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# NOTICE OF MEETING

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## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

FRIDAY, 13 MARCH 2015 AT 2.30 PM

## CONFERENCE ROOM A - CIVIC OFFICES

Telephone enquiries to Vicki Plytas 023 9283 4058

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### Membership

Councillor Simon Boshier (Chair)  
Councillor Eleanor Scott (Vice-Chair)  
Councillor John Ferrett  
Councillor Steve Hastings  
Councillor Leo Madden  
Councillor Hugh Mason

### Standing Deputies

Councillor David Fuller  
Councillor Phil Smith  
Councillor Rob Wood  
Councillor Julie Swan  
Councillor Alistair Thompson

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(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](http://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.**

## AGENDA

- 1 Apologies for Absence

**2       Declarations of Members' Interests**

**3       Minutes - 30 January 2015 (Pages 1 - 12)**

To confirm the minutes of the meeting held on 30 January 2015 as a correct record.

**RECOMMENDED that the minutes of the meeting held on 30 January 2015 be confirmed and signed by the Chair as a correct record.**

**4       Updates on actions identified in the minutes**

**5       External Audit - Audit Plan Year Ending 31 March 2015 (Pages 13 - 34)**

The External Auditor's Audit Plan Year Ending 31 March 2015 is attached.

**6       Review of Members' Code of Conduct and Committee Arrangements for Assessment, Investigation and Determination of Complaints (Pages 35 - 62)**

To update Members of the Committee on the Members' Code of Conduct and Committee Arrangements for Assessment, Investigation and Determination of Complaints following the resolution passed at the Committee on 30 January 2015

To agree proposed revisions to the Members' Code of Conduct and make recommendations to Council for approval.

**RECOMMENDED that Members of the Committee**

**(1) Agree the proposed revisions to the Members' Code of Conduct and the Arrangements for Assessment, Investigation and Determination of Complaints that are annexed to this report as Appendices A to C**

**(2) Consider whether any further action is required by them**

**(3) Recommend to Council that the revisions (if any) be approved.**

**7       Review of Adult Safeguarding Practice (Pages 63 - 64)**

The purpose of the report is to update Members of the Committee as to considerations arising subsequent to an investigation into Adult Safeguarding Practice following the reported assault on a resident of Portsmouth by a former member of this Council in 2010.

**RECOMMENDED that Members of the Committee**

**(1)       note the report.**

- (2) consider whether any further action is required by them.

## **8 Councillor Training and Development (Pages 65 - 70)**

The purpose of the report is to update members on the review of the councillor training programme and make recommendations based on the findings.

### **RECOMMENDED that Members**

- I. Support an enhanced induction programme for new members (content based on consultation and designed to reduce risk) - (Appendix 1 - overview of content)
- II. Support the expectation that members (and standing deputies) receive training prior to committee membership or that appropriate records are kept to demonstrate that formal training is not required for an individual councillor
- III. Support improved partnership working between officers and Group Leaders regarding ongoing professional development training

## **9 Exclusion of Press and Public**

(Provision for moving into exempt session has been made on the agenda in case members wish to discuss the contents of exempt appendix 1)

**That in view of the contents of the following item on the agenda the Committee is RECOMMENDED to adopt the following motion:**

**“That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following items on the grounds that the reports contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972”.**

**The public interest in maintaining the exemption must outweigh the public interest in disclosing the information.**

**Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012, regulation 5, the reasons for exemption of the listed items is shown below.**

**Members of the public may make representation as to why the item should be held in open session. A statement of the Council’s response to representations received will be given at the meeting so that this can be taken into account when members decide whether or not to deal with**

the item under exempt business.

**(NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties. Members are reminded of standing order restrictions on the disclosure of exempt information and are invited to return their exempt documentation to the Senior Local Democracy Officer at the conclusion of the meeting for shredding.)**

**Item Exemption Para No.**

**10 Data Security Breach Reporting - Exempt Appendix 1 1,2 and 3**

- 1. Information relating to any individual**
- 2. Information that is likely to reveal the identity of an individual**
- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)**

**10 Data Breaches (Pages 71 - 72)**

The purpose of the report is to inform the Committee of any Data Security Breaches and actions agreed/taken since the last meeting.

**RECOMMENDED that Members of the Governance & Audit & Standards Committee note the breaches (by reference to Exempt Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).**

**11 Treasury Management Policy for 2015/16 (Pages 73 - 126)**

**(to this committee for information only)**

The purpose of the report by the Head of Financial Services is to obtain the Council's approval for 2015/16 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

**RECOMMENDED that the report be noted.**

**12 Audit Performance Status Report (Pages 127 - 150)**

The purpose of the report is to update the Governance and Audit and

Standards Committee on the Internal Audit Performance for 2014/15 to 6<sup>th</sup> February 2015 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

**RECOMMENDED**

- (1) That Members note the Audit Performance for 2014/15 to 6<sup>th</sup> February 2015
- (2) That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan

**13 Health and Wellbeing Board's Constitution (Pages 151 - 158)**

The purpose of the report is to seek approval of the changes to the constitution for the Health and Wellbeing Board (HWB). The HWB have requested the changes to its constitution for approval by Full Council to improve the effectiveness of the HWB as it fulfils its leadership role across the health and wellbeing system locally. Governance and Audit and Standards Committee will be asked to support the consequent constitutional change.

**RECOMMENDED that**

- (1) Governance and Audit and Standards Committee are asked to recommend that Full Council approve the changes to the constitution for the Health and Wellbeing Board set out below.
- (2) Governance and Audit and Standards Committee are asked to support the consequent constitutional change and to give authority to the City Solicitor to include wording in the Standing Orders to allow appropriate appointments to the Health and Wellbeing Board to be made at Annual Council.

**14 Performance Management update, Quarter 3, 2014-15 (Pages 159 - 182)**

To inform members of performance issues arising in the third quarter of the 2014-15 reporting period.

**RECOMMENDED that the Governance and Audit and Standards Committee are asked to:**

- 1) note the report; and
- 2) comment on the performance issues highlighted in section 4, including agreeing if any further action is required
- 3) comment on the governance issues highlighted in section 5, including agreeing if any further action is required.

**15 Contract Management Review**

Members will receive a presentation from Mr Greg Povey.

Members of the public are now permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting or records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

# Agenda Item 3

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 30 January 2015 at 2.30 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](http://www.portsmouth.gov.uk).)

### Present

Councillor Simon Boshier (in the chair)

Councillor John Ferrett

Councillor Leo Madden

Councillor Hugh Mason

Councillor Steve Hastings (deputising for Cllr Galloway)

### Officers

Michael Lawther, City Solicitor

Jon Bell, Head of HR, Legal & Performance

Lyn Graham, Chief Internal Auditor

Elizabeth Goodwin, Deputy Chief Internal Auditor

Liz Aplin, Learning & Development

Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)

Paul Somerset, Principal Auditor

Ed Woodhouse, Head of Revenues and Benefits

Stephen Kitchman, Head of Children's Social Care & Safeguarding, SSC

Paddy May, Corporate Strategy Manager

### External Auditors

Kate Handy, External Auditor

Mark Justesen, External Auditor (Ernst & Young)

#### 1. Apologies for Absence (AI 1)

Apologies for absence were received from Councillor Eleanor Scott and from Councillor Colin Galloway.

