currently employs consultants to provide the following information:

- Interest rate forecasts
- Credit ratings
- CDS prices

- 15.2 The City Council does not employ consultants to provide strategic advice.

16. SPECIFIED INVESTMENTS

- 16.1 The Government requires the Council to identify investments offering high security and high liquidity. These are known as specified investments. Specified investments will be made with the minimum of procedural formalities. They must be made in sterling with a maturity of no more than one year and must not involve the acquisition of share capital in any corporate body.

16.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. The credit ratings provided are as follows:

- Short Term Rating (measures an institution's suitability for short term investment)
- Long Term Rating (measures an institution's suitability for long term investment). These ratings are explained in Appendix D.
- Viability / Financial Strength Rating (where available measures the likelihood that an organisation will require assistance from third parties such as its owners or official institutions)
- Support Rating (where available measures a potential supporter's (either a sovereign state's or an individual owner's) propensity to support a bank and its ability to support it)

16.3 The grades of short and long term credit rating are as follows with the best credit ratings at the top. The credit ratings that meet the City Council's investment criteria for specified investments are shaded.

Fitch		Moody's		Standard & Poor's	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
F1+	AAA	P-1	Aaa	A-1+	AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
F1	A+		A1	A-1	A+
	A	P-2	A2		A
	A-		A3	A-2	A-
F2	BBB+	P-3	Baa1	A3	BBB+
	BBB		Baa2		BBB
F3	BBB-		Baa3		BBB-

Support ratings are graded 1 to 5, with 1 being the highest rating.

16.4 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies except registered social landlords for which a single credit rating will be required (**Recommendation 4.1p**). Registered social landlords (RSLs) are regulated by the Government and their debts can be secured on their housing stock. However, most RSLs are only rated by a single agency.

- 16.5 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. Sovereign credit ratings give an indication of a government's capacity to support its financial institutions. Sovereign credit ratings are also dependent on a government's ability to raise taxes and thus also give an indication of the state of a nation's general economy. It is recommended that investments should only be placed with institutions based in either the United Kingdom or states with an AA+ credit rating (**Recommendation 4.1q**).
- 16.6 When an institution or state has differing ratings from different agencies, the lowest rating will be used to assess its suitability. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.
- 16.7 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies, RSLs and corporate bonds that meet the Council's investment criteria. Corporate bonds are tradable loan instruments issued by commercial companies. Credit ratings measure the risk of default, ie. the risk of not receiving principal and interest when it is due, across these institutions in a way that allows them to be compared. However, other measures of credit risk such as CDS prices are not available for all institutions including most building societies, RSLs and commercial companies, and the risk of permanent loss following a default also varies according to the nature of the institution.
- 16.8 There are over 30 registered social landlords (RSLs) with a single or double A credit rating. RSLs are subject to Government regulation but their debts are not guaranteed by the Government. As RSLs own houses, lending to RSLs can be secured by a charge against the RSLs properties.
- 16.9 The risk of loss following a default is much smaller for building societies. The mutual ownership of building societies means that in the unlikely event of a building society failing, wholesale depositors such as the Council would almost certainly receive back the full amount of their investment with any losses falling on the society's reserves and members deposits first. Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding.
- 16.10 Corporate bonds are likely to carry a higher risk of loss following default than banks as commercial companies may be of less systemic importance than banks and are less likely to be bailed out by their governments.

16.11 It is proposed to divide the approved counter parties for specified investments into nine categories as follows:

	Recommended Maximum Investment in a Single Organisation
<u>Category 1</u> United Kingdom Government including the Debt Management Office Deposit Facility	Unlimited investments for up to 5 years
<u>Category 2</u> Local authorities in England, Scotland and Wales	£26m for up to 5 years
<u>Category 3</u> RSLs with a single long term credit rating of Aa-	£26m for up to 5 years or 10 years if secured
<u>Category 4</u> Banks with a short term credit rating of F1+ and a long term rating of Aa-. Aaa rated money market funds	£26m for up to 5 years
<u>Category 5</u> RSLs with a single A long term credit rating of A-	£20m for up to 5 years or 10 years if secured
<u>Category 6</u> Banks with a short term credit rating of F1 and a long term rating of A+. Building societies with a short term credit rating of F1 and a long term rating of A. Corporate bonds with a long term credit rating of Aa-	£19m for up to 5 years for banks and building societies. £19m for up to 4 years for corporate bonds.
<u>Category 7</u> Banks with a short term credit rating of F1 and a long term rating of A. Building societies with a short term credit rating of F1 and a long term rating of A-. Corporate bonds with a long term credit rating of A+	£13m for up to 5 years for banks and building societies. £13m for up to 4 years for corporate bonds.
<u>Category 8</u> Banks with a short term credit rating of F1 and a long term rating of A-. Corporate bonds with a long term credit rating of A	£10m for up to 5 years for banks. £10m for up to 4 years for corporate bonds.
<u>Category 9</u> Corporate bonds with a long term credit rating of A-	£6m for up to 4 years

- 16.12 It is proposed that the bodies meeting the criteria of categories 1 to 9 in paragraph 16.11 be approved as repositories of specified investments of the City Council's surplus funds **(Recommendation 4.1(r))**. A list of financial institutions currently meeting the Council's investment criteria is contained in Appendix E. There are too many RSLs and companies issuing corporate bonds to include in the list.
- 16.13 It is recommended that the credit ratings be reviewed monthly and that any institution whose lowest credit rating falls below the criteria for category 9 in paragraph 16.11 be removed from the list of specified investments **(Recommendation 4.1(s))**.
- 16.14 It is recommended that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category **(Recommendation 4.1(t))**.

17. NON-SPECIFIED INVESTMENTS

- 17.1 The Government's Guidance requires that other less secure types of investment be identified and that a limit be set on the overall amount that may be held in such investments at any time in the year. Non-specified investments are investments that are not secure, ie. do not have an "A" credit rating or are not liquid, ie. have a maturity in excess of 364 days. Investments that are not denominated in sterling would also be non-specified investments due to exchange rate risks.
- 17.2 45% of the Council's investments are currently placed with local authorities due to the absence of a sufficient number of counter parties. Whilst other local authorities offer security, they only offer a modest return. It is estimated that the average amount of cash invested in 2014/15 will be £237m. In order to reduce the risks associated with placing funds with a relatively small number of counter parties and to improve returns it is recommended that further categories be established for non-specified investments that do not meet the criteria for specified investments.
- 17.3 It is also recommended that a further category of non-specified investments be established for community interest companies that do not meet the criteria for specified investments in order to contribute to the lending objective of making funds available for the regeneration of Hampshire (paragraph 4.1 (b)).

Category 10 - £10m for 364 days

Short Term – F2 (or equivalent from Moody's and Standard & Poor)

Long Term – BBB or better (or equivalent from Moody's and Standard and Poor)

Viability / BFSR – bbb / C-

Support – 5

Category 10 will consist of rated building societies that meet the above criteria.

The building societies included in category 10 do not have sufficient systemic importance to make a Government rescue likely if they get into financial difficulties. However building societies do not typically have exposure to the Euro zone or riskier investment banking activities. In addition there is an established tradition of intra sector support and when building societies have got into financial difficulties they have always been taken over by another building society.

Category 11 - £6m for 364 days

Many smaller building societies that have been more conservative in their lending approach do not have credit ratings. An analysis of building society accounts suggests that many of those without credit ratings are in a better financial position than some of the larger ones who do hold credit ratings.

The limits on some building societies are less than £6m to take account of their small size in terms of assets.

Building Society	Limit
Nottingham	£6.0m
Progressive	£6.0m
Cambridge	£5.0m
Furness	£4.0m
Leek United	£3.8m
Monmouthshire	£3.7m
Newbury	£3.4m
Hinkley & Rugby	£2.9m
Darlington	£2.6m
Market Harborough	£2.1m
Melton Mowbray	£1.9m
Tipton and Crossley	£1.8m
Marsden	£1.7m
Hanley Economic	£1.6m
Scottish	£1.7m
Dudley	£1.6m
Loughborough	£1.4m
Mansfield	£1.4m
Vernon	£1.2m
Harpenden	£1.1m
Buckinghamshire	£1.1m
Harpenden	£1.1m
Swansea	£1.0m

Category 12 - £5m for unlimited periods

Category 12 will consist of callable preference shares in Hampshire Community Bank (HCB) which is a community interest company that will provide a new source of development capital to local businesses and will be committed to local job creation and growth.

Although HCB does not have a credit rating, it will be modelled on the German Sparkassen (local not for profit savings banks) and Volksbanken (Peoples Banks) which have successfully traded for 200 years. No Sparkasse or Volksbank in Germany has ever defaulted or needed a state rescue.

Investors in HCB will receive a stand-by credit line facility of up to 7 times their investment, to ensure investors have no liquidity disadvantages from their investment. Should the Council need to withdraw its money, HCB will also arrange a private sale of preference shares to another interested party.

The shares should receive a dividend of 5.0% per annum from years 3 to 10 and a one-off 10-year bonus that will lift the annual equivalent return to 6% over the first 10 year period. HCB has undertaken not to call the preference shares before the end of the first 10-year period. The preference shares will rank senior to any other class of shares, giving priority as regards participation in the bank's profits and on a return of capital. However, dividends on the preference shares may be paid only to the extent that the payment can be made out of the bank's distributable profits. A payment will not be paid on the preference shares if payment of the dividend would cause a breach of the applicable capital adequacy requirements of the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA). If HCB makes losses, HCB's shareholders could be expected to bear losses before depositors, and the Council may not be able to recoup its investment.

- 17.4 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd in two ways. Firstly the Council has £550k lodged with Lloyds TSB to guarantee MMD's banking limits.
- 17.5 The Annual Investment Strategy provides for the Council to lend to the United Kingdom Government and local authorities in England, Scotland and Wales, A rated financial institutions and RSLs for five years (10 years if the loan is secured on an RSLs assets), and A rated corporate bonds for four years. However as these investments would be over a year they cannot be included as specified investments.
- 17.6 The Council sometimes enters into contracts denominated in foreign currencies. Such contracts normally relate to civil engineering schemes at the port. It can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.

17.7 It is recommended that non-specified investments should be limited to the following (**Recommendation 4.1 (u)**):

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	170m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Community investment companies without a credit rating	5m
Total	263m

18. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

- 18.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, it is proposed that the total amount that can be directly invested with any organisation at any time should be limited as follows (**Recommendation 4.1(v)**):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£26m for up to 5 years
Category 3	£26m for up to 5 years or 10 years if secured
Category 4	£26m for up to 5 years
Category 5	£20m for up to 5 years or 10 years if secured
Category 6	£19m for up to 5 years for banks and building societies. £19m for up to 4 years for corporate bonds
Category 7	£13m for up to 5 years for banks and building societies. £13m for up to 4 years for corporate bonds
Category 8	£10m for up to 5 years for banks and building societies. £10m for up to 4 years for corporate bonds
Category 9	£6m for up to 4 years
Category 10	£10m for up to 364 days
Category 11	£6m for up to 364 days
Category 12	£5m for an unlimited period
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

- 18.2 It is recommended that the Head of Financial Services and Section 151 Officer in Consultation with the Leader of the Council be given delegated authority to revise the total amount that can be directly invested with any organisation at any time **(Recommendation 4.1(w))**.
- 18.3 AAA money market funds offer security and same day access. By aggregating investments they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. The Council will only invest in money market funds that are managed by major banks with considerable investment expertise. Although AAA money market funds are well diversified in their investments there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore it is proposed that the Council should aim to have no more than £70m invested in money market funds with an absolute limit of £80m.
- 18.4 Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.
- 18.5 In order to minimise systemic credit risk in any sector it is recommended that the following limits be applied **(Recommendation 4.1(x))**:

Money market funds	£80m
Building societies	£107m
Registered Social Landlords	£80m

- 18.6 In order to minimise systemic credit risk in any region it is recommended that the following limits be applied **(Recommendation 4.1(y))**:

Asia & Australia	£40m
Americas	£40m
Continental Europe	£40m

18.7 The limits above only apply to direct investments. The City Council's exposure to any institution, sector or region may exceed the limits stated above through indirect investments via money market funds. Money market funds employ specialist staff to assess counter party risks and all investments made by money market funds are short-term.

19. LIQUIDITY OF INVESTMENTS

19.1 The City Council maintains a three year cash flow forecast which is updated daily (See Appendix B). This forecast is used to determine the maximum period for which funds may be prudently committed. ie. the City Council's core cash. This forecast has been used to set the limits on total principal sums invested for periods longer than 364 days (see paragraph 4.10). The City Council maintains at least £10m invested on an instant access basis to ensure that unforeseen cash flows can be financed.

20. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

20.1 Section 12 of the Local Government Act gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

20.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate.

20.3 In 2011/12 the Council was required to pay the Government £88.6m under the Housing Revenue Account self financing scheme. With the expected direction of gilt yields being upwards, £84m was borrowed from the PWLB in the spring and summer of 2011 for between 20 and 50 years at rates between 4.19% and 5.01%. On 29 September the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offered to local authorities. The Council therefore took advantage of this and borrowed the £88.6m required from the PWLB at NLF rates. This has resulted in the Council's gross debt exceeding its estimated capital financing requirement by £24.9m at the end of 2013/14. The Council's gross debt is forecast to exceed its capital financing requirement (calculated in accordance with the prudential indicator of gross debt and the capital financing requirement) by £20.5m at the end of 2014/15. The Council's gross debt is forecast to exceed its capital financing requirement (calculated in accordance with the prudential indicator of gross debt and the capital financing requirement) by £4.1m at the end of 2016/17. This balance will be used to fund future capital investment by the Council and the Council's gross debt is forecast to fall below the Council's capital financing requirement (calculated in accordance with the prudential indicator of gross debt and the capital financing requirement) in 2017/18.

21. TRAINING OF INVESTMENT STAFF

21.1 The Finance Manager (Technical & Financial Planning) manages the treasury function with assistance from the Senior Financial Planning Accountant. Both these officers are qualified Chartered Public Finance Accountants and hold the Association of Corporate Treasurers Certificate in International Treasury Management. The City Council is also a member of CIPFA's Treasury Management Forum which provides training events throughout the year. Additional training for investment staff is provided as required.

22. DELEGATED POWERS

22.1 Once the Treasury Policy has been approved, the Head of Financial Services and Section 151 Officer has delegated powers under the Standing Orders of the City Council, to make all executive decisions on borrowing, investments or financing.

23. TREASURY SYSTEMS AND DOCUMENTATION

23.1 Once the Policy Statement has been approved by the Council, the documentation of the Treasury Systems will be updated so that all employees involved in Treasury Management are clear on the procedures to be followed and the limits applied to their particular activities.

23.2 The Treasury Management Practices document covers the following topics: -

- risk management
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

24. REVIEW AND REPORTING ARRANGEMENTS

24.1 The Head of Financial Services and Section 151 Officer will submit the following:-

- (i) an annual report on the treasury management outturn to the Council by 30 September of the succeeding financial year
- (ii) a mid year review to the Council
- (iii) the Annual Strategy Report to the Council in March 2015
- (iv) quarterly treasury management monitoring reports to the Governance and Audit and Standards Committee

PRUDENTIAL INDICATORS

Capital Expenditure							
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Children & Education	7,640	13,937	9,422	-	-	-	-
Culture & Leisure	985	2,390	4,343	775	-	-	-
Environment & Community Safety	254	997	13,192	12,340	22,340	14,000	200
Health & Social Care (Adults Services)	438	1,963	3,775	2,868	165	-	-
Planning, Regeneration & Economic Development	381	1,703	23,214	22,545	29,962	50,293	2,810
Commercial Port	4,780	1,777	3,956	-	-	-	-
Resources	5,256	5,083	5,087	2,066	250	-	-
Traffic & transportation	14,869	35,675	13,991	12,225	2,689	2,449	3,435
Millennium	344	23	-	-	-	-	-
Licensing Committee	-	-	-	-	-	-	-
Housing General Fund	1,836	3,900	13,200	4,706	3,064	2,914	2,968
Non HRA	36,783	67,402	90,180	57,525	58,470	69,656	9,413
HRA	18,559	34,723	34,510	26,763	26,367	29,787	29,787
Total	55,342	102,125	124,690	84,288	84,837	99,443	39,200

Ratio of financing costs to net revenue stream							
	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non - HRA	12.0%	12.3%	13.4%	13.4%	13.6%	12.4%	10.8%
HRA	14.1%	12.4%	12.4%	11.7%	11.3%	10.8%	10.3%

Capital Financing Requirement							
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Non - HRA	278,198	271,272	247,846	249,625	238,176	239,685	231,285
HRA	142,010	145,205	166,785	168,638	168,082	165,128	162,174

HRA Limit on indebtedness							
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
HRA	181,701	181,701	181,701	181,701	181,701	181,701	181,701

Authorised Limit for External debt							
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Borrowing	379,615	426,372	424,511	418,932	417,799	415,278	408,566
Other Long Term Liabilities (ie Credit Arrangements)	88,720	87,148	86,095	84,389	81,297	77,463	77,463
Total	468,335	513,521	510,607	503,321	499,096	492,741	486,029