#### 2. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

#### 3. Minutes of the Meeting held on 7 November 2014 (AI 3)

**RESOLVED that the minutes of the meeting held on 7 November 2014 be confirmed and signed by the chair as a correct record.**

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

The City Solicitor advised that a further reminder had been sent to former councillor Mike Hancock seeking repayment of the sum agreed by council. To date no reply had been received.

With regard to safeguarding, the City Solicitor advised that he had produced a briefing note for circulation to the committee. This concluded that the council had followed its safeguarding practices that were in force at the time. The chair requested that the outcomes should be embodied in a report to come to the next scheduled meeting of this committee. The City Solicitor agreed and suggested that it may also be useful to provide a note to full council.

With regard to minute 70, the City Solicitor advised that although a resolution had been passed at the last meeting requesting a report to be brought to the January meeting of this committee with suggested changes to the constitution, in view of the notice of motion passed at the council meeting on 20 January this report had not been prepared.

Councillor Hugh Mason said that he had concerns about the tight timescale to bring in a shadow committee system from May. The City Solicitor confirmed that recommendations from Governance & Audit & Standards Committee following a report on a shadow committee system would be made straight to full council and not via Cabinet.

The City Solicitor confirmed that three weeks were needed in order for the report to be drafted.

Following discussion members agreed that a special meeting should be arranged to consider the report looking at introducing a shadow committee system, followed by a consultation period during which all members would be invited to send their comments to the Senior Local Democracy Officer. These comments to be considered with the report at the Governance & Audit & Standards Committee meeting on 13 March and to be distributed to members in advance of the council meeting on 17 March.

**RESOLVED**

- (1) that a special meeting be arranged on 27 February 2015 to consider proposals for introducing a shadow committee system;**
- (2) that a further report be brought to the scheduled meeting of Governance & Audit & Standards Committee on 13 March following consultation of the proposals.**

**5. External Audit (Ernst & Young) (AI 5)**

(TAKE IN REPORTS)



(1) External Audit Progress Report year ending 31 March 2015

Ms Kate Handy, External Auditor introduced the report and said that the work completed was set out on page 2.

In response to queries the following matters were clarified:

- Harbour accounts audit referred to the Port and it was agreed that in future this would be shown with the title External Port Harbour Accounts.
- In order for auditors to produce their audit plan, there are a number of matters that need to be taken into account such as statutory requirements and the code of audit practice. It also includes other work such as reviewing reports. Once the plan is produced, it is discussed with heads of service and is also brought to the Governance & Audit & Standards Committee if need be.

(2) Certification of Claims and Returns Annual Report 2013/14

Mr Mark Justesen introduced the report and explained to members that this had been reissued to correct the comparative figures from the previous year. He said that certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. Mr Justesen said that four claims and returns had been certified in 2013/14 and the main findings are provided in section 1 of the report.

Mr Justesen said that in the local transport plan major projects there had been no errors and he felt that officers should be commended on the quality of their preparation.

The City Solicitor said that the Tipner project had been put forward for a prize and he undertook to find out more about this and report back to the committee. Councillor Simon Boshier, the chair of the committee said that he would send a letter of congratulations from the Governance & Audit & Standards Committee to the officers concerned.

(3) Local Government Audit Committee Briefing

Mr Justesen advised that this paper was for information and referred members to page 8 of the report - Key Questions for the Audit Committee. These were

- Do we have clear lines of responsibility for contract management?
- Have we considered whether use of outcome based contracts could mitigate our buyers' risk?

- Have we responded to the questions raised in Appendix 2 of the latest NFI report?
- How effective is our whistleblowing policy?

In response to queries the following matters were clarified:

- The City Solicitor advised that a report would be going to Cabinet with a proposal on contracts management and a contract review was currently taking place. This report would cover questions 1 and 2 above and Greg Povey would also present the report to the March meeting of Governance & Audit & Standards Committee.
- With regard to question 3 above Lyn Graham, Chief Internal Auditor explained that the NFI report was run by the Cabinet Office. It commissioned data from all local authorities so that central matching could take place which assisted investigation. The report was very large and had not been brought to this committee. It was agreed that Appendix 2 referred to in the questions would be circulated to members of the committee.
- It was agreed that a report about this would be useful and this was likely to be included as part of the next anti-fraud, bribery and corruption and investigations update.

(4) Audit Scale Fee - Late Variation

Ms Kate Handy advised that the Audit Commission has recently consulted on a supplement to the 2014/15 audit scale fees. In that consultation, the Audit Commission applied a permanent variation of £1,070 to the base scale fee. This applies equally to 2013/14 and the Audit Commission has asked external auditors to agree a scale fee variation of £1,070 to the 2013/14 audit fee with PCC.

**6. BACS Issue - HB payments due 05/01/2015 (AI 6)**

(TAKE IN REPORT)

The Head of Revenues & Benefits, Mr Woodhouse introduced the report which explained that a BACS payment process that should have been completed on 30 December 2014 with payment due into bank accounts on 5 January 2015 had not been completed due to human error which meant that the file was not transmitted to BACS. This resulted in a delay of two days in the payment reaching bank accounts. Paragraph 4 of the report explained the chronology of events and section 5 outlines remedial actions taken. It also advises that Information Services has developed a plan to review all manual processes across PCC with a view to developing automated fail safes and back-up measures.

Members were pleased with the prompt action taken to respond to the issue and unanimously accepted the recommendations. It was agreed that in view of the notice of motion on this issue at the council meeting on 20 January, the

City Solicitor would arrange for all members to receive a copy of the report with this committee's endorsement of the recommendations.

**RESOLVED that**

- (1) the committee notes the contents of the report;**
- (2) the committee endorses the controls put in place to avoid a recurrence of this or a similar problem.**

**7. Audit Performance Status Report to 22 December 2014 (AI 7)**

The Deputy Chief Internal Auditor introduced the report which updates the Governance & Audit & Standards Committee on the internal audit performance for 2014/15 to 22 December 2014 against the annual audit plan, highlights areas of concern and areas where assurance can be given on the internal control framework and contains the proposed audit strategy for the 2015/16 audit plan.

She explained that one new critical risk exception has been highlighted in the report. A further three audits have resulted in "no assurance" being given. Further details are given under section 6 of the report.

She went on to explain that since the last meeting three full audits have been added to the 2014/15 audit plan whilst nine have been removed. Details of the audits can be found in section 5 of the report.

She advised that Appendix A showed completed audits from the 2014/15 audit plan, Appendix B showed completed follow-up audits from the 2014/15 plan and Appendix C showed the 2015/16 audit strategy.

In response to questions the following matters were clarified:

- With regard to PAT testing, it was confirmed that this is not a legal requirement but that legislation states equipment needs to be maintained to prevent danger.
- With regard to the critical risk exception raised in August 2014, concerning disclosure and barring service (DBS) checks, it was confirmed that the agreed action had now been implemented. Stephen Kitchman confirmed that where posts required DBS checks, a person would not start in post until a valid DBS check had been undertaken. If this was not clear then it would go to Stephen Kitchman. Mr Kitchman confirmed that in-house foster carers had to comply with a schedule of timescales for renewal of DBS checks in line with statutory guidelines.
- With regard to looked after children's funds, Mr Kitchman explained that with regard to 6.4.6 of the report, a framework agreement is in place that ensures that savings rates are monitored and there is a move to incorporate savings rate expectations into new placement contracts. Contracts also confirm DBS requirements.

**RESOLVED that members**

- (1) noted the audit performance for 2014/15 to 22 December 2014;**
- (2) noted the highlighted areas of control weakness for the 2014/15 audit plan;**
- (3) approved the proposed audit strategy for the use of audit resources for 2015/16.**

**8. Treasury Management Monitoring Report for the Third Quarter of 2014/15 (AI 8)**

(TAKE IN REPORT)

Mr Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning) introduced the report which informs members and the wider community of the council's treasury management position at 31 December 2014 and of the risks attached to that position.

With regard to the investment that exceeded the 364 day duration limit for unrated building societies, he explained that this is considered to be a low risk given the inherent nature of building societies. He explained that consideration is being given to increasing the duration limit for unrated building societies in the 2015/16 treasury management policy.

In response to questions the following matters were clarified:

- Increasing the duration limit for unrated building societies was considered by Mr Lloyd to be prudent, but this would be for the Section 151 Officer to recommend and for Cabinet to approve. Such a decision would also go through Governance & Audit & Standards Committee for scrutiny.
- In order to achieve rated status, it is necessary to apply and the process of applying for and maintaining a credit rating is administratively cumbersome. In addition there are fees to pay in order to both apply for, and maintain a credit rating. This meant that larger building societies tended to be rated whereas smaller building societies did not.

**RESOLVED**

**(1) that the actual treasury management indicators for the first three quarters of 2014/15 set out in paragraph 2 1)(a) to (e) of the report be noted;**

**(2) the committee noted that an investment was placed with Furness Building Society with a maturity of two years and two days that exceeded the 364 day duration limit for unrated building societies. This is considered to be a low risk given the inherent nature of building societies and consideration is being given to increasing the duration limit**

**for unrated building societies in the 2015/16 treasury management policy.**

**9. Project Plan for Implementation for the Code of Practice on Transport Infrastructure Assets (AI 9)**

(TAKE IN REPORT)

Mr Michael Lloyd introduced the report explaining that its purpose was to disclose the project plan for the implementation of the code contained in the appendix. He explained that the Chartered Institute of Public Finance and Accountancy code of practice on transport infrastructure assets is concerned with changing the valuation basis for highways assets from depreciated historic cost to depreciated replacement cost for the 2016/17 financial statements. The council is required by statute to have regard to the code of practice on transport infrastructure assets. He said that whilst there will be a significant increase in the balance sheet value of the council's assets, and a corresponding significant increase in the cost of the council's services, these increases will not affect the council's overall budget and financial position.

However implementing the code of practice will amount to a major project over three years and will require input from the Transport & Environment service and the council's highways private finance initiative contractor in addition to financial services.

In response to queries the following matters were clarified:

- It was confirmed that resources would need to be put into this, however it is too early to say at this stage what the costs will be.
- A possible background reason for this code of practice being introduced may be to bring it in line with whole of government accounts. Depreciated replacement cost may be a fairer measure than depreciated historic cost.

Members were concerned about the work involved in this exercise and what it would take precedence over. The external auditor commented that Portsmouth City Council is responding to this more quickly than councils elsewhere. Members considered that a report on how much work would be involved and details of the work that would need to take lower priority would be useful.

**RESOLVED that the project plan for the implementation of the code of practice on transport infrastructure assets contained in Appendix A be noted.**

**10. Performance Management Update Qtr 2 (AI 10)**

(TAKE IN REPORT)

Mr Paddy May introduced the report which informed members of performance issues arising in the first quarter of the 2014/15 reporting period. Mr May

explained that the report is part of the regular series of quarterly reports highlighting significant performance issues across the organisation. It was agreed at a previous meeting of this committee that significant governance issues arising from the most recent annual governance statement would also be considered alongside the quarterly performance report and that lead officers for those issues would attend to provide updates to the committee on development. The three issues that will be considered this quarter are

- (1) The governance partnership and management arrangements for Portsmouth Youth Offending Team (YOT) were judged to be "ineffective" by Her Majesty's Inspectorate of Probation. Mr Kitchman said that since the inspection significant energy had been invested in the development and implementation of two key documents:
  - a) YOT Post-Inspection Improvement Plan
  - b) YOT Performance Management Framework

He said there were five governance Issues and outlined these to the Committee and provided a handout which would be published with the minutes which captured the salient points.

- (2) Work undertaken by the Building Control Surveyor is not checked.

Lyn Graham, Chief Internal Auditor provided an update advising that Internal Audit is now satisfied that measures are being taken to remedy this situation.

- (3) Member training and political development is "not systematic or sufficiently championed and would benefit from more robust succession planning."

Liz Aplin, Operational Training Manager provided a short update to the committee to set the scene for a full report that would be included on the agenda for the March meeting. She advised that internal feedback had not produced a massive response concerning member training but that the following matters had been identified:

- Access
- Discussing what members' needs are
- A requirement for training in presentation skills and media training

She explained that the induction programme delivered after elections had been run in a number of different ways but deficiencies had been identified and there was no systematic evaluation of the programme. There was also some compulsory training that members were required to do before sitting on certain committees such as Licensing and Planning as well as some less formal training. It was noted that only one member was compliant with the health and safety training. In addition ongoing professional development for members was ad hoc. Internal Audit had identified risks involved with the lack of member training and a further audit was planned. A number of events were

available for members such as media training. Enhanced skills/new councillors' training had been arranged for next week. The intention was that this event would be used for consultation and to gain some feedback. She explained that a new induction programme was being planned by Learning & Development and Democratic Services and this was intended to be more robust. The City Solicitor would be providing a report to this committee at its March meeting to outline the change of approach.

During discussion the following matters were raised:

- Members were concerned that training sessions should be arranged at times suitable for members to attend. Some members worked full time and could only attend sessions in the evening or at weekends.
- A suggestion was made that training could all take place on one day so that members working full time would only have to take one day's leave in order to attend.
- One member said that safeguarding training had been arranged for one evening but only four members attended.
- Members felt that providing officer contact details for new members was very important so they would be able to contact relevant people to answer any queries.
- Perhaps training should be arranged at PCC for other local authorities' members to attend in order to provide an income stream.
- It was suggested that the involvement of group leaders was important to provide an impetus for members to attend training.
- Members felt that it would be useful to reiterate training that is mandatory, and training that is not. During discussion the City Solicitor mentioned the members' handbook that is provided to all new members. He said that this could be extended to all members and that it could be sent electronically if that would be helpful. The members' handbook could include whatever information members wanted.