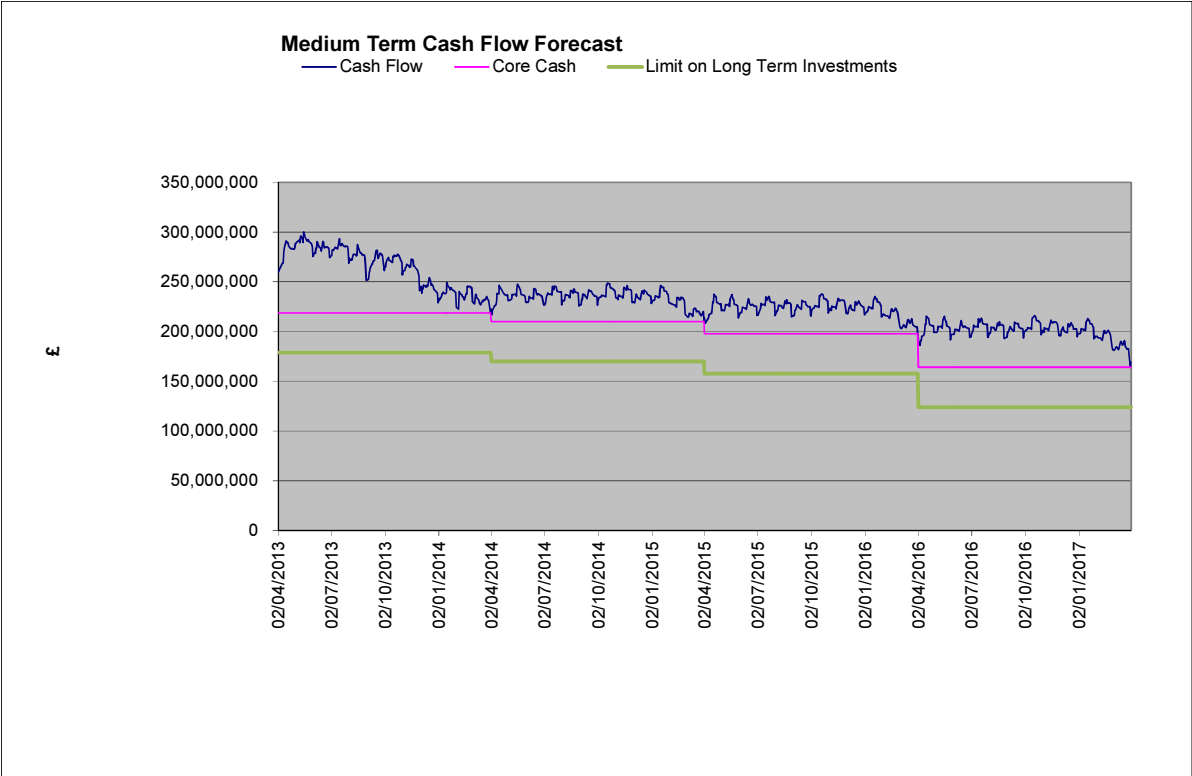
Operational boundary for external debt							
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Borrowing	358,173	361,501	359,203	353,178	351,211	348,602	341,417
Other Long Term Liabilities (ie Credit Arrangements)	88,720	87,148	86,095	84,389	81,297	77,463	77,463
Total	446,893	448,649	445,298	437,566	432,508	426,065	418,880

Incremental impact of capital investment decisions on the council tax *						
	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	
Revenue effect of existing capital programme	402	789	1,209	1,298	1,431	
Revenue effect of proposed capital programme	482	904	1,322	1,406	1,538	
Increase in revenue effect	80	114	112	108	107	
Increase in Council Tax Band D	£1.59	£2.26	£2.22	£2.14	£2.12	

Incremental impact of capital investment decisions on the housing rents					
	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Revenue effect of existing capital programme	32,744	25,491	25,674	29,285	31,010
Revenue effect of proposed capital programme	38,575	23,955	25,419	28,515	28,391
Increase in revenue effect	5,831	(1,536)	(255)	(770)	(2,619)
Effect on average weekly rent	£7.40	(£1.94)	(£0.32)	(£0.98)	(£3.33)

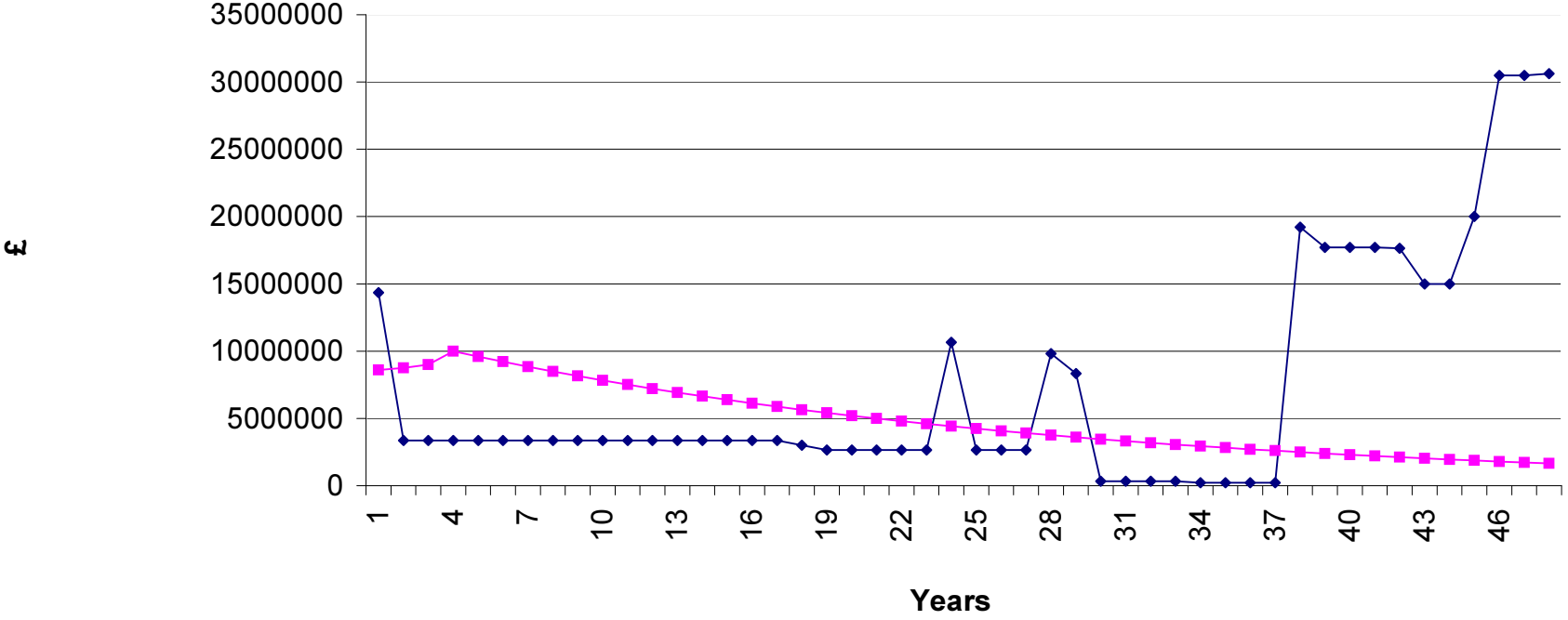
* The incremental impact of capital investment decisions on the Council Tax has been calculated on the basis of the estimated tax base contained in the original revenue

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Principal Repayment of Debt



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DEFINITIONS OF LONG TERM CREDIT RATINGS

Credit ratings are issued by three main credit rating agencies, Fitch, Moody's and Standard & Poor. All three agencies use broadly the same scale. Fitch defines its long term ratings as follows:

AAA: Highest credit quality

"AAA" ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality

"AA" ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High Credit Quality

"A" ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than in the case of the higher ratings.

BBB: Good credit quality

"BBB" ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

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INVESTMENT COUNTER PARTY LIST

APPENDIX E

Category	Counter Party	Minimum Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
1	United Kingdom Government including investments explicitly guaranteed by the UK Government	AA+		Unlimited	5 years
2	All local authorities in England, Scotland & wales	n/a		26,000,000	5 years
3	Registered Social Landlords (RSLs)	AA-		26,000,000	5 years or 10 years if secured
4	Australia & New Zealand Banking Group	AA-		26,000,000	5 years
4	Commonwealth Bank of Australia	AA-		26,000,000	5 years
4	National Australia Bank	AA-		26,000,000	5 years
4	Westpac Banking Corporation	AA-		26,000,000	5 years
4	Royal Bank of Canada	AA-		26,000,000	5 years
4	Toronto Dominion Bank	AA-		26,000,000	5 years
4	DBS Bank	AA-		26,000,000	5 years
4	Overseas Chinese Banking Corp	AA-		26,000,000	5 years
4	United Overseas Bank	AA-		26,000,000	5 years
4	Bank of New York Mellon	AA-		26,000,000	5 years
4	Wells Fargo Bank NA	AA-		26,000,000	5 years
4	Nordic Investment Bank	AAA		26,000,000	5 years
4	Inter-American Development Bank	AAA		26,000,000	5 years
4	IBRD (World Bank)	AAA		26,000,000	5 years
4	Council of Europe Development Bank	AA+		26,000,000	5 years
4	European Bank for Reconstruction & Development	AAA		26,000,000	5 years
4	European Investment Bank	AA-		26,000,000	5 years
4	Global Treasury Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Short Term Investment Company (Global Series) Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Goldman Sachs Sterling Liquidity Reserve	AAA	Money Market Fund	26,000,000	Instant Access
4	Scottish Widows Investment Partnership Global Liquidity Sterling Fund	AAA	Money Market Fund	26,000,000	Instant Access
4	BNY Mellon Sterling Liquidity Fund	AAA	Money Market Fund	26,000,000	Instant Access
4	Citibank	AAA	Money Market Fund	26,000,000	Instant Access
4	Deutsche Global Liquidity Series Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Standard Life Sterling Liquidity Fund	AAA	Money Market Fund	26,000,000	Instant Access
5	Registered Social Landlords (RSLs)	A-		20,000,000	5 years or 10 years if secured
6	Standard Chartered Bank	A+		19,000,000	5 years
6	HSBC Bank plc	A+		19,000,000	5 years
6	Rabobank Nederland NV	A+		19,000,000	5 years
6	Bank of Montreal	A+		19,000,000	5 years
6	Bank of Nova Scotia	A+		19,000,000	5 years
6	Canadian Imperial Bank of Commerce	A+		19,000,000	5 years
6	Pohjola Bank Plc	A+		19,000,000	5 years
6	Nordia Bank AB	A+		19,000,000	5 years
6	Svenska Handelsbanken	A+		19,000,000	5 years
6	Swedbank AB	A+		19,000,000	5 years
6	JP Morgan Chase Bank NA	A+		19,000,000	5 years
6	DNB Bank	A+		19,000,000	5 years

Category	Counter Party	Minimum Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
7	Nationwide Building Society	A-		13,000,000	5 years
7	Skandinaviska Enskilda Banken (SEB)	A		13,000,000	5 years
7	Credit Suisse	A		13,000,000	5 years
7	UBS AG	A		13,000,000	5 years
7	National Bank of Canada	A		13,000,000	5 years
7	Coventry Building Society	A-		13,000,000	5 years
8	Lloyds TSB Bank plc	A-		10,000,000	5 years
8	Deutsche Bank AG	A-		10,000,000	5 years
8	ABN Amro Bank NV	A-		10,000,000	5 years
8	ING Bank NV	A-		10,000,000	5 years
8	Barclays Bank Plc	A-		10,000,000	5 years
9	Restricted to corporate bonds	A-		6,000,000	4 years
10	Leeds Building Society	A-	Short term rating F2	10,000,000	364 days
10	Yorkshire Building Society	BBB		10,000,000	364 days
11	Nottingham Building Society	BBB	Single rating	6,000,000	364 days
11	Progressive Building Society	Unrated		6,000,000	364 days
11	Cambridge Building Society	Unrated		5,000,000	364 days
11	Furness Building Society	Unrated		4,000,000	364 days
11	Leek United Building Society	Unrated		3,800,000	364 days
11	Monmouthshire Building Society	Unrated		3,700,000	364 days
11	Newbury Building Society	Unrated		3,400,000	364 days
11	Hinckley & Rugby Building Society	Unrated		2,900,000	364 days
11	Darlington Building Society	Unrated		2,600,000	364 days
11	Market Harborough Building Society	Unrated		2,100,000	364 days
11	Melton Mowbray Building Society	Unrated		1,900,000	364 days
11	Tipton & Coseley Building Society	Unrated		1,800,000	364 days
11	Marsden Building Society	Unrated		1,700,000	364 days
11	Hanley Economic Building Society	Unrated		1,600,000	364 days
11	Scottish Building Society	Unrated		1,700,000	364 days
11	Dudley Building Society	Unrated		1,600,000	364 days
11	Loughborough Building Society	Unrated		1,400,000	364 days
11	Mansfield Building Society	Unrated		1,400,000	364 days
11	Vernon Building Society	Unrated		1,200,000	364 days
11	Stafford Railway Building Society	Unrated		1,100,000	364 days
11	Buckinghamshire Building Society	Unrated		1,100,000	364 days
11	Harpenden Building Society	Unrated		1,100,000	364 days
11	Swansea Building Society	Unrated		1,000,000	364 days
12	Hampshire Community Bank	Unrated		5,000,000	Unlimited

Notes

* The long term credit ratings shown are adjusted to take account of possible future actions resulting from negative watches & outlooks. All negative watches & outlooks are assumed to result in a one notch downgrade.

Agenda Item 9



Portsmouth
CITY COUNCIL

Agenda item:

Decision maker: Governance and Audit and Standards Committee, 13th March 2014

Subject: Performance Management Update - Q3, 2013-14

Report by: Head of HR, Legal and Performance

Wards affected: N/A

Key decision (over £250k): N/A

1. Summary

- 1.1 This performance report provides a summary of information received as part of quarter three reporting for 2013-14, and an indication of how work around cost benchmarking is developing.

2. Purpose of report

- 2.1 To inform members of performance issues arising in the third quarter of the 2013-14 reporting period, and update on work relating to cost benchmarking.

3. Recommendations

The Governance and Audit and Standards Committee are asked to note the report and comment on:

- 1) The performance issues highlighted in section 4; and**
- 2) The cost benchmarking activity outlined in section 6.**

4. Context

- 4.1 As previously reported to the G&A&S committee, Heads of Service have produced a series of business plans, summarised as "Plans on a Page" that are the bedrock of performance monitoring in the organisation. These summary plans generally contain:

- a statement of the way in which the service will contribute to shaping the great waterfront city
- the 5-7 most critical things the service will deliver in the coming year
- the key KPIs for the service
- any other requirements from their Strategic Director (for example, risks)

4.2 For this reporting year, Heads of Service will be providing performance updates against these summary plans on a quarterly basis. A detailed summary of issues raised attached as Appendix 1, but key issues to note this quarter are:

- **Revenues and Benefits** - Main impact of the welfare reform changes appears to be with council tax benefit changes, resulting in a large number of claimants/payers with small arrears
- **Positive family steps service** - Further evaluation of all preventative services needs to be undertaken in terms of their effectiveness in addressing demand for high cost services. The impact of the move to locality working and associated benefits/improvements will be tracked and need to be independently evaluated.
- **Integrated commissioning unit** - A new Head of Service started in January, and capacity to meet the expanded role of the unit is being kept under review.
- **Adult social care** - there is a move to zero-based performance methodology to allow a better understanding of costed activity, and the integration with health. It should also be noted that significant improvements have been made to the OT service.
- **Education and strategic commissioning** - the action plan to refresh the schools strategy and meet Ofsted outcomes is underway. Leadership and management capacity remains a concern. Available capital for both sufficiency and capacity issues is also a concern.
- **Children's safeguarding and social care** - Service capacity to deliver good performance and address budget pressures remains a significant concern. A programme to address high cost provision will be monitored through Corporate Project Board, and there is an issue with the effectiveness of preventative services.
- **Housing and Property Services** - In-house architects are now responsible for all design of new housing, improving design and quality. A review commenced to ensure that housing stock is being legally occupied by the person named on the tenancy agreement and not being sublet.
- **City Development and Culture service** - The City Deal negotiations were successful in securing the Deal for the city. Footfall in museums and libraries continues to rise. There is a great deal of activity on our regeneration projects, but a focus is needed on the approach to inward investment.
- **Transport and Environment** - Key projects remain within budget and ahead of schedule. Work to reduce the parking deficit has had a major impact. There are some concerns relating to recycling rates, and achievement of the organisation's carbon reduction targets.
- **Corporate Assets, Business and Standards** - There are successes across the service, including the achievement of the first Empty Dwelling Management Order. It is important to continue to develop the Telecare service, and to generate more income for the Environmental Health service.

- **Community Safety and Licensing** - There are some reductions in key crime categories, but an increase in reoffending, and too much violent crime.
- **Public health** - City of Service will be an interesting corporate initiative with the potential for some real learning. There is a mixed picture across target issues.
- **Information service** - A successful recruitment campaign is underway. There are some concerns relating to the relationship with schools.
- **Customer, community and democratic services** - There are ongoing capacity issues with the City Helpdesk, leading to customer satisfaction concerns.
- **HR, Legal and Performance** - Key issue highlighted is the need to address the future shape, scope and structure of transformation (issue remaining from Q2)
- **Financial services** - the council have agreed a medium term resource strategy, capital strategy and budget for 2014/15. The service was instrumental in development of the city deal. However, there is a major portfolio overspend to manage, and some concerns about the financial and HR system.