Members requested clarification on mandatory training - in particular whether if you were a standing deputy on Planning or Licensing you would need to have training before you could deputise for somebody. The City Solicitor agreed to provide that information.

**RESOLVED that the Governance & Audit & Standards Committee**

- (1) noted the report and**
- (2) commented on the performance issues highlighted in Section 4, including agreeing if any further action is required.**
- (3) Requested that the City Solicitor provides a report to the Committee at its March meeting.**

## **11. Members' Complaints Report - statistics (AI 11)**

(TAKE IN REPORT)

The City Solicitor introduced the report which updated members of the committee on current progress in relation to complaints which alleged that councillors may have breached the code of conduct. He said that most complaints do not go very far and that the usual outcome is that he enters into correspondence with complainants. He advised members that there was not a huge number of complaints and there were no particular trends in the types of complaints made. The City Solicitor said that it may be appropriate for the committee to look at amending the complaints process as it could be made less laborious and could be streamlined. In particular he felt that some method of filtering complaints would be appropriate but stressed that he did not wish to do this himself. There was also an issue over many complaints being submitted against one person using identical wording. Members asked the City Solicitor to bring an options report to a future meeting.

**RESOLVED that members of the committee**

- (1) noted the report;**
- (2) requested a report from the City Solicitor to come to a future meeting of the committee.**

**12. Whistle-blowing Report (AI 12)**

(TAKE IN REPORT)

The City Solicitor introduced the report which updated members of the committee on the nature and handling of any whistle-blowing concerns which have been raised in the past year.

Members noted that there had been very few of these. The City Solicitor explained that one could not be pursued because the whistle-blower remained anonymous. The Deputy Chief Internal Auditor provided more details about the first item on the list in Appendix A at the request of a member.

The Deputy Chief Internal Auditor confirmed that a note of the time taken dealing with these matters was kept.

**RESOLVED that members of the committee**

- (1) noted the report;**
- (2) considered whether any further action is required by them.**

**13. Exclusion of Press and Public (AI 13)**

It was proposed by Councillor Simon Boshier and seconded by Councillor Steve Hastings that in view of the contents of the following item on the agenda the committee moves into exempt session. This was agreed.



.....

**RESOLVED that under the provisions of Section 100A of the Local Government Act 1972 as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded for the consideration of the following item on the grounds that the report contains information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.**

**14. Procurement Management Information Report (AI 14)**

(TAKE IN REPORT)

Mr Greg Povey introduced the report which was to update members on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services. He mentioned that in October 2014 there was £372,126 value of administrative errors that were compliant with contract procedure rules but not registered correctly on the e-sourcing system In-Tend. He explained that had these contracts been entered correctly, the conformance figure would have been 99%. He said that category business partners from Procurement are working in partnership with services to implement solutions to resolve non-conformance and reduce administration issues. He said that an explanation of those service areas where conformance requires improvement is detailed in exempt Appendix 2.

Mr Povey also explained that there are four contracts where the suppliers are performing to an unsatisfactory level and remedial action is taking place. These are detailed in exempt Appendix 3.

Mr Povey explained all the entries in Appendix 2.

Mr Povey then provided details of the four contracts where the suppliers are performing to an unsatisfactory level as set out in Appendix 3.

The chair commented that the report and appendices were very comprehensive and robust.

**RESOLVED that members**

- (1) noted we have surpassed the target of 95% conformance and achieved 97% for October 2014;**
- (2) noted the performance of our supplies and contractors and action in progress to address poor performance.**

The meeting concluded at 5.30 pm.

.....  
Councillor Simon Boshier  
Chair

# Agenda Item 5

## Portsmouth City Council

Year ending 31 March 2015

Audit Plan

18 February 2015



Governance and Audit and Standards Committee  
Portsmouth City Council  
Civic Offices  
Guildhall Square  
Portsmouth  
PO1 2AE

18 February 2015

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance and Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this plan with you on 13 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kate Handy  
*For and behalf of Ernst & Young LLP*  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Overview

## Context for the audit

This Audit Plan covers the work that we plan to perform 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 2015 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 (the VFM conclusion).

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's 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; and
- management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and 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 parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Governance and Audit and Standards Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

## Our process and strategy

### Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We will aim to place reliance over the design and operation of controls over a number of Significant Classes of Transactions (SCOTs), but not IT General Controls, where we have determined this is likely to be the most efficient approach. The relevant SCOTs are Accounts Payable, Accounts Receivable, housing benefits, payroll, SWIFT and cash and bank. To the

fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. We meet Internal Audit on a regular basis and have discussed the reviews within their 14/15 plan upon which we will seek to place some reliance, topping up testing as necessary. These are the Accounts Payable, Accounts Receivable, Main Accounting System, Banking, Payroll and Housing Benefits reviews.

No reliance is planned on the work of other inspectorates or agencies.

### **Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money (VFM) conclusion for Portsmouth City Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- securing financial resilience
- challenging how the Council secures economy, efficiency and effectiveness.

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Reduced funding for local government is putting significant pressure on the Council's ability to deliver a balanced budget over the medium term. Accordingly, we see increasing risks for our financial resilience considerations in reaching our VFM conclusion. We concluded in our 2013/14 Annual Audit Letter that "the Council needs to give proper attention to the longer-term issues and challenges it faces and approach these in a planned and strategic manner".

We also reported two other areas where we plan to follow-up on the Council's progress:

- the Better Care Fund
- Adult Social Care performance management.

Further detail is included in section 4 of this Audit Plan.

## 2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.



### 3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council’s operations and discussion with those charged with governance and officers.

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

#### Significant risks

##### Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly 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:

- ▶ 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

##### Asset Valuation & Accounting

The Council is planning to make a number of changes to the layout of the Property plant and Equipment note to the accounts, which will involve restating the 2013/14 note and then following the same format for 2014/15 onwards.

Last year we made some recommendations about streamlining the Council’s fixed asset accounting and valuation processes. The Council is planning to revise the valuation procedures and rationalise its fixed asset register in 2014/15.

Our approach will focus on:

- Reviewing the controls the Council implements to oversee transition to the revised disclosures and amendments to the fixed asset register;
- testing the accuracy of the restatement exercise and rationalisation of the fixed asset register; and
- testing the operation of the revised valuation processes

#### 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 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;

- enquiry of management about risks of fraud and the controls 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 any identified risks of fraud; and
- performing mandatory procedures regardless of specifically identified fraud risks.

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

## 4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Portsmouth City Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. financial resilience, and
2. economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks. We have not identified any significant risks but will be monitoring the Council's progress on the specific risk areas set out below:

Specific risks	Impacts arrangements for securing:	Our audit approach
<b>Longer-term financial strategy</b>		
<p>The Council faces a significant financial management challenge over the coming years, including managing:</p> <ul style="list-style-type: none"> <li>➤ the implications of the current economic climate;</li> <li>➤ the significant reductions in the level of future central government funding;</li> <li>➤ the impact of the funding changes set out in the Local Government Finance Act 2012 and elsewhere; and</li> <li>➤ increases in demand for services linked to significant demographic changes such as the ageing population and rising birth rate.</li> </ul>	<p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>➤ monitoring action taken in 2014/15 to address any forecast overspending;</li> <li>➤ reviewing the assumptions used in setting the 2015/16 budget and driving the savings requirements in future years, and assessing their reasonableness;</li> <li>➤ monitoring progress in the development of corporate transformation workstreams, co-ordination of planning across services and the identification of savings needed in service budgets</li> </ul>

Significant risks	Impacts arrangements for securing:	Our audit approach
<b>Follow-up of 2013/14 VFM work</b>		
<p>Last year we reported in our Audit Results Report that:</p> <ul style="list-style-type: none"> <li>➤ Adult Social Care performance management arrangements were still developing as they needed to tailor the new business information tool to meet local needs and to track progress against the objectives set out in their business plan.</li> <li>➤ The Better Care Fund remains a key area of development for the Council and Portsmouth CCG, working in partnership with local providers. The Health and Well-being Board needs to drive the delivery of this significant change programme; underpinned by the development of a vision for sustainable integrated care services in Portsmouth.</li> </ul>	<p>Economy, efficiency and effectiveness</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>➤ Discussing the Council's progress in addressing these issues with officers;</li> <li>➤ reviewing Council, committee and meeting papers and minutes; and</li> <li>➤ assessing the adequacy of supporting evidence as appropriate.</li> </ul>

We will keep our risk assessment under review throughout our audit and communicate to the Governance and Audit and Standards Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

## 5. Our audit process and strategy

### 5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code') our principal objectives are to review and report on, the Council's:

- financial statements
  - arrangements for securing economy, efficiency and effectiveness in its use of resources
- to the extent required by the relevant legislation and the requirements of the Code.

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 NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider 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.
- 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.

We understand the Department for Transport has now indicated Harbour Accounts for the Commercial Port should be submitted within nine months of the balance sheet date, but that this has not been communicated to the Council yet. This would mean the 2012/13, 2013/14 and 2014/15 accounts will need to be prepared and audited to meet this statutory duty. We have been appointed auditors and will prepare separate audit plans for these audits when a date for submission has been set.

## 5.2 Audit process overview

### Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts Payable
- Accounts Receivable
- Housing benefits,
- Payroll,
- SWIFT, and
- Cash and Bank.

### Analytics

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

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- 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 Governance and Audit and Standards Committee.

### Internal audit

As in prior years, we will review internal audit plans and the results of their work, and, where it raises issues that could have an impact on the year-end financial statements, consider the implications on our audit strategy.

### Use of experts

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

### Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must 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.

#### ***Procedures required by standards***

- 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; and
- 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;
- reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO;
- reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

### **5.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council is £11,866,740 based on 2% of gross revenue expenditure.

We will communicate uncorrected audit misstatements greater than £590,639 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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

### **5.4 Fees**

The Audit Commission has published a scale fee for all authorities. This 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 Portsmouth City Council is £199,250.

### **5.5 Your audit team**

The engagement team is led by Kate Handy, who has significant experience of Portsmouth City Council. Kate is supported by Mark Justesen, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Finance and Head of HR Legal & Performance.

### **5.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance and Audit and Standards Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Governance and Audit and Standards Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>November 2014</b>	<b>January 2015</b>	Audit Fee letter (issued 16/04/14) Progress Report (verbal on 26/09/14 and written on 30/01/15)
Risk assessment and setting of scopes	<b>February 2015</b>	<b>March 2015</b>	Audit Plan (presented on 13/03/15)
Testing routine processes and controls	<b>February and March 2015</b>	<b>TBC June 2015</b>	Progress Report
Year-end audit	<b>July and August 2015</b>	<b>TBC September 2015</b>	Audit Results Report
Completion of audit	<b>September 2015</b>	<b>TBC September 2015</b>	Report to those charged with governance via the Audit Results Report  Audit report (including our opinion on the financial statements; and overall value for money conclusion).  Audit completion certificate  Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>October 2015</b>	<b>TBC November 2015</b>	Annual Audit Letter

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



## 6. Independence

### 6.1 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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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"> <li>➤ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>➤ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>➤ The overall assessment of threats and safeguards;</li> <li>➤ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 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;</li> <li>➤ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>➤ Written confirmation that we are independent;</li> <li>➤ 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</li> <li>➤ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services;

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 are disclosed, analysed in appropriate categories.

## **6.2 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 any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***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 the Council.

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 the Council has approved and that are in compliance with the Audit Commission's Standing Guidance. At the time of writing, there are no planned non-audit fees.

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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no identified 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 identified 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 where management is required to make judgements or decisions based on that work.

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

### ***Other threats***

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

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

### ***Overall Assessment***

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

### **6.3 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 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 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15	Out-turn 2013/14	Published fee 2013/14	Explanation
	£	£	£	
Opinion Audit and VFM Conclusion	199,250	199,250	199,250	This differs from our fee letter because the Audit Commission consulted on, and agreed, a £1,070 permanent variation in the scale fee following withdrawal of the NNDR claim from its certification regime
<b>Total Audit Fee – Code work</b>	<b>199,250</b>	<b>199,250</b>	<b>199,250</b>	
Certification of claims and returns*	24,460	29,065	24,464	2013/14 outturn included our £4,601 agreed fee for two TRA 11 claims.  The Audit Commission scale fee is £20,060 but we have included an indicative fee of £4,400 for the final TRA 11 claim in 2014/15, which will be agreed separately with the Audit Commission, or its successor body.
Non-audit work	0	0	0	

*All fees exclude VAT.*

*\*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.*

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

- officers meeting the agreed timetable of deliverables;
- the operating effectiveness of the internal controls for the key processes outlined in section 5.2 above;
- we can rely on the work of internal audit as planned;
- the Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- our accounts opinion and use of resources conclusion being unqualified;
- appropriate quality of documentation is provided by the Council; and
- the Council has an 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 the Council 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.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Governance and Audit and Standards Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<p>➤ Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>➤ our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>➤ significant difficulties, if any, encountered during the audit</li> <li>➤ significant matters, if any, arising from the audit that were discussed with management</li> <li>➤ written representations that we are seeking</li> <li>➤ expected modifications to the audit report</li> <li>➤ other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>➤ Report to those charged with governance</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>➤ uncorrected misstatements and their effect on our audit opinion</li> <li>➤ the effect of uncorrected misstatements related to prior periods</li> <li>➤ a request that any uncorrected misstatement be corrected</li> <li>➤ in writing, corrected misstatements that are significant</li> </ul>	<p>➤ Report to those charged with governance</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>➤ enquiries of the Governance and Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>➤ any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>➤ a discussion of any other matters related to fraud</li> </ul>	<p>➤ Report to those charged with governance</p>
<p><b>Related parties</b></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"> <li>➤ non-disclosure by management</li> <li>➤ inappropriate authorisation and approval of transactions</li> <li>➤ disagreement over disclosures</li> <li>➤ non-compliance with laws and regulations</li> <li>➤ difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>➤ Report to those charged with governance</p>
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>➤ management's refusal for us to request confirmations</li> <li>➤ inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>➤ Report to those charged with governance</p>