5. Areas for development

- 5.1 The process for reporting on performance, which for a period of time was looser, has now started to embed across the organization, and there is more rigour than has been the case for a few cycles. The process has begun to consider the issues raised alongside corporate risks, and further development of a challenge and triangulation process will be developed for Q4.
- 5.2 It is also expected that changes to the business planning process for 2014/15 will support more challenge in the monitoring process that flows from it.
- 5.3 Where we also need to start seeing more development is in the pulling together of common themes of interest from the set of service information. So, whilst some points are more about needing to address a service specific performance issue, there may be some points that are indicative of a wider issue to address. Discerning these issues, and effectively addressing them, will be challenging, but a real value from the exercise.

6. Value for money and cost benchmarking activity

In December 2013, CIPFA issued a new release of the VFM toolkit. The toolkit included the following updates:

- Actual expenditure for 2012/13
- Budgeted expenditure for 2013/14
- Updated performance scores

- 6.2 There are number of significant "health warnings" on the use of the data, including differences in data collection and reporting practices between authorities, and the growing gaps in the dataset. There is no information from support service functions, as the toolkit does not address these areas (although support services will have their own sources of comparative data). Taking this into account, it would only ever be reasonable to use the data as a starting point for investigation, rather than a definitive statement on performance, cost or the relationship between the two. In many cases, services have investigated the issues highlighted through the toolkit, and analysis has shown a much more nuanced picture.
- 6.3 Notwithstanding this, we continue to consider the results from the toolkit as that starting point to establish whether we have any areas of concern, and therefore a high level analysis of Portsmouth's relative positions using the new data has been carried out. Of the 33 service areas available:
- *12 services show improved relative VFM positions between 2011/12 and 2012/13*
 - *17 services show worse relative VFM positions between 2011/12 and 2012/13*
 - *4 services show consistent relative VFM positions between 2011/12 and 2012/13*
- 6.4 In terms of the associated judgements:
- *6 services are judged as high cost, high performing in 2012/13*
 - *8 services are judged as providing poor VFM (high cost, low performance) in 2012/13*
 - *10 services are judged as providing a low cost, low performing service in 2012/13*
 - *6 services are judged as providing good VFM (low cost, high performance) in 2012/13*
- 6.5 The headline points that would seem to be emerging are:
- Our relative position has deteriorated in more areas than it has improved or stayed the same
 - 12 of our services are relative high performers
 - 19 of our services are relative low performers
 - 16 are relatively high cost
 - 16 are relatively low cost
- 6.6 The positions are illustrated in the Appendix 2, attached. All services have been asked to respond to key issues as part of the business planning process (using either this data or their own comparative data if that was considered better).

7. Equality impact assessment (EIA)

7.1 An Equality Impact Assessment will be maintained alongside the development of the performance management framework to ensure that full consideration is given to equality issues. Any equality matters arising through value for money consideration will be considered as a discrete process, as separate EIAs will be completed for these areas of work.

8. Legal implications

8.1 The report has incorporated legal implications and accordingly there are no other immediate legal implications arising from this report.

9. Head of finance's comments

9.1 There are no financial implications to bring to members' attention at this stage. However, it should be noted that there could be further financial implications following further exploration of any of the performance issues raised in this report, and related future reports could result in financial implications. These will be flagged to members at the appropriate time.

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Signed by: Jon Bell, Head of HR, Legal and Performance

Appendices: Appendix 1 - Summary of service performance issues
Appendix 2 - Summary of relative VFM positions in CIPFA toolkit
Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1. reports to, and minutes of, SDB meetings	Strategy Unit
2. Summary business plans	Strategy Unit

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by Governance and Audit Committee on 13th March 2014.

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 Signed by:

Appendix 1 – Summary of performance reports, Q3 2013-2014

What has gone well?	What needs watching?	What needs to be improved?
Revenues and Benefits		
<ul style="list-style-type: none"> - Performing well on almost all key performance indicators (KPIs) (local tax processing quality, Housing benefit (HB) processing quality, cycle times for HB changes and HB overall, business rate collection, HB subsidy recovery, HB debt recovery, and local authority error). - Satisfaction with local tax and benefits high 	<ul style="list-style-type: none"> - Council tax collection 1.29% below plan (although value collected is £3m more than at December 2012) - further behind plan than at Q2 - Cycle times for local tax and HB new claims are adequate and showing signs of improvement - Fraud sanctions are below plan, however sanction numbers are unpredictable, owing to uncontrollable changes in DWP and CPS processes - Risk - level of budget reductions in 2014/15 place significant pressure on ability to protect HB subsidy and income - Risk - Government funding for Local Welfare Assistance scheme likely to be reduced to zero from April 2015 - work has started looking at options in the voluntary sector - Risk - Discretionary Housing Payment (DHP) has outstripped 2012/13 demand and anticipated to spend all allocated funds - Postponement and uncertainty around key DWP initiatives 	<ul style="list-style-type: none"> - Sickness absence, at 9.9 days per person per annum, has shown continuous improvement throughout the year - £400k savings not yet identified through years 2015/16 and 2016/17
Positive Family Steps Service		
<ul style="list-style-type: none"> - The identification of families, and “starts” into service has increased; 756 families identified - 327 starts as at 31st December - Referral rate increased 	<ul style="list-style-type: none"> - Maintaining the referral flow rates into service - Work to improve the referral pathway for Parents and Carers stalled through lack of engagement with parents - Development of monitoring systems 	<ul style="list-style-type: none"> - Targeted work with pastoral leads in key schools initiated to improve referral links - Need to ensure services manage and review cases with rigour

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - Troubled families coordinator participating in work focused on addressing the Looked After Children numbers - Funding in place to run Family group conferences - Data and performance manager appointed to lead Payment by Results (PbR) process - Systems review phase 2 complete - Public Service Board agreed to scale up new way of locality working 	<ul style="list-style-type: none"> - Youth Offending Team (YOT) inspectors highlighted opinion that referral rates should be higher 	<ul style="list-style-type: none"> - DCLG targets - Barnardo's support line for families reviewed - Still increase in demand for Tier 4 children's services - need to appraise overall impact of services
Integrated Commissioning Unit		
<ul style="list-style-type: none"> - Implementation of dementia action plan on track and all key milestones being met - Good progress on implementing the carers action plan - Positive progress on implementing the action plan from transformational commissioning and procurement plan for continuing healthcare - 0-5 pathway project on target - Some positive working with voluntary and community sector (VCS) colleagues 	<ul style="list-style-type: none"> - Proposed closure of Patey Day Centre has led to service user and carer dissatisfaction - Impact of the Health and Social Care Act will need to be considered when taking forward Carers plan - Right sizing of care packages to be reviewed and scoped - Development of new voluntary sector grants process needs to be embedded 	<ul style="list-style-type: none"> - Engagement with GPs by the Carers Assessment Service - Greater focus on targeted data collection required to evidence outcomes - Development of a corporate approach to relationship with VCS
Adult Social Care		
<ul style="list-style-type: none"> - Health and wellbeing board have approved first draft of better care plan - now entering further 	<ul style="list-style-type: none"> - Better Care Fund not new money, so will need to discuss with Clinical Commissioning Group how this will be used, along with how this will 	<ul style="list-style-type: none"> - IT, duty and recording processes in OT service are still inefficient - Links with Oracle need improving

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - discussions - Substantial improvements delivered in Occupational Therapy (OT) service - now seeing people 4 months faster! - Implementation of new resource allocation system going well, with 99% accuracy - Zero Based review (ZBR) process has commenced - SCIP website moved to join healthwatch - one service directory with 50% higher hit rate 	<ul style="list-style-type: none"> - support Adult Social Care budget pressures - Development of technology to assist with information sharing - Sufficient funding to implement Care Bill, and additional demand from increase in number of assessments - Continue to monitor OT demand - Tight timescales for ZBR, with first cut in September 2014 	<ul style="list-style-type: none"> - to support the ZBR process; - need to develop better understanding of unit cost and VFM
Education and Strategic Commissioning		
<ul style="list-style-type: none"> - Early Years Foundation Stage (EYFS) figures remain ahead of national average - KS1 up last year in all key areas at level 2b or above - above national provisional scores in all areas - Main KS2 headline figure for combined reading, writing and maths is up from last years' equivalent - % schools either good or outstanding has moved to 70% - Good progress in implementing special educational need (SEN) reforms - School attendance strategy being developed 	<ul style="list-style-type: none"> - Tightening of Ofsted framework - 4 schools in particular where English at GCSE dropped substantially - Capacity to deliver on range of reforms Data sharing with health on early years remains a barrier to development of effective early intervention audit 	<ul style="list-style-type: none"> - GCSE results have slipped back by 5% points from last year - Need to improve provision for autism in primary and secondary schools - Improve school attendance - focus on secondary attendance - Continue to develop partnership working with academies - Childminder quality - Immediate condition issue at Harbour School exacerbated by poor weather - Free school meals in years R, 1 and 2 present significant logistical issues for some schools - Continuing pressure on school

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - Successful peer challenge of Early Years phase - Capital programmes all on track and more academy transfers completed 		<p>places in Year R and Year 3, and increasing pressure on secondary places to be felt by 2018/19.</p>
Children's safeguarding and social care		
<ul style="list-style-type: none"> - Significant developments to practice being developed in assessment and intervention services - Timeliness of core assessments is improving - Significant reduction in repeat child protection plans is being sustained - although this balanced with an increase in the amount of time children remain on a plan. - Exceeding national average for children leaving care through adoption, and some good work on developing fostering and adopter recruitment - Beechside unit has achieved income target for year - New Belongings Initiative launched; BOOST project has had 52 referrals; tender process progressing for positive activities 	<ul style="list-style-type: none"> - Appropriate referrals to the Intervention & Assessment team are increasing significantly (up 32% since Q1) - Children in care in the 6-13 age group remain the highest and the most challenging in terms of identifying permanent placements - Repeat episodes of care within 12 months is high for the 14+ age group - analysis is being undertaken to identify the causal factors - Quality of Common Assessment Framework (CAF) - Integrated and Targeted Youth Support Services (ITYSS) have introduced extra monitoring controls to ensure good outcomes based on performance measures - Intended Destinations for young people for 2014 and the resource implication for Raising the Participation Age - Quality of Pathway Plans. - Quality of Care Plans for Looked After Children 	<ul style="list-style-type: none"> - Sickness across the service is decreasing but remains higher than PCC averages - Quality of child protection and care plans needs monitoring - There is a need to reduce Independent Reviewing Officer changes for looked after children - Adoption scorecard data on number of days from a child becoming looked after to being adopted is worst in our statistical neighbour group - but mainly due to 4 family groups - The number of children on Independent Fostering Arrangements and external residential placements is having a significant impact on budget and contributing to overspend - Critical feedback from YOT inspection - improvement plan in place - Apprenticeship schemes for care need continued focus - Accommodation options for young

What has gone well?	What needs watching?	What needs to be improved?
		people need development - Young people not in education, employment or training (NEET) numbers are high (may be calculation anomaly)
Housing and property services		
<ul style="list-style-type: none"> - Migration to a single integrated database commenced - work due to complete by Feb (2 months early) - Architect service now responsible for all new build homes - expected to reduce commissioning costs and improve quality of design - Women's refuge project complete; commenced work on play parks in Havant; started consultation on refurbishment and remodeling of 3 sheltered accommodation blocks - Bidding work commenced for funds from Energy UK and SALIX to bring forward energy efficiency work - Skill building for staff on financial and benefits skills 	<ul style="list-style-type: none"> - Recent changes to rent policy means that the income profile to the Housing Revenue Account (HRA) will change over the next three years. This will require rephrasing of future development work to accommodate the change. - Service now utilising framework contracts for all specialist maintenance work; this should significantly reduce costs from original quotes and estimates - 1200 residents received cuts in benefits as a result of reforms, creating a £1m rent arrears position, bringing current arrears to £2.8m (up from Q2) - Despite support to payment, full debt recovery is unlikely and there will be a long term impact to the HRA position. - 	<ul style="list-style-type: none"> - long term maintenance strategies need to be developed for client services to improve forecasting and relationships - Review commenced to ensure that housing stock is being legally occupied by the person named on the tenancy agreement and not being sublet.
City Development and Cultural Services		
<ul style="list-style-type: none"> - Visitor numbers are robust overall - Museums footfall increased by 7.29% due to popular events programme, specifically Secret Egypt - Launched health-related projects including Books on Prescription and project with QA 	<ul style="list-style-type: none"> - Inward investment framework and delivery - Lack of investment in online booking system resulting in impact on purchase options - Slight reduction in time to process major planning applications – needs to improve further - Income generation opportunities to be explored - Big 	<ul style="list-style-type: none"> - need a sustainable solution for access of people with disabilities to areas of the seafront beaches - inward investment website needs improvement - staff capacity and budgetary constraints

What has gone well?	What needs watching?	What needs to be improved?
<p>on improving environments for patients with dementia</p> <ul style="list-style-type: none"> - Key posts recruited to support delivery of regeneration agenda - Rise launched and business showcase hosted in London - Successful triathlon and Great South Run - Input into agreement of City Deal 	<p>Screen, weddings, sponsorship</p> <ul style="list-style-type: none"> - Analysis of EU funding streams and future direction of delivery 	<p>impacting on digitizing archive</p> <ul style="list-style-type: none"> - need to finalise building control options to improve service - maximize neighbourhood proportion of Community Infrastructure Levy
Corporate Assets, Business and Standards		
<ul style="list-style-type: none"> - The Investment Portfolio review has identified opportunities for disposal of assets, or renegotiation of more favourable terms - Significant progress in securing planning permission for Dunsbury Hill Farm (DHF) - 59 units of affordable housing delivered - Doubled enquiries on Green Deal - Obtained first Empty Dwelling Management Order - Continued success in resolving high volume of domestic noise nuisance complaints - TS removed 30000 unsafe electrical goods from the market - Increased demand from Primary Authority businesses - Portsmouth Craft and Manufacturing Industries (PCMI) achieving good outcomes on supported employment 	<ul style="list-style-type: none"> - Data migration of Corporate Assets to the new system needs careful handling - Low number of licenses applied for under the additional licensing scheme - We will be required to invest in more rigorous sampling of local shellfish beds - having secured resources, now need to ensure that the sampling undertaken satisfies both the industry and regulatory bodies - Need to maximize income for all aspects of employment, learning and skills services 	<ul style="list-style-type: none"> - Business focus of corporate asset development team to ensure we have right resources - Working with Adult Social Care to improve the referral process for Telecare and Telehealth services - Need to review Homecheck services - Need to generate more income to support Environmental Health service - report to Cabinet Member in Q4 to obtain approval for income generation plans - PCMI needs to increase external market share to achieve financial targets

What has gone well?	What needs watching?	What needs to be improved?
programmes and contracts		
Transport and environment		
<ul style="list-style-type: none"> - Both Tipner and Northern Road Bridge are predicted to be completed on time and under budget - PFI works carried out at same time, resulting in major savings and increases in VFM - Local Flood risk management strategy in consultation - On track for delivery of Local Sustainable Transport Fund programmes - Priority awarded for funding from the Local Transport Board for the Hard Interchange and DHF Link Road; subject to award of funding DHF expected to start in Summer 2014 - On track for opening of P&R at end of March 2014 - Transformation of residential lighting to LED, resulting in £150k savings - Continue to collect and dispose of household waste effectively within contract KPIs and budget - BIG recycle scheme launched - Toilet closure programme and launch of community toilet scheme - New tennis centre opened at Mountbatten Centre in December 	<ul style="list-style-type: none"> - Affordability of the PFI contract remains a major priority - specialist team has been set up to deliver a negotiated settlement - Progress against the internal carbon management targets - There is an objective to increase the level of regular sports participation and accessibility to active recreation services – a sports strategy is in development but will be at risk if resources are removed as part of budget savings - Residents Parking remains a controversial issue - Revenue funding will be used to maintain membership of Project Integra for a further year - Current contract for Mountbatten Centre is in a cost review phase and it is possible these costs may rise 	<ul style="list-style-type: none"> - Ensuring that adequate resources are available for the delivery of projects, in particular LSTF and LTP programmes; include need to upskill current staff - A number of corrective measures have been implemented and the parking deficit forecast has been reduced from £650k to just under £200k - Recycling rate for the council continues to slowly fall - in line with many other local authorities - but the fall places us as one of the lowest recyclers in the country - furthermore economic growth is likely to raise waste volumes, thus increasing waste management costs beyond any budget pressures - PCC-owned buildings surrounding the dog kennels have mostly been condemned as unsafe structures- project to sell/lease the land has stalled - Planned work to reduce council's carbon footprint will only reach half of the target set - lacking up to date condition surveys for facilities - impact on ability to plan

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - Average number of sickness days per person reducing 		
Community Safety and Licensing		
<ul style="list-style-type: none"> - Reduction in anti-social behavior (ASB) incidents - New CCTV contractor operating well - funding secured for development of a community perpetrator programme for Domestic Abuse - Accommodation for ex-offenders improving - Office of Police and Crime Commissioner (OPCC) funding for intensive support for prolific young offenders - Safer Portsmouth Partnership (SPP) members on YOT Board - Continued reduction in number of offences by young people, and number of young people committing 5 or more offences - Overall reduction in crime - 16% since 11/12 - Successful completion of Golden Fox - revised Portsafes Plan - Successful implementation of recommendations arising from customer service review of licensing 	<ul style="list-style-type: none"> - noise complaints are increasing; rubbish and litter a growing concern - high number of police recorded domestic abuse (DA) incidents, compared to crimes - Social care data collection on DA improved but need more - government "transforming rehabilitation" agenda will split current probation service into companies tendered on PbR - Impact of new youth offending services configuration - Reduction in prevention services may lead to increase in number of first time entrants to criminal justice system - Increase in number of private hire vehicles - will not be met favourably by trade - Further service review work to identify activity to reduce Ground Floor Reception waiting times 	<ul style="list-style-type: none"> - ASB review has found areas for improvement - poor conviction rate for DA crimes - Reoffending rate - missed target and increasing - -ITYSS performance reporting - young offenders custody rate - explore increases in new crime types eg. Cyber crime - Violent crime still too high - Attendance by members at annual licensing training event - Increase in complaints/customer dissatisfaction due to waiting times for ground floor reception users
Public Health		
<ul style="list-style-type: none"> - U18 pregnancy rates falling - Healthy schools programme being reviewed 	<ul style="list-style-type: none"> - Funding for specialist carers services due to end - Lifestyles survey behind target date 	<ul style="list-style-type: none"> - U16 pregnancy rates stay high - Number of healthchecks completed not hitting targets

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - 9% fall in alcohol related hospital admissions - Numbers accessing community health trainers service has increased - Staff flu vaccination uptake 11.3% - Seasonal flu vaccination rate for the over 65s is above national target - Achieving 95% uptake for all vaccinations at 1yr - increases for almost all other vaccinations even though not quite achieved target levels - DPH to lead on implementing City of Service programme 	<ul style="list-style-type: none"> - Need to increase the knowledge and understanding of members - progress being made 	<ul style="list-style-type: none"> - U65 and pregnant women flu vaccination rates are down on last year and did not reach target levels - Preschool booster uptake rates have increased again but are still below 90%
Information Services		
<ul style="list-style-type: none"> - Windows 7 implementation improving performance for users - Improved service desk delivering shorter call wait times - Improved lead times for requests and fixes on desktop - Running an engaging recruitment campaign - 6 staff recruited 	<ul style="list-style-type: none"> - becoming unable to resource all projects with diminishing resources - market improving and staff leaving for better paid jobs - staff turnover high - Unrealistic demands on diminished resources from services - schools business moving away 	<ul style="list-style-type: none"> - relationship with schools - helping services to prioritise, plan and understand the constraints - need to recruit and rebuild service
Customer, community and democratic services		
<ul style="list-style-type: none"> - PULSE records increase in staff feeling informed and proud to work for the local authority - Equivalent Advertising Value of £388k generated - Education helpdesk successfully 	<ul style="list-style-type: none"> - capacity of core team to deal with major issues - budget savings reducing back office of services is having an adverse impact on CHD – longer call waiting and lack of ownership - capacity issue - Issues with GFR likely to be compounded by 	<ul style="list-style-type: none"> - call waiting and abandon rates in CHD increasing, due to cuts, national issues such as benefit changes (requests for support, paying council tax for first time etc) - Pressure on Ground floor reception

What has gone well?	What needs watching?	What needs to be improved?
<ul style="list-style-type: none"> - supported school admissions - Agreement to transfer cashiers to City Helpdesk (CHD) by April 2014 - Reduction in stage 2 and 3 complaints due to focus on early resolution - Clinical Commissioning Group funding to undertake Freedom of Information work - ModGov Phase 1 implemented - Key posts for elections identified and resources secured - Developing partnership approach on equalities - Work on the business prospectus, and some work with partner authorities - Community toilets scheme - Strong developments on marketing and business development 	<ul style="list-style-type: none"> - planned office moves - Small elections team to manage Individual Electoral Registration (IER), and increasingly dependent on corporate support for postal vote opening etc – will need corporate agreement on way forward - Postal costs for elections set to increase - Role of engagement and understanding across the organization - plan a pilot working with regeneration - Many marketing and business development projects are long term - no immediate income - Levels of non-paid "corporate" work increasing - potential loss of income 	<ul style="list-style-type: none"> - Scrutiny approach needs reviewing - Capacity of team and corporate appetite around equalities - No income yet received from Guildhall Trust
HR, Legal and Performance		
<ul style="list-style-type: none"> - Workforce planning approach in development - New Learning and Development (L&D) structure being implemented - targeted interventions in areas of high sickness successful; absence rates reduced to 8.6 days - legal process times for child protection 	<ul style="list-style-type: none"> - workforce planning needs to be impacting on areas such as recruitment and consultancy spend - impact of restructures on pay structure - considerable external spend on L&D still taking place - new management development offering to be developed - some areas still have rising absence rates - impact on legal support for other areas due to focus 	<ul style="list-style-type: none"> - Need to refresh approach to PDRs, induction and redeployment - Improve use of ICT - Sickness working group not working well - Approach to wellbeing requires improvement and strategic direction

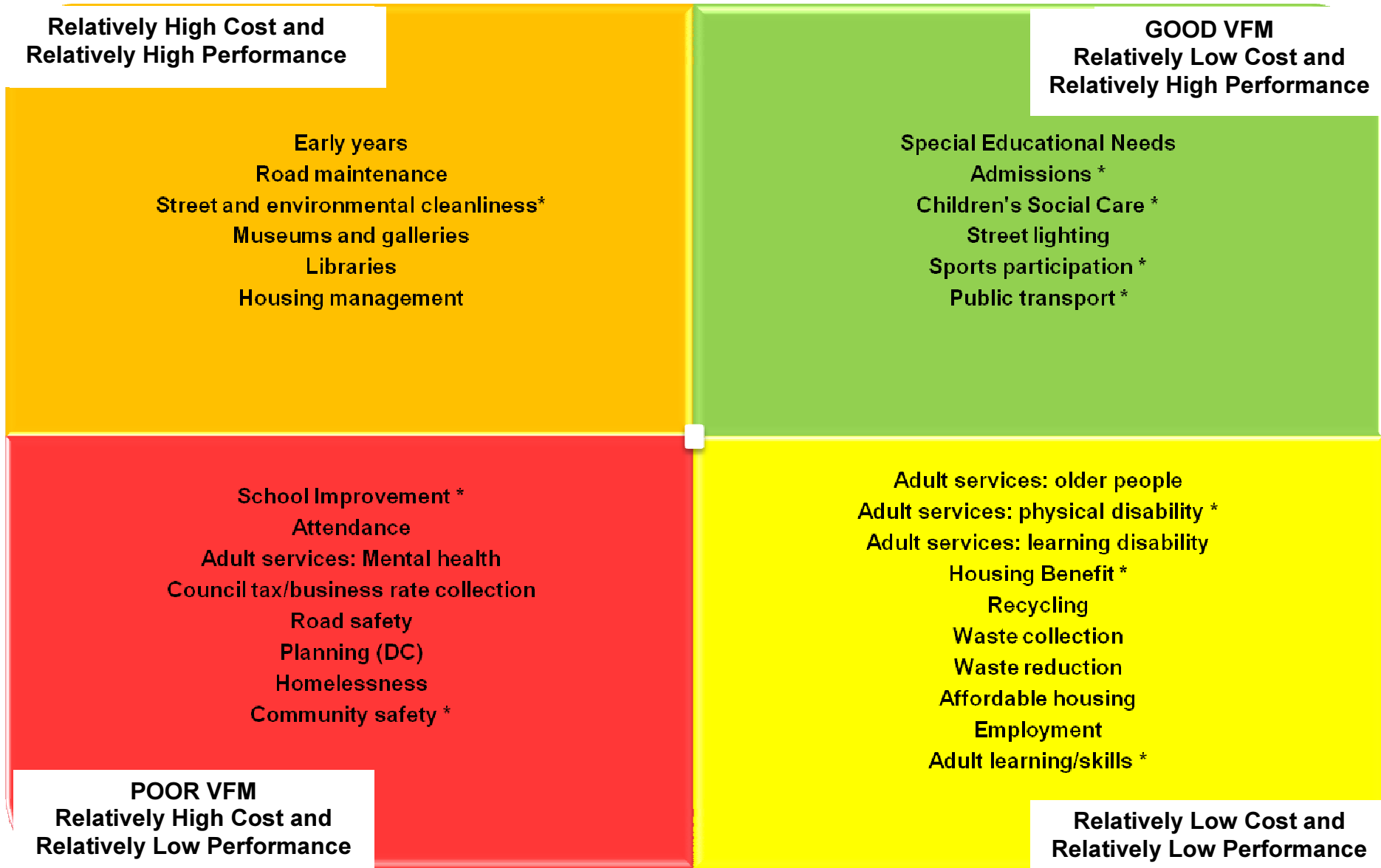
What has gone well?	What needs watching?	What needs to be improved?
<p>cases now 31 weeks - 53% cases completed in national target times</p> <ul style="list-style-type: none"> - performance framework developing but limited by lack of measures and robust challenge - new risk framework developed - successful bid for City of Service 	<p>on Children's Social Care</p> <p>reliability of data still a concern in relation to absence; this may get worse with HR self-serve</p> <ul style="list-style-type: none"> - corporate governance priorities need further embedding - Performance framework (including VFM) still developing; more visibility of performance and value on corporate health issues - Relationship with ICU and support services - HR self-serve still requires roll-out and embedding - new approach to risk needs embedding – approaches across services very variable 	<ul style="list-style-type: none"> - Capacity planning across the organisation remains a challenge - Future shape, scope and structure of transformation still evolving - Consistency of contract management skills across services
Financial Services		
<ul style="list-style-type: none"> -Budget savings of £10m for 2014/15 approved by city council; Capital strategy and MTRS also approved - All treasury management prudential indicators remain within approved limits - successful negotiation of £48.75m City Deal grant 	<ul style="list-style-type: none"> - the achievement of the approved budget 2013/14 - currently £300k overspent - Loss of income from converting academies 	<ul style="list-style-type: none"> - Forecast overspending in Children and Education portfolio - Performance problems with main finance and HR systems - Financial rules training requires refreshing and rolling out

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Appendix 2 - Relative and Actual VFM Movement Between 2012 and 2013 CIPFA Toolkit Release

(Relative VFM judgement taken from 2012/13 actual expenditure and most recent performance data available)

*Indicates improved relative position from last release



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Agenda item:

Decision maker: Governance & Audit & Standards Committee

Subject: Audit Performance Status Report to 10th February 2014 for Audit Plan 2013/14

Date of decision: 13 March 2014

Report by: Chief Internal Auditor

Wards affected All
Key decision (over £250k) No

1. Summary

- 1.1 There are no new critical exceptions highlighted in this report for 2013/14 Audit Plan. Previously reported critical exceptions are included in Appendix B for information.
- 1.2 There are 150 planned Audits for 2013/14 made up of 121 new reviews and 29 follow up audits. Of these 124 (83%) have been completed or are in progress as at 10th February 2014. This represents 81 audits (54%) where the report has been finalised, 10 audits (7%) where the report is in draft form and 33 audits (22%) currently in progress.
- 1.3 In addition to the planned audits there are 13 areas of on-going work and 5 of continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 223 days of reactive work have been undertaken to 10th February 2014, with 245 days set aside in the 2013/14 Audit Plan.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2013/14 to 10th February 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

3. Background

- 3.1 The Annual Audit Plan for 2013/14 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 24th January 2013 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

4. Recommendations

- 4.1 That Members note the Audit Performance for 2013/14 to 10th February 2014.

4.2 That Members note the changes in the Audit Plan.

5. Audit Plan Status 2013/14 to 10th February 2014

Percentage of approved plan completed

5.1 83% of the annual audit plan has been completed or is in progress as at 10th February 2014, slightly below the equivalent period last year but slightly higher than the year before. Despite some already significant time spent on special investigations, providing there is not a significant number of further ones, there is currently no reason why the Plan cannot still be met. Appendix A shows the completed audits for 2013/14. This percentage is made up as follows;

- 67 new reviews (45%) where the report is finalised, 10 (7%) in draft form and 25 (17%) currently in progress.
- 14 planned follow ups (9%) where the report is finalised and 8 (5%) work in progress.

5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A.

Changes to the Audit Plan

5.3 In total there are now 150 Audits in the Plan as opposed to 155 originally.

5.4 The Pyramids audit has been removed from the plan due to a change in contractor. On-going discussions with relevant Heads of Service will determine whether any future audit reviews will be required in this area.

5.5 Grant Claims including LEP grants has been amalgamated with the Local Enterprise Partnership Funding audit.

5.6 The Mandatory Training audit has been amalgamated with the PDR review.

5.7 Two School's Themed audits have been removed as testing of school transactions has been included in the Petty Cash Audit and the Fuel Purchases review.

5.8 A Secondary School has been added to the audit plan. The results of which were reported at the last Governance and Audit and Standards committee.

5.9 The Oracle review has been moved to 'on-going areas' as advice and support has been given on the proposed changes to the new upgrade.

Reactive Work

5.10 245 days have been allowed for reactive work and investigations in 2013/14 and 223 days have been used to 10th February 2014.

5.11 The 223 reactive days were used for:

- 20 special investigations
- 44 items of advice (of half a day or more- advice which takes less time than this is not recorded)

As well as the following unplanned reviews:

- DECC LA Fuel Poverty Grant
- Troubled Families Grant
- Energy & Climate Change Grant
- Pilots National Pension Fund verification of contributions

Exceptions

5.12 Of the programmed reviews completed so far this year the number of exceptions in each category have been:

- 15 Critical
- 159 High Risk
- 43 Medium Risk
- 7 Low Risk (improvements)

5.13 The table below is a comparison of the audit status figures, up to 10th February 2014 for this financial year and the previous two years.

	2011/2012	2012/2013	2013/14
% of the audit plan progressed	71%	91%	83%
No. of Critical exceptions	3	1	15
No. of High risk exceptions	125	93	159*
No. of reactive days	305	234	223

*70 of the high risk exceptions relate to Schools where full review programmes are being carried out in 2013/14 that were not carried out in the previous two years.

On-going Areas

5.14 The following 13 areas are on-going areas of work carried out by Internal Audit;

- Regulation of Investigatory Powers Act (RIPA)- authorisations and training
- Anti-Money Laundering review of Policy and training
- Investigations (included in the 245 days of reactive work)
- Financial Rules, review, waivers, training
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
- Internal Data Matching of the Council's own data
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
- Counter Fraud Programme

- Policy Hub project to ensure that all Council policies are held in one place and staff are notified of the policies relevant to them
- G&A&S Committee reporting and attendance and Governance
- Audit Planning and Consultation
- Risk Management
- Oracle R12 support and advice throughout the planned upgrade.

Continuous Audit Areas

- 5.15 The following 5 areas are subject to continuous audit (i.e. regular check to controls) and feed into overall assurance;
- Legionella Management
 - Asbestos Management
 - Key risks management in services
 - Performance Management
 - Business Continuity/Emergency Planning

6. Areas of Concern

- 6.1 There are no new areas of concern from the date of the last meeting.

7. No Assurance Audits

7. 1 There are no new no assurance audits from the date of the last meeting.

8. Comments on Plan 2013/14 to date

- 8.1 15 critical exceptions have been identified to date for this financial year. The number of high risk exceptions seems high but this figure is skewed by the number of high risks relating to the Schools Audits and is in fact slightly lower than previous years. The critical exceptions having been previously reported to this Committee are summarised on Appendix B.
- 8.2 Following on from an analysis of findings relating to non-compliance with Financial Rules, the s151 Officer issued a statement reminding staff of their obligations which was distributed by Corporate Communications on the 13th December 2013. The content of the communication to staff is detailed on Appendix C.

9. Equality impact assessment (EIA)

- 9.1 The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

10. City Solicitor's Comments

- 10.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.
- 10.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

11. Head of Finance & S151 Officer Comments:

- 11.1 There are no financial implications arising from the recommendations set out in this report.
- 11.2 As stated, a significant number (70) of the high risk exceptions relate to schools. Whilst the primary responsibility for the effective financial management and operation of internal controls rests with the school Governing Body, the S151 Officer has an overriding responsibility for the safeguarding and financial stewardship of all public funds administered by the City Council. Should the S151 Officer not be satisfied that effective financial management is taking place, he has the power to withdraw delegation of the schools budget and control and administer it centrally.
- 11.3 A significant proportion of the high risk exceptions revolve around the themes of:
 - Use of Ebay
 - Failure to obtain VAT receipts
 - Proper inventory records
 - Security of cash
 - Failure to raise purchase orders
 - Handling of income

In December 2013, the Head of Finance & S151 Officer circulated a communication to all staff reminding them of their responsibilities in these regard and the importance of them in protecting the Council's financial interests and ensuring proper accountability.