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>➤ 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</li> <li>➤ enquiry of the Governance and Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit and Standards Committee may be aware of</li> </ul>	<ul style="list-style-type: none"> <li>➤ Report to those charged with governance</li> </ul>
<p><b>Independence</b></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 director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>➤ the principal threats</li> <li>➤ safeguards adopted and their effectiveness</li> <li>➤ an overall assessment of threats and safeguards</li> <li>➤ information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>➤ Audit Plan</li> <li>➤ Report to those charged with governance</li> </ul>
<p><b>Going concern</b></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"> <li>➤ whether the events or conditions constitute a material uncertainty</li> <li>➤ whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>➤ the adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>➤ Report to those charged with governance</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>➤ Report to those charged with governance</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>➤ breakdown of fee information at the agreement of the initial audit plan</li> <li>➤ breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Audit Plan</li> <li>➤ Report to those charged with governance</li> <li>➤ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>➤ Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	13 March 2015
<b>Subject:</b>	Review of Members' Code of Conduct and Committee Arrangements for Assessment, Investigation and Determination of Complaints
<b>Report by:</b>	City Solicitor
<b>Wards affected:</b>	N/A
<b>Key decision:</b>	No
<b>Full Council decision:</b>	Yes

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## 1 Purpose of report

- 1.1 To update Members of the Committee on the Members' Code of Conduct and Committee Arrangements for Assessment, Investigation and Determination of Complaints following the resolution passed at the Committee on 30 January 2015
- 1.2 To agree proposed revisions to the Members' Code of Conduct and make recommendations to Council for approval.

## 2 Recommendations

### **RECOMMENDED that Members of the Committee**

- 2.1 **Agree the proposed revisions to the Members' Code of Conduct and the Arrangements for Assessment, Investigation and Determination of Complaints that are annexed to this report as Appendices A to C**
- 2.2 **Consider whether any further action is required by them.**
- 2.3 **Recommend to Council that the revisions (if any) be approved.**

## 3 Background

- 3.1 The current Code of Conduct which was adopted in July 2012 was last updated by Members at the Council meeting of 15 July 2014.
- 3.2 At the Committee meeting of 30 January 2015 it was resolved that the City Solicitor produce a report concerning the options for amending and bringing up to date the following:
  - 3.2.1 Members' Code of Conduct (including submission of complaints).
  - 3.2.2 Arrangements for Assessment, Investigation and Determination of Complaints.

- 3.3 The proposed revisions to the Members' Code of Conduct and the Arrangements for Assessment, Investigation and Determination of Complaints are annexed to this report as Appendices A to C.
- 3.4 In the event that the Committee makes any change to these arrangements that decision will be required to be approved by Council.

### **Proposed Changes to the Code of Conduct**

- 3.5 The proposed changes to the Code, although they may appear substantial, are mainly presentational. However, a new section has been introduced headed "Personal Interests".
- 3.6 The previous obligation to declare personal and prejudicial interest came to an end following the introduction of the Localism Act 2011 which also disbanded the former standards regime and revoked the model code of conduct. Since that time Members have only been obliged to declare "discloseable pecuniary interests". These are set out at paragraph 3 in the report and they are quite limited in nature. However if a Member were to fail to disclose such an interest and were to participate in the business of the Council, a criminal offence would be committed which can lead to a fine of up to £5,000 and disqualification from holding office as a councillor for up to five years.
- 3.7 It was always intended that the new code of conduct should have a provision to require further interests to be disclosed. Whilst these were not within the provisions of disclosable pecuniary interest, they could be considered to be of such significance as to affect your own wellbeing or financial position that they should be disclosed when you are taking part in the business of the Council. This proposed class of interest is set out in Paragraph 4 of the report and Paragraph 5 sets out the disclosure requirements. The principle difference with disclosable pecuniary interests is that whilst they need to be disclosed you may still participate in the business of the Council.

## **4 Proposed changes to the Assessment Investigation and Determination of complaints**

- 4.1 The procedure which the Council adopted for complaints consideration substantially mirrored the approach taken under the old standards regime. This was considered to be tried and tested and had widespread support amongst Members. However, experience since the introduction of adoption of these procedures has suggested that some enhancements could be made.

### **4.2 Introduction of a filtering mechanism for complaints.**

The vast majority of complaints which are made are not progressed beyond the initial Sub-Committee stage. This is usually because they are either not considered to amount to a breach of the code nor is it felt that the concern which has been raised could be dealt with in another way other than through the formal investigation and hearings procedure. In respect of the latter, this often means that the City Solicitor is asked to discuss the matter with the Member who is the subject of the Complaint and ask that they take some remedial action, perhaps writing a letter of apology.

At present there is no "filtering" process to deal with such complaints. Filtering processes have been adopted by other Councils as they have been considered to be a way of more expeditiously dealing with complaints. This can mean that complaints that have no merit can be concluded quickly and without the need to arrange for a formal sub-committee meeting. This is considered to be beneficial to all parties in that the complainant receives earlier notice of the outcome and the Member does not have the ongoing worry of an unresolved complaint.

It could also be used as a means to resolve complaints where other action is a more appropriate remedy.

If Members were to adopt this proposal it is suggested that the filtering could be carried out by the Chair of the Committee in consultation with the independent person and also the City Solicitor. It is hoped that in this way only the more serious matters which are of some merit would proceed to the Assessment Sub-Committee for consideration.

#### 4.3 Time period for Assessment to make an initial assessment of the Complaint

At present 10 days is allowed from the receipt of the complaint to the initial Sub-Committee hearing. Practice has shown that due to Members' availability the time allowed is too short and it is proposed that this is increased to 15 days, although when possible Sub-Committee meetings will take place within a shorter time scale.

### **5 Reasons for recommendations**

- 5.1 It is recommended that the Committee approve the revised Members' Code of Conduct and Arrangements for Assessment, Investigation and Determination of Complaints to bring clarity to the Code and enable the complaints procedure to be more efficient and less protracted.

### **6 Equality Impact Assessment (EIA)**

- 6.1 It should be noted that the equalities submission form on the Councillors' Code of Conduct Complaint form has been removed. It is no longer required to submit this information and therefore this section of the form is no longer fit for purpose.

### **7 Legal implications**

- 7.1 The City Solicitor's comments are included in this report.

### **8 Finance comments:**

- 8.1 There are no financial implications arising from the recommendations set out in this report.

.....  
City Solicitor

**Appendices: Appendix A - Members' Code of Conduct**  
**Appendix B - Councillors' Code of Conduct Complaint form (as amended)**  
**Appendix C - Arrangements for Assessment, Investigation and Determination of Complaints**

**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

## APPENDIX A

### CODE OF CONDUCT FOR MEMBERS

#### Part 1: General Provisions and Interpretation

##### Introduction

This Code of Conduct is adopted by Portsmouth City Council ("the Council") pursuant to its statutory duty to promote and maintain high standards of conduct by Members and Co-opted Members ("Members") of the Council. This Code applies to all Members of the Council, and all members of the Health & Wellbeing Board (excluding a person who is an employee of the Council).