- 11.4 Overall, the S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

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Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

- Appendix A - Completed audits from 2013/14 Audit Plan
- Appendix B - Previously reported critical exceptions identified during 2013/14
- Appendix C- Corporate Communications re Financial Rules reminder from s151 Officer

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Accounts and Audit Regulations	http://www.legislation.gov.uk/uksi/2011/817/contents/made
2 Audit Strategy 2013/14	http://www.portsmouth.gov.uk/media/gas20130124r7appB.pdf

3	Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online http://www.portsmouth.gov.uk/yourcouncil/10349.html
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Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
Finance- Chris Ward	Income Handling Project	0	0	1	0	GREEN	GREEN			AMBER	✓	Testing highlighted that the Portsmouth Income Management System (PIMS) project manager is not provided with up to date budgetary information on the project.
	Capital Accounting	0	0	0	0	GREEN	GREEN		GREEN	GREEN	N/A	No exceptions raised
	Treasury Management	0	0	1	0	GREEN	AMBER		GREEN		✓	Testing highlighted that not all members of the Treasury Management Group has completed the PCC declaration of interests.
	Aggregated Spend (Budgetary Control and Transparency Agenda)	0	2	0	0	GREEN	AMBER		AMBER		✓	Testing highlighted non compliance with the contract procedure rules where spends over £5,000 and a lack of monitoring reports from E-Business Suite (Oracle Finance System) undertaken in 13/14
	Cash Collection	0	5	0	0	AMBER	AMBER	AMBER		AMBER	✓	Testing highlighted not all staff in the main cash complex had signed the cash handling instructions, floats are not randomly spot checked, lack of separation of duties when checking money and at Portsmouth Dog Kennels the spare keys to the safe were held in it. (3 exceptions relate to Finance & 2 relate to dog kennels - Transport)
	Banking	0	1	1	0	GREEN	AMBER	GREEN	AMBER	GREEN	✓	Testing highlighted that non compliance with financial rules in relation to account reconciliation's. Testing also evidence that PCC do not have a current contract directly with the security company G4S, this is being managed through the Hampshire contract.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Petty Cash/Imprest Accounts	0	5	1	0		AMBER	GREEN	AMBER		✓	Testing highlighted that the list of petty cash/imprest accounts was not up to date, not all claims had sufficient evidence to support the payment, reconciliations had not always been carried out on a monthly basis, not all claims were supported by a VAT receipt. Follow up testing evidenced that management checks had only just commenced on the main cash complex.
	Controlled Stationery	0	1	0	0	GREEN	GREEN	GREEN	AMBER		✓	Non compliance with procedures for the chasing of receipt memos to ensure stationery has been received
Corporate Governance- Michael Lawther/ Chris Ward/ Jon Bell	Corporate Governance arrangements	1	3	1	1	AMBER	AMBER	AMBER	AMBER	AMBER	✓	Testing identified breach of the Data Protection Act (DPA) steps had not been taken to secure sensitive information, not all staff in Children's Services were using the locked print function, correspondence sent out was not correctly addressed, Lack of information governance training amongst staff in Children's Services, data is being held for longer than required for. Freedom of Information (FOI) requested timescales are not being met
Housing and Property Management- Owen Buckwell	Security	0	1	0	0	GREEN	GREEN	GREEN		AMBER	✓	Testing identified that there were 527 of ID swipe cards that had not been used in the last 3 months.
	Cleaning contract	0	0	0	1	GREEN	AMBER		GREEN		✓	Testing identified that on some passes held by the cleaners it was not possible to identify them.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Sheltered Housing Service	0	2	3	1	GREEN	AMBER		AMBER		✓	Testing highlighted that the safe at one of the blocks was not compliant with insurance requirements, appointeeship funds did not reconcile and in some cases did not show a running balance, residents reviews of their support plans are not being recorded on their files, cash handling instructions had not been signed by staff, money was being held in a glass jar at one of the sheltered blocks and gifts and hospitality sheets are not being reviewed by management.
	Sub letting prevention (Tenancy Fraud prevention)	0	2	1	0	GREEN		AMBER	AMBER		✓	Testing was undertaken on 15 properties in Portsea to identify any breaches of tenancy, it was found that 4 appears to be abandoned, 5 tenants were unavailable, 1 was thought to be sub-let and 5 tenants were correct. Testing also identified a breach of the subletting and non occupation procedural guidance and there did not appear to be a clear strategy for dealing with the findings.
Corporate Assets Business and Standards- Alan Cufley	Pest Control	0	0	1	0	GREEN	GREEN	AMBER	GREEN		✓	Testing highlighted that there was not a current up to date inventory in place for the equipment used by Pest Control Operatives.
Follow Ups	Welfare Burials	0	1	1	0	AMBER	GREEN	AMBER	GREEN		✓	Follow up testing identified succession planning to be implements by January 2014 and items held in the store cupboard relating to old cases to be destroyed.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
Adult Social Care- Rob Watt	Appointeeships	0	4	0	0	GREEN	GREEN	AMBER	GREEN		✓	Testing identified that the GEN 13 form was not being double signed when issuing personal allowances, no receipt on file to support residents request for new clothes, lack of separation of duties as the same member of staff signs cheques and reconciles the account and lack of verification of bank details when setting up appointeeship accounts.
	Commissioned Services	0	1	0	0	GREEN	GREEN	GREEN	AMBER		✓	Testing identified that 33% of the sample were reviewed outside of the 12 monthly review cycle.
	Residential and Day Centres self assessments	0	3	0	0	AMBER	AMBER	AMBER			✓	Testing highlighted at one day centre there is no log of who has keys to the building, purchase orders are being raised after invoices are received and lack of control over amenity funds.
Follow Ups	Client Affairs	0	0	0	0	GREEN	GREEN				N/A	All exceptions closed
	Deferred Payments	0	0	0	0	Green					N/A	All exceptions closed
	Help in the Home Contract	0	1	0	0	Green	AMBER				✓	Follow up testing identified that although the Age UK financial strategy had been provided it was lacking information
HR, Legal and Performance- Jon Bell	Gifts and Hospitality		1	1		AMBER	AMBER		GREEN	GREEN	✓	Testing highlighted that the policy required reviewing and items over the gift limit were being accepted, as raised in the 2012/13 audit.
	Disclosure & Barring Service (DBS) checks	0	0	0	0	GREEN	GREEN		GREEN		N/A	No exceptions raised
	Land Charges	0	0	1	0	AMBER	GREEN	GREEN			✓	Testing highlighted that there are no written procedures for the administration of Land Charges.
	Data Quality checks-completeness of case information process/ Court case preparation/ Case performance monitoring	0	1	4	1	AMBER			AMBER	AMBER	✓	Testing highlighted that performance was not being monitored, cases were not being formally closed, no analysis of files is carried out to establish training needs, staff are not aware of the amount of work being outsourced, client feedback is not formally sought and the cost of external works can not be analysed in an efficient manner

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Purchase cards	2	1	0	0	AMBER	RED		RED		✓	Testing highlighted that the Purchase card policy was out of date. Testing evidenced breaches of the Purchase Card Policy and procedures, HM Revenue & Customs (HMRC) VAT regulations and Financial Rule G38
	Programme/ Project management	0	5	2	0	AMBER	AMBER	GREEN	GREEN		✓	Testing highlighted non compliance with Corporate Projects Methodology. 20 projects were registered at the time of audit, however 3 additional projects were identified, 2/20 recorded projects were no longer projects, only 7/20 had identified project assurance roles.
Schools - Responsibility of the Governing Body	City Boys Secondary	0	5	2	0	AMBER	AMBER	AMBER	GREEN	GREEN	✓	No compliance with Schools Financial Value Standards, data protection, lack of income spot checks, non compliance with financial rules for purchase cards and inventory.
	St Pauls RC Primary	0	6	0	0	GREEN	AMBER	AMBER	GREEN	AMBER	✓	Non compliance with financial rules for income, purchase cards, inventory. Non compliance with the Scheme for Financing Schools in relation to voluntary funds
	Newbridge Junior	0	1	1	0	GREEN	AMBER	GREEN	GREEN	AMBER	✓	The review highlighted a lack of current IT policy inclusive of principle 7 from the Data Protection Act. Non compliance with the Scheme for Financing Schools in relation to voluntary and private funds.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Mayfield Secondary	0	14	1	0	AMBER	AMBER	AMBER	GREEN	AMBER	✓	Non compliance with financial rules for petty cash, purchase cards, separation of duties in relation to income, purchase orders, quotations and inventory. Lack of Minibus Driver Awareness Scheme (MiDAS) training and recording of odometers. Retention of Disclosure & Barring Service (DBS) check against Data Protection Act requirements. Non compliance with the Scheme for Financing Schools in relation to delegated spending limit and hire agreement forms
	College Park Infant	0	0	0	0	GREEN	GREEN	GREEN	GREEN	GREEN	✓	No exceptions raised.
	Medina Primary	0	6	1	0	AMBER	AMBER	AMBER	GREEN	GREEN	✓	Non compliance with financial rules for petty cash, inventory, quotations and purchase cards. Lack of clarity in relation to budget monitoring and controls in relations to the odometer readings of the mini buses
	Moorings Way Infant	0	9	1	0	AMBER	AMBER	AMBER	GREEN	GREEN	✓	Testing evidenced that the chair of Governors is also the Chair of Finance, keys are not removed from site breaching insurance requirements, inappropriate use of petty cash, petty cash account had gone overdrawn, purchase card statements had not been reviewed by an appropriate officer, inventory is not in accordance with financial rules, pecuniary interests had not been registered, lack of quotes for work undertaken, incorrect budget approval and lack of public liability insurance on record for after school club coordinators.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Charles Dickens	0	10	2	1	AMBER	AMBER	AMBER	AMBER	GREEN	✓	Testing evidenced non compliance with the Schools Financial Values Standards (SFVS), purchase orders were not being raised in advance of expenditure and the infants school account had not been closed, breach of Data Protection Act principle 7 and DPA registration for the infants school ceased in Nov 13 and Juniors is due to cease in Dec 13, Breach of the PCC scheme of financing schools, petrol claims for mileage that cannot be accounted for, breach of Disclosure & Barring Service (DBS) code of practice, breach of financial rules in relation in inventory. No evidence that staff are aware of and have signed the whistleblowing policy and register of pecuniary interests is not kept up to date.
	Cumberland Infant	0	1	1	0	GREEN	AMBER	AMBER	GREEN	GREEN	✓	Testing evidenced that purchase card transaction logs were not being signed by an appropriate manager and that the inventory was held electronically but not password protected and a reason for disposal of items was not given.
	Fernhurst Junior	0	2	1	0	GREEN	AMBER	AMBER	GREEN	AMBER	✓	Testing highlighted access to cash in the school office during working hours was not restricted, disposal from the inventory were not being written off by the Head Teacher and no audit of the voluntary and private funds had been conducted.
	Court Lane Infant	0	2	0	1	GREEN	AMBER	AMBER	GREEN	AMBER	✓	Testing highlighted that serial numbers were no longer being recorded on the inventory sheets, there was no evidence of independent audit of the voluntary and private funds and access to cash in the school office during working hours was not restricted.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Meon Junior	0	4	2	0	GREEN	AMBER	AMBER	GREEN	GREEN	✓	Testing identified a breach of the Data Protection Act as Disclosure & Barring Service (DBS) checks are being held in personnel files. There were no receipts for bank deposits as a "drop box" system was being used. The hire agreement for the hall does not reflect charges and agreed method of payment. Not all petty cash vouchers were not supported by receipts, purchase orders were not raised in advance and the inventory is to be sequentially numbered.
	Milton Park Primary	0	6	1	0	AMBER	AMBER	AMBER	GREEN	GREEN	✓	Testing identified that the Governing Body minutes did not evidence that the Governors were given a copy of the budgetary report and interests had not be registered, breaching the Scheme of Financing Schools. Petty cash had been used to pay a supplier, there wasn't any supporting evidence for quotes obtained, inventory items are not recorded correctly. The log sheets for the school mini bus did not hold sufficient information and a lack of Minibus Driver Awareness Scheme (MiDAS) certificates for staff that use the mini bus.
	Stamshaw Infant	0	4	1	0	AMBER	AMBER	GREEN	GREEN	GREEN	✓	Testing identified a conflict of interest as the chair of Governors is also the Chair of Finance, breach of Data Protection Act as Disclosure & Barring Service (DBS) checks are held on files, purchase orders were not raised in advise of expenditure, a payment exceeding the purchase card limit had been in 3 transactions and the inventory did not list reference numbers and there was no evidence of annual checks.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
Children's Social Care and Safeguarding- Stephen Kitchman	Targeted Youth Support 9-16 emerging needs	0	3	0	0	GREEN	GREEN		AMBER	AMBER	✓	Testing identified that assessments aware not always being completed in the 6 week agreed timeframe, outcome sheets are not always completed making it difficult to identify if the young person needs have been met and there was a significant lack of evidence to support the outcome being achieved. This may result in on-going needs not being met or a further referral to the team which will impact on resources.
	Youth Offending Team	0	6	0	0	AMBER	AMBER		AMBER			Testing identified that staff are not fully aware of the National Standards timeframes as completion of asset assessments and contact being made is not always in compliance, scoring of young people during assessments did not always clearly link to their risk of reoffending, intervention plan targets are not generally meeting SMART criteria and do not always link to the highest scoring risks, assessments and intervention targets are not always being reviewed in a timely manner
	National Policy for Community Orders (Recruitment of YOT Volunteers)	0	1	0	0	GREEN	AMBER	GREEN	GREEN		✓	Testing highlighted that the recruitment process had not been adhered too,
	Looked after children Issues Resolution Process	0	0	0	1	GREEN	GREEN		GREEN		✓	Testing highlighted that not all notifications were being recorded in the same place.
	Kinship Policy	0	1	0	0	AMBER	GREEN		GREEN	GREEN	✓	Testing highlighted a lack of knowledge of the Friends and Family careers framework.
	Foster Placements and residential care self assessments	0	1	1	0	AMBER	AMBER		GREEN		✓	Testing highlighted at one of the units is no longer staffed 24/7, however there is no intruder alarm and not all staff had completed Information Governance training. Testing also highlighted at one unit there is only one signatory for the petty cash account.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	HR Safer recruitment Children's Services	0	3	0	0	AMBER	AMBER		GREEN		✓	Testing highlighted a lack of Safer Recruitment training, recruitment checks are not carried out, documentation (interview notes) was not always retained and references were not always sought from appropriate parties (family members etc).
Follow Ups	Transfer of cases between teams	0	0	0	0	GREEN	GREEN		GREEN		✓	Testing evidenced that all previously raised exceptions have been implemented as agreed.
	PACT -Protection of Court Teams quality of paperwork	0	2	0	0	GREEN	GREEN	AMBER	GREEN		✓	Testing highlighted that legal documentation was still not being sent within the time frame, however changes have been made to the process which are now in place and training will be delivered in October 2013.
	Family Support Team	0	1	0	0		AMBER				✓	Follow up testing identified the team has been restructured however it was not possible to confirm if procedures are being complied with
	Family Support Team Second Follow Up	0	1	0	0		AMBER				✓	Second follow up testing identified that after the procedures were changed, there was no child in need plan for one case, one plan did not identify actions and planning meetings were not always within 4 weeks.
	EC Roberts Centre	0	1	0	0				AMBER		✓	Follow up testing highlighted that spot checks are not being recorded, it was therefore not possible to evidence that the previously agreed action had been implemented.
Customer, Community and Democratic Services- Louise Wilder	Registrars	0	1	0	0	AMBER	GREEN	GREEN	GREEN	GREEN	✓	Testing highlighted that staff had not completed mandatory training or signed the cash handling instructions
	Elections	0	0	1	0	GREEN	GREEN	GREEN	AMBER		✓	Testing highlighted that there was no consistence in payments made to schools for the use of the site as polling stations
City Development and Cultural Services - Stephen Baily	Mountbatten Centre Client Monitoring	0	1	0	0		GREEN	AMBER	GREEN		✓	Testing highlighted that the checks had not been undertaken to ensure that the correct value was being insured.

Service	Function	Exceptions				Assurance					Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
HIDS, Community Safety and Licensing- Rachel Dalby	Disclosure & Barring Service (DBS) check requirements and right to work in the UK	0	0	0	0		GREEN				N/A	No exceptions raised
Follow Ups	Anti-Social Behaviour Order (ASBO)	0	0	0	0		GREEN		GREEN		N/A	Testing evidenced that all previously raised exceptions have been implemented as agreed.
Information Services- Mel Burns	Bring your own device	0	0	0	0	GREEN	GREEN	GREEN		GREEN	N/A	No exceptions raised
Follow Ups	Physical Security	0	1	0	0	GREEN	AMBER		GREEN		✓	Follow up testing identified that equipment is still being moved into the new data centre.
	EMS (Education) Database - Now Capita One	0	0	0	0			GREEN	GREEN	GREEN	N/A	No exceptions raised
	Disposal of Equipment	0	2	0	0	GREEN	GREEN	AMBER	AMBER		✓	Follow up testing highlighted that there were more desktops recorded than held in the redeployment room. The process of updating the inventory has changed and is still being implemented.
PORT	Camber letting- agent collecting Harbour dues	0	2	0	0	GREEN	AMBER		AMBER		✓	Testing highlighted weak controls on work carried out by the Managing agent at the Camber, the previous management checks had not been followed up to ensure agreed actions had been implemented. Non compliance with section 4 of the special conditions of the contract.
Public Health	Transfer of Staff	0	1	1	0	AMBER		AMBER		GREEN	✓	Testing identified that PCC payroll did not have the facility to pay mileage to Primary Care Trust (PCT) staff and non compliance with the filling of posts in receiving organisations policy.
	Statement of Grant Usage	0	0	3	0	GREEN	AMBER				✓	Testing highlighted that the grant return is not correct and is understated.
Revs and Bens- Ed Woodhouse	Housing Benefits and Council Tax Benefits	0	0	0	0	GREEN	GREEN				N/A	No exceptions raised
	National Non Domestic Rates & Council Tax	0	2	1	0	GREEN	GREEN		AMBER	GREEN	✓	Testing highlighted that the current tracing process does not contain guidance on after a credit search is completed, write off are not being monitored my management and Discretionary Rate Relief was not awarded inline with the policy
Transport and Environment- Simon Moon	Carbon Reduction programme	0	0	0	0	GREEN	GREEN			GREEN	N/A	No exceptions raised
	Colas- Clean City	0	0	0	0	GREEN	GREEN		GREEN		N/A	No exceptions raised

Service	Function	Exceptions				Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Assurance			Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low			Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
	Flood and Water Management Act 2010	0	0	0	0		GREEN				N/A	No exceptions raised
	Public Transport tender	0	0	0	0		GREEN				N/A	No exceptions raised
	Hire Cars	0	3	1	0	AMBER	GREEN	GREEN	AMBER		✓	The review highlighted lack of checks on driving licences and hire car request forms, a lack of system to record mileage, damage and fuel consumption. No requirement for a business need for the hire is required. Lack of separation of duties when confirming invoices.
	Fuel purchases	0	2	0	0		AMBER				✓	Testing highlights non retention of VAT receipts and lack of evidence and monitoring that the fuel purchased is proportionate to the business requirement
	Payments for staff parking and fines	0	0	0	0		GREEN				N/A	No exceptions raised
	Parking- resurfacing contract	0	0	1	0	GREEN	GREEN		AMBER		✓	Testing highlighted that planned works were not carried out within the timeframe stipulated.
	Local Strategic Transport Fund (LSTF) Grant 2012/2013	0	0	0	0	GREEN	GREEN				N/A	No exceptions raised
Follow Ups	Car Parking 3rd Party Cash Collection (Parking - cancelled Parking Charge Notices and appeals)	0	3	0	0	AMBER	GREEN	GREEN	AMBER		✓	Follow up testing identified that there is still not a full set of signed contact documentation. The Finance team are now supporting Parking Services ensuring the rates to the contacts are checked to their latest uplift and there is consistency.
External	Spinnaker Tower	0	1	1	0	GREEN	AMBER		AMBER		✓	Testing highlighted lack of responsibility of debt and discrepancy of income collected due to promotional offers.
	Langstone Harbour Board	0	0	0	0	GREEN	GREEN	GREEN	GREEN	GREEN	N/A	No exceptions raised
	Mainland Market Deliveries (MMD) Audit Transport	3	1	0	0	RED	RED		RED		✓	Testing highlighted that no insurance documents had been obtained for the sub-contractors. The risk of fraud had not been adequately mitigated and assets had not been protected.
	A Secondary School	9	9	0	0	RED	RED	RED	RED	RED	In progress	The work carried out highlighted a complete failure by the School to maintain any effective internal control framework over governance, risk management and financial probity.

Service	Function	Exceptions				Assurance				Actions agreed by Head of Service	Summary of areas where no assurance can be given
		Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops		
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ISS.1 - Information Governance - File Security	
Priority Level Critical Risk	
<p>Exception</p> <p>The auditor carried out a security check of the Civic Offices building on Saturday 20th and the evening of Tuesday 22nd July. The following areas of the building were included in the checking (in brackets shown the number of incidents of documents containing personal data not secured): Adult Social Services (4), Children's Social Services (2), Children and Young People Services(3), Human Resources (4), Housing (0), HR (4), Revenues and Benefits (0), 2nd Floor Finance(0), Community Safety (4), Licensing (3 - no clear desk policy), Legal Services (no clear desk policy), Traffic and Environment (0), HIDS/Public Health (0). Overall most services have a clear desk policy and there were isolated incidents where cupboards and drawers had been left unlocked. Heads of Services have been informed about breaches and are taking up actions within their services and keeping internal audit informed.</p> <p>Two areas were restricted entry. These were the Legal Service mezzanine floor and Children's Services floor 5 core 5. Legal Services do not follow a clear desk policy and as a result, despite the restricted access (which includes cleaning staff, members and building maintenance staff) breaches the Data Protection Act requirements, as steps have not been taken to secure sensitive and personal information against unauthorised access. Children's Services when interviewed said they followed a clear desk policy but the Security checks during the audit found a number of areas where paperwork is being left on desks or in unlocked drawers. Licensing do not have a clear desk policy and Internal Audit recorded 3 examples of documentation not secured due to moving from a secured area and not having suitable lockable cabinets. Action is underway to rectify this.</p>	
<p>Risks and Consequences</p> <p>Harm is caused to an individual through unauthorised access to their records, breach of the Data Protection Act results in a fine from the Data Commissioner and reputational damage.</p>	
Agreed Action	Person Responsible / Action by Date
<p>Legal Services - have undertaken to lock items away within the mezzanine and a follow up showed that files are now securely held.</p> <p>Children's Services - took action to inform all staff and to</p>	<p>Internal Audit to carry out a follow up in two months' time.</p>

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<p>provide locked drawers and cupboards where needed. A follow up showed still some information is not being locked into drawers at night and further actions taken with individuals and with training and awareness. All other Heads of Services informed of individual circumstances and immediate actions taken by those Heads of Services with individuals concerned.</p>	
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Appendix B - 2013/14 Critical Exceptions

EX.1 - 1213-138 - MMD Transport - Sub-contractors - CMP	
Priority Level Critical Risk	
Exception MMD sub-contract haulage journeys to a number of haulage companies. The Transport Manager also confirmed that presently there is no process in place to ensure up-to-date copies of insurance documents are obtained for the sub-contractors. A sample of five haulage contractors were selected no current insurance certification could be evidenced for any of those tested.	
Risks and Consequences Financial - financial loss due to no/under insurance.	
Agreed Action	Person Responsible / Action by Date
A system has been set up to ensure all subcontractors have their insurance checked annually.	Haulage Manager – March 2013

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EX.2 - 1213-138 - MMD Transport - Process - ICE

Priority Level

Critical Risk

Exception

A review of the processes in the transport department was carried out to establish whether there are sufficient controls in place to prevent or detect fraud following a significant fraud by the previous Transport Manager. Changes have been made to the system to improve the controls in place, however the risk of fraud/ error occurring within transport activities is still not adequately mitigated as;

- The system in place puts significant reliance on the Transport Manager to negotiate rates with haulage sub-contractors for journeys undertaken on behalf of MMD and the back load rates with customers as these don't follow the schedule of rates.
- Orders for deliveries of items not from MMD stock e.g. backloads, are reliant upon the Transport Manager or the assistant manually entering the journey details into 'HARM' and then raising a manual invoice request to recover the costs from the customer. There is no compensating control that reduces the risk of error or fraud.
- The system is not efficient with various manual and electronic (system generated) processes. Many of the records used can be altered or in the case of 'HARM' (excel spreadsheet) deleted/ amended, for example to change the price and remove the order from the system.

The Transport Manager has confirmed that there are no written agreements in place with any of the companies, as all orders and agreements are made verbally, including pricing. Therefore the Road Haulage Association conditions of carriage apply to all sub-contracted journeys. There is however no written agreement for the price of the journey until the purchase order is sent to the customer, which normally takes place the day after the journey.

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Risks and Consequences	
<p>Fraud risk - Adequate controls are not in place to prevent/detect fraud.</p> <p>Operational risk – The system is open to error</p> <p>Legal/Operational - Dispute resolution may be difficult without agreed written prices in advance of journeys.</p>	
Agreed Action	Person Responsible / Action by Date
<p>As background, haulage is now a profit centre, the Transport Manager has clear accountability for delivering a profit and the financial environment has now been changed. Motivation to deliver a profit has also been enhanced by introducing performance related pay for the Transport Manager.</p> <p>2.1 Sub-Contractors</p> <p>Unit costs (e.g. price per mile) for regular destinations will be captured by the Financial Controller and presented to the MMD Board as part of the monthly Management Information Pack for review</p> <p>Haulage out load invoicing (80% of the total) has now been automated by linking invoices to dispatch notes, which ensures completeness of invoicing. Dispatch notes are entered onto Navision by the distribution team ensuring segregation of duties. Monthly reports are run to identify any un-invoiced deliveries.</p> <p>This has meant that an accurate accrual can be calculated monthly & hence accurate monthly accounts which, as previously stated, are reviewed by the Financial Controller (escalated where necessary) and presented to the MMD Board on a monthly basis as part of the Monthly Information Pack to provide an early warning of any material problems.</p>	<p>Noted</p> <p>Financial Controller / Directors – March 2014</p> <p>Completed</p> <p>All Directors, Financial Controller & Transport Manager - Ongoing</p>

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<p>The HARM is reconciled to Navision invoicing monthly. The Financial Controller will investigate and escalate to the Board any unexplained variances beyond a 1% tolerance</p> <p>Controls will be put in place to detect any significant fraud. Subcontractor margins on each journey will be monitored and any beyond "normal" tolerances (i.e. +/- 5%) will be investigated by the Financial Controller. Any necessary escalation will be taken to the MMD Board</p> <p>The Transport Manager has control of the customer haulage rates and informs the Directors on a regular basis of his business plan and changes. Directors compare haulage rates with the previous set of haulage rates for any anomalies</p> <p>2.2 Backloads Backloads are now recorded in HARM by the Haulage Manager and his deputy. Trips are raised in Navision by the Haulage Admin Assistant (who records the Trip number in the HARM) and subsequently invoiced in Navision by Finance, so there is a segregation of duties</p> <p>The HARM's structure and static data is a password controlled spreadsheet. The password is only known by Accounts. The HARM is reconciled to Navision invoicing, monthly, to within 1%. The Financial Controller will investigate and escalate accordingly any variances beyond a 1% tolerance</p>	<p>Completed by Financial Controller - Ongoing</p> <p>Financial Controller - Ongoing</p> <p>Transport Manager & Directors- Ongoing Financial Controller –Ongoing</p> <p>Completed</p> <p>Financial Controller - on-going</p>
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EX.3 - 1213-138 - MMD Transport - Asset Utilisation – EOO

Priority Level

Critical Risk

Exception

Testing was carried out to establish whether the hired units and trailers were being fully utilised, this highlighted that unit usage reviewed via the information in HARM however there is no analysis of the trailer usage. The Transport Manager states that the vehicles are used regularly, but there is no review of the actual day's usage.

A review of the taco readings for all drivers for the period of 17th September 2012 to 14th October 2012 was conducted as this records which unit was used. This highlighted that there were significant periods where the units were not used for example unit registration KYC was only used for 5 days over the entire period.

Risks and Consequences

Financial - Not maximising income by fully utilising assets.

Fraud risk – MMD assets are used for non MMD business.

Agreed Action

Trailer usage has not been monitored daily.
The HARM has now been modified to include trailers, so utilisation can be regularly monitored
Unit and trailer usage statistics will be reported to the MMD Board on a monthly basis as part of the Monthly Information Pack

Periodic spot checks to verify that trailers not logged out remain on site

Person Responsible / Action by Date

Transport Manager / Financial Controller -
Completed 8/3/13

Financial Controller –Ongoing

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EX.1 - 1314 - 062 - Purchase Card - Persistent Errors - CMP

Priority Level

Critical Risk

Exception

From the sample of 25 purchase card logs selected for testing for the month of May 2013, 11 of the 15 claims for one member of staff (73%) were non-compliant with expected controls. These are reported alongside the other breaches raised in exception 2.

As a result of this the logs for April and June 2013 were also reviewed for this employee.

Testing identified 3 non-compliant claims (30%) on April's transaction log and 5 non-compliant claims (63%) on June's transaction log. Errors included;

- 4 occasions where no supporting VAT invoices were submitted. Breach of Financial Rule G38 (k).
- 1 transaction where VAT was claimed but there was no supporting VAT invoice. Breach of Financial Rule G38(l) and HMRC regulations
- 1 transaction where an entry on the purchase card log was different amount from the invoice by £5.95. Breach of Financial Rule G38 (b(v))
- 1 transaction where a delivery note was supplied instead of a VAT invoice. Breach of Financial Rule G38 (k)
- 1 payment to a catering supplier where VAT able items had not been identified and it is unclear if VAT has been claimed. Breach of section 25 of the Policy and G38(l) and HMRC regulations

Financial rule G38 (n) states that "if any of the financial rules are not followed by the cardholder the process for withdrawing the card as detailed in the Policy must be followed. Section 17 states "if a cardholder repeatedly fails to comply with the requirements of keeping receipts, recording transactions and completing and submitting a transaction log their card will be cancelled.

Appendix B - 2013/14 Critical Exceptions

Risks and Consequences

Financial risk resulting from a breach of the Purchasing Card Policy and Procedures and Financial Rules G38 as listed above.

Operational risk as a result of non-compliance with policy and procedures resulting in errors and breaches.

Legislative risk resulting in a possible fine from HMRC as VAT is not being recorded and reclaimed correctly.

Agreed Action

Person Responsible / Action by Date

Head of Customer, Community & Democratic Services to discuss breaches of Financial Rule G38 with the member of staff to ensure VAT is administered correctly for future purchases and that if purchases are required to be made from eBay a waiver will be sought in advance of the purchase.

Financial Services to be contacted to establish if they have the capacity to provide administrative support to the service.

Head of Customer, Community & Democratic Services by 31 August 2013

Appendix B - 2013/14 Critical Exceptions

EX.2 - 1314 - 062 - Purchase Cards - Non Compliance with the Policy and Procedures

Priority Level

Critical Risk

Exception

A random sample of 25 purchase card logs across all Directorates was selected for testing for the month of May 2013.

It was noted that six purchase card holders in the sample tested had not used their cards during May 2013 and one had left PCC employment. From the remaining 18 transaction logs testing identified 10 different breaches of the Purchase Card Policy and Procedures, HMRC VAT regulations and Financial Rules G38.

The 18 transaction logs equated to a total of 101 transactions, of which there was a 34% error rate, errors identified were:

1. On 12 occasions VAT had not been reclaimed on purchases from large companies including Argos and Wilkinson's. The total amount of VAT not reclaimed is £56.80.

Financial Rule G38 (I) states that "where VAT is applicable, a VAT receipt must be obtained and attached to the transaction log".

2. For 4 transactions VAT receipts were provided as proof of purchase but VAT was not reclaimed. This equated to £141.02 of VAT over the 4 invoices.

Section 25 of the Purchase Card Policy defines what is required for reclaiming VAT against different value purchases. VAT legislation requires purchasers to obtain a VAT invoice from suppliers as evidence of VAT incurred.

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3. For 3 of the transactions VAT has been claimed but there is not a VAT receipt or invoice to support this. The amount of VAT claimed without supporting documentation totals £10.09.

Financial Rule G38 (l) states that "where VAT is applicable, a VAT receipt must be obtained and attached to the transaction log". Section 25 of the policy states that VAT legislation requires purchasers to obtain a VAT invoice from suppliers as evidence of VAT incurred.

4. Testing confirmed that no receipts were provided for 4 of the 101 transactions.

Financial Rule G38 (k) states that "proper receipts or invoices for all expenditure incurred must be obtained and retained and attached to the statement. Section 25 of the policy states "invoices are the evidence that is required for PCC to reclaim the VAT incurred on purchases.

5. One transaction log was not signed by a manager, one electronic log was not submitted for the month of May 2013 and for one the manager's name was not printed on the form. Two logs were submitted for the same month by the same person for the same transactions but signed by 2 different managers and one member of staff had moved departments and did not know who her purchase card coordinator was. This equates to 5 of the 18 logs tested (28%) not being correctly authorised

Section 31 of Purchase Card policy states that "all transactions carried out on your purchase card will be reviewed by your line manager on a monthly basis. Your line manager will sign your transaction log, spot checks will be performed by your purchasing car co-ordinator to ensure purchases are appropriate and procedures are adhered to".

6. On two occasions payments were split to circumvent cardholder's transaction limits. The purchase of catering equipment totalling £2,224.22 was split into 3 payments as the cardholder transaction limit is set at £2,000 and the purchase of Westlaw UK Service online subscription totally £3,306 was split into 2 payments as the cardholder transaction limits set at £3000 .

Financial Rule G38(b) states that purchase cards must be used in accordance with the Purchase Card Policy and Procedures inclusive of types and limits of purchases. Section 19 of the policy states that "you must not try to increase your transactions limit by asking the supplier to split the purchase".

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7. One member of staff in the sample tested left PCC in November 2012, however, they were still showing as active on the current purchase card list as at 23 July 2013.

Financial Rule G38 (o) states that "when a cardholder leaves the employ of the council the Head of Service must ensure the return of the card in accordance with procedures including cancellation and disposal of the card".

8. Another purchase card holder in the sample had moved department, however when reviewing the file there was no evidence that a review of purchase card limits has been undertaken. The PCard02 form has been completed but it is unclear from this if the £10,000 transaction and monthly limit is still appropriate.

Financial Rule G38 (p) states "if a cardholder transfers to another department within the City Council their new line manager must decide whether the purchase card is required and a PCard02 form completed".

9. One purchase card holder has made purchases from eBay totalling £240.05.

Financial Rule G38 (h ii) states that "purchases cannot be made from individuals, or from eBay or eBay type organisations.