This Code is based on and is consistent with the following principles:

**SELFLESSNESS:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

**INTEGRITY:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

**OBJECTIVITY:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

**ACCOUNTABILITY:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**OPENNESS:** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

**HONESTY:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

**LEADERSHIP:** Holders of public office should promote and support these principles by leadership and example.

##### General obligations of Members ("member")

1. You must not bully any person.
2. You must not intimidate, or try to intimidate, anyone who has complained about you or who may be involved with a complaint about you.

3. You must not do anything which compromises the impartiality of the Authority's officers.
4. You must not disclose confidential information (other than in very limited circumstances permitted by law, and following consultation with the Authority's Monitoring Officer).
5. You must not prevent a person from gaining access to information to which they are entitled.
6. You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or Authority into disrepute.
7. You must not use or attempt to use your position as a member improperly to confer on or secure for yourself or any other person an advantage or disadvantage.
8. You must, when using or authorising the use by others of the resources of the Authority, act in accordance with the Authority's reasonable requirements, and ensure that the resources are not used improperly for political purposes.
9. When reaching decisions, you must have regard to relevant advice from the Authority's officers, and give reasons for decisions.
10. You must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986 or otherwise\*.
11. You must declare any lobbying that has taken place and those lobbied not to participate in Council business.
12. You should not lobby other members where you have a disclosable pecuniary interest in a matter.

## **2. Scope**

This Code applies to all Members of the Council when acting in their official capacity, or when giving the impression that they are acting as a representative of the Council.

Where a Member is a member of more than one local authority, but acting on behalf of the Council, such Member is, for the avoidance of doubt, bound by this Code of Conduct.

\* "Code of recommended practice in local authority publicity" issued under Section 2 and 4 of the Local Government Act 1986. From 30th March 2014 the Secretary of State has power to require specified local authorities to comply with the Code.

## Part 2: Registration and Disclosure of Disclosable Pecuniary Interests and Personal Interests

### 1. Obligations

- 1.1 You must, within 28 days of taking office as a Member of the Council, supply the Council's Monitoring Officer with details of any disclosable pecuniary interests as set out at Part 3 of this Code.
- 1.2 In addition, you must, within 28 days of taking office as a Member of the Council, supply the Council's Monitoring Officer with details of any personal interest which the Council has decided should be included in Portsmouth City Council's Register of Members' Interests (as set out at Part 4A of this Code).
- 1.3 You must also, within 28 days of becoming aware of any new disclosable pecuniary interest or any personal interest notify Portsmouth City Council's Monitoring Officer of any change.
- 1.4 If you have an interest included on the Register of Members' Interests, you must disclose this interest at any meeting of the Council, its Committees or the Cabinet at which you are present and participating in the business. Where an interest is a 'sensitive interest'<sup>1</sup> you need only disclose the fact that you have a disclosable pecuniary or personal interest in the matter being considered and do not need to disclose details of the interest itself.
- 1.5 If an interest has not been entered onto the Council's Register of Interests, then you must also disclose the interest to any meeting of Portsmouth City Council, its Committees or the Cabinet at which you are present where you have such an interest in any matter being considered.
- 1.6 Unless a dispensation has been granted, you may not participate in any meeting where that interest is required to be disclosed (this would include making a deputation), discussed, voted on, or discharge any function related to any matter in which you have a disclosable pecuniary interest and must (save for in circumstances set out at 1.7 below) withdraw from the room where the meeting considering the business is being held, unless a dispensation has been granted by the Council's Governance and Audit and Standards Committee. If acting as a single Cabinet member you may not take any further steps in relation to the matter other than for the purpose of arranging for the matter to be dealt with otherwise than by yourself.

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<sup>1</sup> A 'sensitive interest' is described in the Localism Act 2011 as a member or co-opted member of an authority having an interest (disclosable pecuniary interest or otherwise), and the nature of the interest

## **Part 3: Disclosable Pecuniary Interests**

### **1. Introduction**

A disclosable pecuniary interest is an interest falling within the Schedule set out at Paragraph 3 below of:

- 1.1 Yourself; or
- 1.2 Your spouse or civil partner, or someone you are living with as if you were husband and wife or civil partners, where you are aware that that other person has the interest.

### **2. Interpretation**

In the Schedule set out at Paragraph 3 below, the following words or expressions mean as follows:

- 2.1 'the Act' means the Localism Act 2011;
- 2.2 'body in which the relevant person has a beneficial interest' means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest;
- 2.3 'director' includes a member of the committee of management of an industrial and provident society;
- 2.4 'land' excludes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income;
- 2.5 'M' means a member of a relevant authority;
- 2.6 'member' includes a co-opted member;
- 2.7 'relevant authority' means Portsmouth City Council of which M is a member;
- 2.8 'relevant period' means the period of 12 months ending with the day on which M gives a notification for the purposes of Section 30(1) or Section 31(7), as the case may be, of the Act;
- 2.9 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

### **3. Schedule of disclosable pecuniary interests**

<b>Subject</b>	<b>Prescribed description</b>
----------------	-------------------------------



Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a Member, or towards the election expenses of M.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992(2).</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority:</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to M's knowledge):</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where:</p> <p>(a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and (b) either:</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

Note: 'M' means a member of a relevant authority.

#### 4. Personal interests

- 4.1 You have a personal interest in the business of the Council when it relates to or is likely to affect:
- a any body of which you are a member or in a position of general control or management, and to which you are appointed or nominated by the Council.
  - b any body:
    - i exercising functions of a public nature;
    - ii directed to charitable purposes; or
    - iii one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union);of which you are a member or in a position of general control or management
  - c any employment or business carried on by you other than for profit or gain;
  - d any person or body who employs you, or who has appointed you, other than for profit or gain;
  - e the interests of any person from whom you have received a gift or hospitality with an estimated value of at least £50 in the last three years;
- 4.2 You also have a personal interest in the business of the Council when a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position, or the well-being or financial position of a relevant person (as defined at paragraph 4.3 below), to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral ward within the administrative area of the Council affected by the decision;
- 4.3 In Paragraph 4.2, a “relevant person” is:
- a your spouse or civil partner, or someone you are living with as if you were husband and wife or civil partners, where you are aware that that other person has the interest; or
  - b another member of your family, or any person with whom you have a close association, where you are aware that that other person has the interest; or
  - c any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or

- d any person or body in whom to the Member's knowledge such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000: or
- e any body of a type described in paragraph 4.1a or 4.1b above.

## 5. Disclosure of Personal Interests

- 5.1 Subject to paragraphs 5.2 to 5.5 below, where you have a personal interest in any business of the Council you must disclose this interest at any meeting of the Council, its Cabinet or Committees (including joint committees and sub-committees) at which you are present. Such interest should be disclosed at the commencement of consideration of the business or when the interest becomes apparent.
- 5.2 Where you have a personal interest in any business of the Council which relates to or is likely to affect a person described in Part 4 paragraphs 4.1 or 4.2 above, you need only disclose to the meeting the existence and nature of that interest when you address the meeting on that business.
- 5.3 The requirement to declare a personal interest only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.
- 5.4 Where you have a personal interest in any business of the Council and you have made an executive decision in relation to that business, you must ensure that any written statement of that decision (portfolio holder decision notice) records the existence and nature of that interest.
- 5.5 In this paragraph, "executive decision" is to be construed in accordance with any regulations made by the Secretary of State under section 22 of the Local Government Act 2000.