10. One purchase card holder had not correctly coded the transactions on the purchase card log.

Section 26 of the Purchase Card Policy states that "accurate record keeping is essential to the success of the Purchasing Card programme. The purpose of the transaction log is to identify purchases made during the course of the month and allow expenditure to be coded to the correct budget in the General Ledger.

Appendix B - 2013/14 Critical Exceptions

Risks and Consequences

Financial risk resulting from a breach of the Purchasing Card Policy and Procedures and Financial Rules G38 as listed above.

Operational risk as a result of non-compliance with policy and procedures resulting in errors and breaches.

Legislative risk resulting in a possible fine from HMRC as VAT is not being recorded and reclaimed correctly.

Fraudulent risk as a result of management not signing transaction logs and coordinators not receiving logs to carry out monitoring.

Agreed Action

Person Responsible / Action by Date

Email to be sent to the purchase card co-ordinators reminding them of their responsibility.

Accounts Payable Team Leader by 31 August 2013

Accounts Payable Team Leader to continue to gather information from co-ordinators to establish any common themes/issues with the purchase card logs that need to be rectified.

As part of the R12 release, i-expenses will automatically code the transactions.

Co-ordinators to have a copy of the final audit report to highlight the areas of non-compliance that have been identified during testing.

If payments are required to be made on eBay a waiver will be sought in advance of the purchase.

Appendix B - 2013/14 Critical Exceptions

Secondary School

Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
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Value for Money		
<p>1. It was identified during testing that the School had purchased ink and toner cartridges from a supplier that cost, on average, 4 times above the lowest price available as a result of market research.</p> <p>At the beginning of the year it was identified by the Head teacher that an upgrade of IT equipment was required in order to prepare for Ofsted. On the recommendation of the [REDACTED] 25 refurbished HP Pavilion laptops and 25 solid state hard drives (SSD), which were bought to upgrade the laptops on arrival, were purchased. The motivation for the hard drive upgrade was that they would provide increased performance and durability. The unit price for these laptops and SSD was £398.99 exc VAT, where market research shows that the same items could have been purchased for £341.50 exc VAT.</p>	<p>[REDACTED] - (SOA) There has been failure to obtain best value on the purchase of ink and toner cartridges and upgraded IT equipment.</p> <p>This is a breach of the Scheme for Financing Schools - Section 2.6 Efficiency and Value for Money which states that 'schools must seek to achieve efficiencies and value for money, to optimise the use of their resources and to invest in teaching and learning, taking into account the Authority's purchasing, tendering and contracting requirements'.</p> <p>The potential overspend and loss of funds for the School, in the first example is estimated at £16k on expenditure of £21k. In the second example the loss is estimated at £1,437 on expenditure of £9,974.</p>	<p>The school are looking to appoint a new member of staff and to review the job description of the [REDACTED]. The school envisage that this will be a two tier process. The first stage being the appointment of a full time temporary [REDACTED] (After interview and skills appraisal an administrative assistant was appointed from the Government Apprentice scheme, who will take up duties from 6th January 2014). This member of staff will be responsible for receiving, unpacking and entering new items on the school inventory. This person will also be responsible for implementing and operating a robust and secure stock control system for items such as ink cartridges. The [REDACTED] will be line managed by the [REDACTED] and [REDACTED], and monitored by the [REDACTED].</p> <p>The second phase of the process is the review of the [REDACTED]'s role and responsibilities, which will be undertaken by the Head Teacher, Chair of Governors and Link Governor for ICT. Job description information will be obtained from PCC. Until such an appointment is made all orders for ink cartridges and ICT equipment will be checked by the link governor for ICT.</p> <p>The Finance and Staffing sub-committee</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
		<p>commissioned the [REDACTED] to undertake a price survey of ink and toner cartridges from permitted suppliers using criteria of named brand, high quality, stipulating no refills, from approximately six suppliers, including the historical supplier This information to be made available at the next Finance and Staffing sub- committee meeting on the 10th December 2013.</p> <p>Action point:</p> <p>Short term:</p> <ul style="list-style-type: none"> ○ Obtain price comparison information. ○ All orders for ICT equipment and cartridges to be monitored. ○ Appointment of Administrative Assistant. <p>Medium term:</p> <ul style="list-style-type: none"> ○ Stock control system to be implemented. ○ The role and responsibilities of the [REDACTED] to be reviewed using PCC guidelines, by the Head Teacher and a governor from the Finance and Staffing sub-committee, training needs to be identified. <p>Long term:</p> <ul style="list-style-type: none"> ○ Regular stock and inventory checks to be carried out by school staff and monitored by a representative of the Governing body. ○ The school to consider developing a resource management role to

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
		include [redacted] role.
<p>2. During a site visit to the School it was established that thirty five monitor screens are being stored in the loft. Following discussions with the [redacted] and the Head teacher it was confirmed that the future use of them is undetermined although they are usable and are in working condition.</p>	<p>High Risk - (SOA) There is an operational and financial risk that storing assets in a remote location will place the [redacted] in a vulnerable position as damage to, or the loss or theft of assets may go undetected. Additionally valuable assets are not being utilised and may become obsolete over time.</p>	<p>A procedure is in place to 'write off' equipment that is old and surplus to requirements. The school have taken advice regarding the disposal of the obsolete items and have agreed to pay to have them removed. Action point: Short term: <ul style="list-style-type: none"> 'Write off' forms are being used to write off equipment that is old or obsolete. These will be signed by the Head Teacher and a representative from the Governing Body, within a reasonable time scale of not more than one working week. Medium term: <ul style="list-style-type: none"> A quote has been obtained; and an order will be raised for the disposal of monitor screens as soon as possible. </p>
<p>3. During an examination of the Schools server room and class rooms it was identified that 28 (24 Hard Drive Disk (HDD) & 4 Solid State Drive (SSD)) hard drives were situated in carrier bags (with leads and wires) or desk drawers. Hard drives are fragile items of equipment and should be safely secured when not in use.</p>	<p>High Risk - (SOA) The lack of internal control for monitoring and checking assets places all staff, but especially the [redacted], in a vulnerable position as damage to, or the loss or theft of assets may go undetected.</p>	<p>Future purchases of ICT equipment over £1,000 per any single order will be referred to the Finance and Staffing sub-committee. (As per recommendations in the PCC Scheme for Financing Schools) Instructions will be given to the [redacted] to ensure that all equipment is safely, efficiently and tidily stored. The [redacted] has been reminded of</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
	<p>Additionally, as above, valuable assets (to the estimated value of £1,332.00) are not being utilised and may become obsolete over time.</p>	<p>the process for 'writing off' and disposing of obsolete equipment and has agreed to record such items appropriately, this to be line managed by the Head Teacher. All items to be disposed of will be recorded on the appropriate pro-forma.</p> <p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ All orders for ICT equipment/cartridges to be monitored by the link Governor for ICT. ○ [REDACTED] has been reminded of the process for 'writing off' obsolete/old equipment using the appropriate pro-forma. ○ A letter has been sent reminding the [REDACTED] that all equipment should be stored, efficiently, safely and tidily. ○ All items with a value of £200 or more and which are portable or attractive will be included on the inventory.
Stock records		
<p>4. During the period April 2012 to July 2013 £21,416.00 was spent by the School on ink and toner cartridges. There is no evidence that stock control records were kept for the monitor and use of these items.</p>	<p>[REDACTED] - (SOA) The lack of internal control for monitoring and checking stock or IT equipment places all staff in a vulnerable position as damage to, private use of or the loss or theft of</p>	<p>The control of stock will become part of the job description of the new [REDACTED] [REDACTED] (see item 1) The link Governor for ICT will liaise with the appropriate staff to ensure that purchases reflect and are in line with the Schools ICT Strategic plan.</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>For the same period £38,116.00 was spent by the School on computer supplies which included hardware, software and general items. There is no evidence that stock control records were kept for the monitor and use of those items that do not fit the School's criteria to be recorded on the Inventory. The estimated value for these items is £12,288.00. The job description of the [REDACTED] stipulates that he is required to maintain an inventory of IT stock.</p>	<p>assets could potentially occur and go undetected. Additionally, there is no evidence that the IT purchases were an efficient use of resources.</p>	<p>The current function of the [REDACTED] will be reviewed by the Head Teacher, Chair of Governors and the link Governor for ICT (see also item 9) The outcome of which will be discussed at the Finance and Staffing governors sub-committee meeting. Action point: Medium term:</p> <ul style="list-style-type: none"> ○ The current function of the [REDACTED] will be reviewed taking into account the changing needs of the school. ○ Outcome of review findings to be discussed by the Finance and Staffing governors sub-committee.
<p>Inventory and Safeguarding of Assets</p>		
<p>5. During the course of testing it was established that ten of the fifty six promotional items which were sent to the School as a result of bulk purchasing with one company were unaccounted for.</p> <p>In addition, it was also noted that the number of hard drives purchased by the school as identified by relevant invoices (23) did not correlate with the number of drives physically sighted (14).</p> <p>Action required: These items must either be located and recorded on the School Inventory or, as</p>	<p>[REDACTED] - (CMP) As a result of the lack of internal administration and control, damage to, private use of, or the loss or theft of, these items could potentially occur and go undetected. PCC Financial Rule G27 stipulates that School Governors and Head teachers are required to make arrangements for the care and custody of stocks and stores in their service and to ensure that adequate records are kept and that reasonable levels are maintained which are subject to a regular independent</p>	<p>The [REDACTED] will keep a register of any promotional/ donations/ gifts that the school receive. This to be an agenda item, every term at the Finance and Staffing governors' sub-committee meeting, where any concerns can be raised. This will not include items below the value of £5 donated for raffles, tombola etc. A policy will be drafted and adopted by the full governing body at their next meeting covering the above. All staff have signed to acknowledge receipt of hard drives. Further investigations will take place to ascertain location of all equipment. Items located will either be added to the Gift register or submitted for the 'write off' procedure.</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>the value exceeds £100.00, submitted for write-off to the Authority's Section 151 Officer as per section 2.3.6 of the Scheme for Financing Schools</p>	<p>physical check. All discrepancies should be investigated and pursued to a satisfactory conclusion.</p>	<p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ Register of promotional/donations/gifts to be implemented. ○ Promotional/donations/gifts policy to be adopted by governors. ○ Checks to ascertain location of the 23 hard drives have been carried out 22 have been located and 1 was reported as stolen in Summer 2013 ○ All hard drives have been added to the appropriate register. (see attached document)
<p>6. As at July 2013 there were 730 items recorded on the School inventory. An initial search by Internal Audit staff of the School and store rooms located 668 items. However, there were also 72 items that were not recorded on the inventory but identified during the search. Following several subsequent searches by either Internal Audit or School staff, 35 items were still not found (Note small items such as keyboards/ blenders and musical instruments were excluded).</p>	<p>██████████ - (SOA) The School has unaccounted assets and therefore no assurances can be given that theft has not occurred.. The Scheme for Financing Schools -2.3.4 Control of assets, stipulates that; schools must maintain an inventory, which as a basic minimum includes all items with a value of over £200, or which are deemed portable and attractive. The information required for inventory items over £1,000 should be consistent with the requirements of Portsmouth City Council's Financial Rules and should be kept up to date.</p>	<p>Monthly inventory checks will be carried out by a representative of the governing body to ensure that all new items have been added to the inventory. Any discrepancies will be reported to the Head Teacher. This will also include small/portable items as recommended by PCC. A copy of the inventory will be sent monthly to: The Authority, the Head Teacher and the ██████████, by the representative of the governing body. Regular, monthly inventory checks will also be carried out by the ██████████.</p> <p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ Arrangements for monthly inventory checks will be made. ○ Copies of inventory to be sent to

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
		PCC, Head Teacher and [REDACTED] <ul style="list-style-type: none"> ○ A member of the Finance and Staffing governor's sub-committee to carry out random spot checks.
7. Manual disposal sheets are in place to evidence authorisation of asset disposal. The majority of these sheets do not record the reason for disposal and dates indicate that authorisation was obtained after disposal - in some instances up to two months later.	[REDACTED] - (SOA) The School's assets are at risk of theft as items may have been used for personal use. There is also a risk that assets have been disposed of whilst still serviceable. PCC Financial Rule G25(f) states that Head Teachers may write off redundant, obsolete or damaged items in accordance with instructions issued by the Governors in the case of schools.	All staff will be reminded of the 'write off'/disposal procedure for obsolete equipment. All items to be disposed of will be recorded on the appropriate pro-forma. The signature of two members of staff will be required in order that items are 'written off' the inventory. Copies of the disposal forms to be given to the [REDACTED]. Action point: Short term: <ul style="list-style-type: none"> ○ All staff will be made aware of the correct procedure for writing off old/obsolete equipment. ○ Approved forms for writing off equipment will be used and copies given to the [REDACTED] who will keep and maintain a file. ○ Write off' forms will be used to write off equipment that is old or obsolete. These will be signed by the Head Teacher and a representative from the Governing Body, within a reasonable time scale of not more than one working week.
<p>Policies & Procedures</p>		
8. At various stages throughout the Internal	[REDACTED] - (ICEN)	All Governors on the Finance and Staffing

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>Audit review it became apparent by either individual acknowledgement or evidenced by breaches that a significant number of staff at Redwood Park were either:</p> <ul style="list-style-type: none"> • Not fully aware of the requirements of the Scheme for Financing Schools, the Authority's Financial Rules or the School's own policies, i.e. Gifts and Hospitality and Curriculum IT use or had. • Or had failed to adhere to them either due to lack of knowledge or potential deliberate circumvention. 	<p>The School is exposed to the risk of potential financial penalties as a result of non-compliance with HMRC and Data Protection Legislation.</p> <p>The school are unable to evidence that they have obtained value for money in the procurement of goods and services</p> <p>Staff are vulnerable to accusations of theft and fraud.</p>	<p>sub committee and staff with a financial responsibility have been given a copy of PCC's Scheme for Financing Schools. A new policy/procedure for recording gifts and hospitality will be implemented and all staff will be made aware of its contents. (see also point 5)</p> <p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ All Governors and staff with a financial responsibility have been given a copy of Portsmouth City Council's Scheme for Financing Schools. Staff will be asked to sign to say they have received the information, the [REDACTED] to hold the record. ○ Policy for acceptance and recording of promotional offers/gifts and hospitality will be distributed to all staff. Staff will be asked to sign to say they have received the information, the [REDACTED] to hold the record.
<p>9. Although the School has an IT Curriculum Policy there is no IT Strategy or long term vision required to outline the future ICT needs of the school or a maintenance and replacement schedule for the equipment.</p> <p>There is also no disposal policy for the removal of data and safeguarding of</p>	<p>High Risk- (ICEN) Expenditure decisions are based on short terms needs instead of a longer term vision and strategy, resulting in potential spending limitations and a failure to provide adequate and appropriate resources in the future. The School is exposed to financial</p>	<p>A Governor has been identified with a brief for ICT. Regular monthly meetings have been planned with curriculum leaders who will form an ICT Forum. This Forum will make recommendations, based on the ICT Strategic Plan, to the School Improvement Plan. The [REDACTED] and link governor will be asked to compile a disposal of data and</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
information.	<p>penalties if sensitive data and information is not safeguarded. i.e. A Breach of the Data Protection Act (DPA) could result in a maximum £500,000 fine for a serious breach by a public body.</p> <p>Prosecutions could also occur dependent on the severity of any breach.</p>	<p>safeguarding of information policy. Once adopted this will be distributed to staff who will sign to say they have received the information. The [REDACTED] to hold the record. A review of ICT technical support and services at the school will be carried out by the Head Teacher, Chair of Governors and the link governor. This to take into account the integral part ICT plays in the School Improvement Plan and pupils learning.</p> <p>Action point: Medium term:</p> <ul style="list-style-type: none"> ○ Safeguarding of information and disposal of data policy/procedure to be drafted, in line with PCC guidelines by [REDACTED] and link Governor for ICT. ○ The job description of the [REDACTED] will be reviewed taking into account the changing needs of the school.
10. All Governors, the Head teacher and any members of staff with financial responsibilities must submit an annual declaration of interest and refrain from participating in the appointment of contractors where there is a clear conflict of interest.	<p>High Risk- (ICEN) Non-compliance could result in; a reputational risk as non-declaring of at pecuniary interest could potentially place the School and member of staff in a vulnerable position or a financial risk that the school are unable to evidence that they have obtained value for money in the procurement of goods and services.</p>	<p>The Clerk to the Governors already holds a file where all information regarding the pecuniary interest of Governors and staff with a financial responsibility is held. These are updated on a yearly basis. Pecuniary interest is recorded in the minutes at the start of every governors meeting.</p> <p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ All staff have now been requested

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
		<p>to complete these forms. [redacted] to hold and maintain a file.</p> <ul style="list-style-type: none"> ○ Nature of pecuniary interest to be recorded in minutes of all meetings to avoid any conflict of interest. ○ Governors, members of staff declaring pecuniary interest to be excluded from any decision making connected to the interest.
Budgetary Control		
<p>11. Testing identified that for the financial years 2011/12, 2012/13 and 2013/14 to date, expenditure for the purchase of ink and toner cartridges was found to have been coded to various other budget headings instead of all of it to the correct budget heading i.e. Printer and Ink. No explanation for this action has been provided.</p> <p>In addition to this there is no evidence that the over spend on ink and toner was presented accurately to the Head teacher or the Governing Body.</p> <p>One action required: Expenditure must be coded to the correct area and not hidden by means of coding to underspent alternative headings.</p>	<p>[redacted] - (R&I)</p> <p>A satisfactory explanation has not been given as to why expenditure has been regularly miscoded and unauthorised by the Head teacher or Governing Body.</p> <p>The School is therefore unable to evidence that they have obtained value for money in the procurement of goods and services</p>	<p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ The [redacted] will in future ensure all shortfalls in budget planning are addressed through the process of virement. This will support the process of ongoing budget planning being based on actual need/useage and enable the Finance and Staffing sub-committee to monitor budget expenditure more effectively. The Finance and Staffing sub-committee to identify level of virement that is delegated to the Head Teacher. ○ The [redacted] will sign an undertaking that under no circumstances will they use the practice of 'split coding'. ○ All budget overspend with detailed explanations to be presented to the governors at the Finance and

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>All proposed individual budget overspends must be reported and if deemed appropriate ratified by the Governing Body or Head teacher (if within delegated spending limits) prior to any further expenditure being incurred.</p>		<p>Staffing sub-committee meetings by the [REDACTED]. Remedial action will be taken to address these variances.</p> <ul style="list-style-type: none"> ○ Minutes of meetings will reflect all decisions made.
<p>Contractual Hours & Monitoring of Performance</p>		
<p>12. During testing it was identified that the School held no records for the period of the end of January 2013 to July 2013 of the hours worked by the [REDACTED], this was despite concerns raised by the Head teacher in the summer of 2012 where the [REDACTED] was asked to make up contracted hours paid for but not worked.</p> <p>In addition to this the [REDACTED] is accompanied by [REDACTED] each Wednesday, (this individual has no contract of employment with the School). The [REDACTED] confirmed during interview that this individual is and has been left unsupervised when on the School grounds and that there is no record of what work that individual has carried out in relation to the installation of hardware, upgrades or movement of IT equipment.</p>	<p>High Risk - (EOO) Financial risk that the School may be paying for services that they are not actually receiving. The School is therefore unable to evidence that value for money has been obtained in the procurement of services</p>	<p>The [REDACTED] is now accountable for recording and submitting his hours on a weekly basis. This is checked by a [REDACTED] and monitored by the Head Teacher.</p> <p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ Hours worked by [REDACTED] to be recorded and approved weekly. ○ Status of ICT (volunteer) support worker to be clarified and reviewed. ○ All volunteer workers in school to be approved by a member of the Senior Leadership Team and recorded in minutes of their meetings.

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
Server Room and Access		
<p>13. Following discussion with both the [REDACTED] and [REDACTED], Internal Audit was informed that access to the Server Room is unrestricted and that all members of staff can gain access. Several items located in the server room had been moved between an initial observation and recording of items by Internal Audit and a subsequent visit and examination. The [REDACTED] also confirmed that items had been moved without his knowledge when in theory only he should be removing items in and out.</p> <p>The Server Room also appear to be being used as a storage room with items of equipment stacked unsafely on top of one another. Most of the items had to be removed in order to physically enter the room and examine the servers and record the items of equipment stored.</p>	<p>High Risk- (EOO) Unauthorised access may lead to accidental or deliberate tampering of the server and School's IT capability resulting in a disruption to teaching, preparation and all other school work.</p> <p>There is a risk of physical injury in accessing the server room, a risk of damage to the equipment stored and a waste of resource in time spent carrying out general maintenance.</p>	<p>The school has a problem with lack of storage space and therefore have to make best use of all space available. Action point: Short term:</p> <ul style="list-style-type: none"> ○ The [REDACTED] will liaise with the [REDACTED] and ask him to install a digital locking system to the door of the Server Room therefore restricting access to the [REDACTED] and the Head Teacher only. ○ A letter has been sent to the [REDACTED] to ensure that all equipment is stored safely, efficiently and tidily. ○ Regular monthly checks to be made by the Head Teacher.
HMRC and VAT Implications		
<p>14. It was confirmed by the IT [REDACTED] that he had installed two new hard drives into staff members' personal laptops that are used in the School. This would constitute a 'benefit in kind' and would need to be declared as part of the</p>	<p>High Risk- (CMP) There is a legislative and financial risk that a breach of HMRC regulations may result in a financial penalty to the school.</p>	<p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ A letter has been written to the [REDACTED] to inform him that he must no longer carry out personal work for himself or staff members, on the school site.

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>School's P11d tax return to HMRC or the Authority could receive a substantial fine for incorrectly reclaiming VAT on these purchases and for non-declaration of a benefit in kind.</p>		<ul style="list-style-type: none"> ○ The Head Teacher to send letters to the members of staff concerned requesting that they repay to the school 50% of the cost of the equipment and installation.
<p>Promotional Items</p>		
<p>15. Fifty six promotional items had been received by the School from one supplier. The promotions appear to be as a result of purchasing various items from that company - potentially as part of a marketing strategy. None of the items had been recorded on the School's Gift's and Hospitality Register and 23 of the items should have been, but were not recorded on the School's inventory.</p> <p>Action required: The School must at all times demonstrate that they are obtaining value for money. If this is achieved and a promotional item is received then the item must be registered on the Gifts and Hospitality Register, recorded on the inventory (if appropriate) and at all times used by the School. A full management trail must be in place to demonstrate receipt and use.</p>	<p>High Risk- (SOA) The School has failed to follow agreed policy and is unable to provide assurances that its assets have been safeguarded or that its funds have been used effectively.</p>	<p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ The school has recently received the PCC Gifts and Hospitality model policy. This policy was adopted at the Finance and Staffing sub-committee meeting on the 10th December 2013 and will be ratified by all Governors at their meeting on the 23rd January 2014. ○ The [REDACTED] will at all times obtain comparable data from three supplies on the PCC recommended 'Pick List' to demonstrate best value.

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>16. A television was received at the school during 2012 as part of a promotional offer from a supplier. This was placed in the Schools Summer Fare raffle and was apparently exchanged for Tesco vouchers worth half the value of the television. This arrangement was arranged privately between [redacted] and [redacted]. It was not authorised by either the Head teacher or the Governing Body and was to the detriment of the School.</p>	<p>High Risk- (ICEN) The School is unable to provide assurances that staff have acted with integrity or honesty.</p>	<p>Action point: Short term:</p> <ul style="list-style-type: none"> ○ The school will, with immediate effect implement a register of all promotional/ donations/ gifts that they receive over the value of £5. ○ No items will be taken off this register without being recorded, re-allocated and approved by the Governors Finance and Staffing sub-committee. ○ A letter will be sent to [redacted] and [redacted] outlining the approved process for disposal of items. ○ All staff to be informed of the Gifts and Hospitality policy and the procedure for recording data ○ [redacted] has offered, and will repay to the school the difference, based on current values.
<p>Loft and Storage Room</p>		
<p>17. Whilst performing a physical verification of the Schools assets, Internal Audit were advised of a 'loft' used for storage. The loft was located by means of using a chair to climb out of a second floor window, onto a placed chair on a flat roof, followed by a walk over two further flat roofs to a vertical ladder (five steps) and hatch approximately four foot high. The loft runs</p>	<p>[redacted] - (CMP) There is a risk of physical injury and or death.</p> <p>In relation to the storing of pupil data there is a potential Breach of Data Protection Act Principle 7 'Appropriate technical and organisational measures shall be taken against</p>	<p>This issue will be passed to the Governors of the Premises and Site sub Committee with a request that investigations be carried out into the feasibility of the development of this area. Governors have given approval for the 35 flat screen monitors that are approximately six years old and surplus to requirements to be disposed of. As recommended by PCC [redacted] Ltd will be requested to</p>

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
<p>the length of the main building and is part boarded. Various items were located in the loft namely;</p> <ul style="list-style-type: none"> • 35 flat screen monitors • Pupil records • Tables • Christmas decorations • Personal possessions <p>Subsequent to this visit PCC's Fire Safety Advisor has performed an independent risk assessment over the access and use of this loft. The following main issues have been raised and are noted below, however a separate 'Fire Risk Assessment' report will be issued.</p> <ul style="list-style-type: none"> • The access route to the loft is unprotected and dangerous. • The stacking of document filed boxes on wooden joists (i.e. not on the boarded area) is also dangerous. <p>One action required: Due to the height and the loading issues the School must ensure that the loft is subject to an inspection from a structural engineer to determine, if allowed the storage capabilities of this space.</p>	<p>unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.'</p> <p>Breach of the DPA can result in a maximum £500,000 fine from the Information commissioner's office for a serious breach by a public body</p>	<p>remove the items at a cost of £2.00 per screen. Plus a licence fee of £20. A second verbal quote had been obtained from another source who had quoted £3.50 per screen.</p> <p>Action point:</p> <p>Short term:</p> <ul style="list-style-type: none"> ○ The [redacted] to raise purchase order for removal of items. ○ The [redacted] will remove pupil records and relocate in a secure cupboard in annex. ○ The [redacted] will remove tables and will find suitable alternative accommodation. ○ The Christmas decorations will be removed. ○ All personal items will be removed as soon as possible. ○ The [redacted] will be asked to secure the classroom window. ○ The loft area will cease to be used for storage. <p>Medium term:</p> <ul style="list-style-type: none"> ○ The [redacted] has been made aware of the concerns over the access route to the loft and will be obtaining quotes to make safe. ○ The boxes of documents will be removed and suitable alternative accommodation found. ○ The [redacted] will liaise with the relevant department at PCC

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Finding	Risk and Consequence	Action Proposed, Date by and Responsible Officer/ Person.
		<p>regarding an inspection from a structural engineer.</p> <ul style="list-style-type: none"> ○ The school are in receipt of the Fire Report and will act on all its recommendations.
<p>18. It is Internal Audits understanding that on some occasion's pupils have assisted in transferring items to and from this loft, yet the access is clearly dangerous for both adults and children.</p>	<p>██████████ - (CMP)</p> <p>This is a breach of the PCC Health & Safety Policy which stipulates that LA schools should implement site-specific policies to ensure the safety and wellbeing of their employees, other employees (including PCC staff) and persons visiting the school (including pupils, members of the public, trespassers, etc.)</p> <p>Such a breach of this policy could result in physical injury and or death.</p>	<p>Action point:</p> <p>Short term:</p> <ul style="list-style-type: none"> ○ The ██████████ has been informed by the Head Teacher of the dangers of accessing the loft with pupils. This will be confirmed in a letter to the ██████████ by the ██████████ PCC Health and Safety regulations will be adhered to at all times.

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APPENDIX C (Audit Performance Status Report)

From: Corporate Communications

Sent: 13 December 2013 10:52

To: AllUsers

Subject: Financial rules reminder: Message from Chris Ward - Head of Finance and s151 Officer

Corporate communications



Tel: 023 9284 1559 Email: communications@portsmouthcc.gov.uk

www.portsmouth.gov.uk

13 December 2013

Financial rules reminder

Message from Chris Ward - Head of Finance and s151 Officer

I would like to take this opportunity to remind you of the importance of the council's Financial Rules. Our Financial Rules exist to protect our staff as well as the council's financial interests and its reputation. The rules apply to every councillor and every member of staff, including temporary staff, contractors and consultants; they exist for a number of reasons, including to:

- ensure that we account properly and transparently for public monies
- ensure that accurate financial information is available, allowing proper scrutiny of performance, and comparison with performance indicators
- minimise the risk of fraud or misuse
- demonstrate that we achieve value for money
- demonstrate the proper use of resources
- demonstrate that our assets are properly safeguarded
- help plan and manage budgets

Recently we have had a marked increase in the number of breaches of Financial Rules. I include a list of the most common breaches below as I ask you to ensure you do not make these common mistakes and instead that you are aware of the rules which apply to any of your activities; non-compliance can (and has) led to disciplinary action being taken. The most common breaches are:

- Purchasing card spending on EBay - spend on EBay or EBay type sites is not allowed for a number of reasons; mainly because the origin and authenticity of products cannot be assured, which could lead to health and safety risks and unenforceable guarantees

- Failure to obtain VAT receipts for purchasing card spend - if VAT is not reclaimed because a VAT receipt has not been obtained then the council will have wasted money. Equally, if VAT is reclaimed incorrectly the Authority could face penalties from HMRC.
- Poor inventory keeping - portable and desirable items which have not been recorded and their existence goes regularly unchecked, including items such as cameras and mobile phones
- Inadequate security arrangements for petty cash containers - cash containers which have not been held in secure locations and have not been reconciled regularly.
- Inappropriate use of Petty cash - Petty cash is being used to purchase items that should be purchased using corporate contracts, or where a purchase card could be used.
- Purchase orders not raised for expenditure - a purchase order must be raised when you commit to any expenditure, not when the invoice is received. Staff are also frequently not obtaining quotes or using corporate contracts.
- Poor handling of income - some staff are not banking regularly enough and are therefore exceeding insurance limits.

If you are unsure on how to follow any of the Rules please contact either your Finance Manager or Internal Audit.

Thank you

CHRIS WARD
Head of Finance and s151 Officer

Agenda Item 11



Agenda item:

Title of meeting: Governance & Audit & Standards
Date of meeting: 13th March 2013
Subject: Regulation of Investigatory Powers Act (RIPA)
Report by: City Solicitor
Wards affected: n/a
Key decision: No
Full Council decision: No

1. Purpose of report

To inform members that there has been one RIPA authorisation since the last report to Members dated 26/6/13, that numbers of RIPA applications have declined and the reasons for this.

2. Recommendations

It is recommended that Members note the fact that there has only been one RIPA application since the last report and the reasons why the use of RIPA applications has declined.

3. Background

- 3.1 Since the introduction of the Protection of Freedoms Act 2012 judicial approval is required for directed surveillance by a local authority. Local authorities can only authorise use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment **or** are related to the underage sale of alcohol and tobacco.
- 3.2 One RIPA request was authorised since the last report in June 2013 for the surveillance of a suspected misuse of a blue badge.
- 3.3 RIPA activity over the last 6 years has been:

2008	7	Blue badge misuse and Trading Standards
2009	7	Blue badge misuse & Trading Standards
2010	17	Mainly blue badge misuse with some Trading

		Standards
2011	14	Ditto
2012	5 + 2 telecoms	Blue Badge misuse and Trading Standards
2013	1	Blue badge misuse

4. Reasons for recommendations

- 4.1 Clearly, directed surveillance is now unlawful for summary matters therefore as an Authority we only use surveillance in parking matters where there is intelligence to support an investigation under the Fraud Act which meets the sentencing threshold.
- 4.2 Prior to the Protection of Freedoms Act there was no sentencing threshold and proportionality was considered via a formal application. The view at the time was surveillance was proportionate and necessary for deliberate sustained abuse, albeit for summary matters. The level of offending and sentencing reflect the seriousness that the court took with these matters.
- 4.3 It is always difficult to predict offences in these matters where we have intelligence of abuse but, we have to accept the change in the law and are now intervening perhaps more quickly where we view offences are summary, but accept we will have fewer offences to prosecute.
- 4.4 During 2013 a number of investigations were undertaken for Blue Badge, Parking Permits, and other generic parking frauds whereby the evidence (inclusive of historic data) required immediate intervention with the perpetrator; which in turn obviously negates necessity elements required to meet the need for the use of RIPA.
- 4.5 A very recent example of this - a driver parked in Portsmouth displaying disabled blue badge refused a CEO statutory request to produce a disabled badge for inspection; and drove off at speed. Subsequent checks with the issuing Authority (Bucks County Council) revealed the badge was reported lost by badge holder during 2011 / and further that the Badge Holder had passed away 3 weeks prior to the detected use of the badge in Portsmouth. Provisional investigation of this matter appeared to evidence offences under S21 Chronically Sick Disabled Persons Act 1970 (Refusal to Produce) / S117 or S115 Road Traffic Regulation Act 1984 (Use of the badge) S6 Fraud Act 2006 (Possession) Potential Offence under Theft Act 1968 (Theft by Finding). A serious matter but clearly RIPA is not appropriate with this investigation.
- 4.6 21 Badges were seized during a Street Smart operation which was a two day public inspection programme in the city centre. Although this operation used a combination of uniformed and non-uniformed PACE trained officers the activity was completely overt challenging vehicle drivers as the either parked on arrival or returned to their respective parked vehicles. Although this operation only lasted two working days it generated almost eight weeks work to deal with all the matters

arising including a number of reports relating to misuse by residents who had been previously issued with a warning.

4.7 It is the view of the Officers who manage enforcement that the use of Authorised Directed Surveillance (RIPA) remains an invaluable tool in the investigative toolkit where the necessity and proportionality elements are satisfied but will clearly be used less because of the new tests of criminality.

5. Equality impact assessment (EIA)

There are no equality impacts arising from this report.

6. Legal comments

The Legal implications are incorporated within the body of this report. There are no other immediate legal implications arising from this report

7. Finance's comments

There are no Financial Implications arising from this report.

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 Signed by:

Appendices: None

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Covert Surveillance Code of Practice Issued by the Home Office and Covert Human Intelligence sources Code of Practice issued by the Home Office	http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/Regulation of Investigatory Powers Act-codes-of-practice/
2 Regulation of Investigatory	http://www.legislation.gov.uk/ukpga/2000/

	Powers Act 2000	23/contents
3	Home Office guidance	http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/local-authority-ripa-guidance/?view=Standard&pubID=1079688
4	Protection of Freedoms Bill	http://www.homeoffice.gov.uk/publications/about-us/legislation/protection-freedoms-bill/