## 6. Prejudicial Interests

### 6.1 Definition of Prejudicial Interest.

Subject to paragraph 6.2 below, where you have a personal interest in any business of the Council, you also have a prejudicial interest in that business when the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.

### 6.2 Limitation on extent of prejudicial interests

- a You do not have a prejudicial interest in any business of the Council where that business does not affect your financial position, or the financial position of a body or relevant person as described in Part 4 of this Code; or

- b does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or a body or relevant person as described in Part 4 of this Code; or
- c relates to the functions of the Council in respect of
  - i housing, where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease;
  - ii statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of or are entitled to the receipt of such pay;
  - iii an allowance, payment or indemnity given to members;
  - iv any ceremonial honour given to Members; and
  - v setting council tax or a precept under the Local Government Finance Act 1992.

## **7. Effect of Prejudicial Interests on Participation**

- 7.1 Unless a dispensation has been granted by the Council's Standard's Committee, you may not participate in any discussion of, vote on, or discharge any function related to any matter in which you have a personal interest which is also a prejudicial interest (as set out at Part 6 of this Code), and must as soon as it becomes apparent that you have such an interest (save for in circumstances set out at paragraph 7.2 below) withdraw from the room where the meeting considering the business is being held, and must not seek improperly to influence a decision about that business. If acting as a single Cabinet member you may not take any further steps in relation to the matter other than for the purpose of arranging for the matter to be dealt with otherwise than by yourself.
- 7.2 Without prejudice to paragraph 7.1 above, where you have a prejudicial interest in any business of the Council (including any meeting of an Overview and Scrutiny Committee of the Council) you may, notwithstanding such prejudicial interest, attend such meeting for the purpose of making representations, answering questions or giving evidence relating to such business, provided members of the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.
- 7.3 For the avoidance of doubt the procedure in paragraph 7.2 above cannot be used by the member where the interest comes within the statutory definition of a disclosable pecuniary interest.
- 7.4 In any case where paragraph 7.2 above applies, you must withdraw from the room immediately after making representations, answering questions, or giving evidence.

## APPENDIX B

### COMPLAINT FORM - Councillors' Code of Conduct

To be used if you wish to make an allegation that a Councillor of Portsmouth City Council has failed to comply with the Councillors' Code of Conduct.

#### 1. Your details

Please provide us with your name and contact details

<b>Title:</b>	
<b>First name:</b>	
<b>Last name:</b>	
<b>Address:</b>	
<b>Daytime telephone:</b>	
<b>Evening telephone:</b>	
<b>Mobile telephone:</b>	
<b>Email address:</b>	

Your address and contact details will not usually be released unless necessary to deal with your complaint. The following people will be advised that you have made a complaint:

- The Member(s) you are complaining about
- The City Solicitor to Portsmouth City Council (City Solicitor)

We will:

- tell them your name
- provide them with a summary of your complaint(s)
- provide full details of your complaint where necessary or appropriate

If you do not wish details of your name and your complaint to be released, please complete section 6 of this form.

**2. Please tell us which best describes you:**

- Member of the public
- An elected or co-opted Member of Portsmouth City Council
- A Member of the Governance and Audit and Standards Committee
- Member of Parliament
- Portsmouth City council monitoring officer
- Council officer of Portsmouth City Council/service employee
- Other

**3. Making your complaint**

Once you have submitted your complaint, it will be considered by the Governance and Audit and Standards Assessment Sub-Committee. This consists of three Councillors (normally from different political groups represented on the Council) and an Independent Person. None of the Councillors will have any previous involvement in the substance of your complaint.

On the basis of your written submission and any additional relevant material that the City Solicitor may produce, the Sub-Committee will assess whether your allegation is likely to amount to a failure to comply with the Councillors' Code of Conduct. If it is considered necessary to do so, the Sub-Committee has a range of options available to it. This can include referral for a full investigation by the City Solicitor, mediation or no further action (if it is considered that any failure to comply with the Code of Conduct is of a trivial nature).

The Sub-Committee will meet to consider and determine the matter as soon as reasonably possible. If the Sub-Committee decides that no further action is required in respect of your complaint, you may, within 30 days of the meeting, ask for that decision to be reviewed. This review will be undertaken by the Governance and Audit and Standards Review Sub-Committee which consists of three different Councillors from those who originally considered your complaint. The Review Sub-Committee will have the same range of options available to it as the Assessment Sub-Committee. The Review Sub-Committee will have up to three months to consider and determine the review of your allegations and how they should be dealt with.

If either the Governance and Audit and Standards Assessment or Review Sub-Committee decide that an investigation is required into your complaint, the City Solicitor or someone appointed by him will be instructed to undertake it. You will be given further information at that time should an investigation be necessary.

**4. Please provide us with the name of the Member(s) you believe have breached the Code of Conduct:**

Title	First Name	Last Name

**5. Please explain in this section (or on separate sheets) what the Member has done that you believe breached the code of Conduct.**

If you are complaining about more than one Member you should clearly explain what each individual person has done that you believe breached the Code of Conduct.

A copy of the Portsmouth City Council Code of Conduct for Councillors can be found at the following Web address:

[http://www.portsmouth.gov.uk/media/Constitution\\_P4.pdf](http://www.portsmouth.gov.uk/media/Constitution_P4.pdf)

Alternatively, a paper copy can be supplied on request by contacting:

The City Solicitor to Portsmouth City Council, Civic Offices, Guildhall Square, Portsmouth, PO1 2AL

- You should be specific, wherever possible, about exactly what you are alleging the Member said or did. For instance, instead of writing that the Member insulted you, you should state what it was they said.
- You should provide the dates of the alleged incidents wherever possible. If you cannot provide exact dates it is important to give a general timeframe.
- You should confirm whether there are any witnesses to the alleged conduct and provide their names and contact details if possible.
- You should provide any relevant background information.

Please provide us with the details of your complaint and the desired outcome from this complaints process. Continue on a separate sheet if there is not enough space on this form.

Signature.....

Date.....

**6. Only complete this next section if you are requesting that your identity is kept confidential.**

In the interests of fairness and natural justice, we believe Members who are complained about have a right to know who has made the complaint. We also believe they have a right to be provided with a summary of the complaint. We are unlikely to withhold your identity or details of your complaint unless you have good reason to justify that Portsmouth City Council do so.

Please note that requests for confidentiality or requests for suppression of complaint details will not automatically be granted. The City Solicitor will consider the request alongside the substance of your complaint. We will then contact you with the decision. If your request for confidentiality is not granted, we will usually allow you the option of withdrawing your complaint.



However, it is important to understand that in certain exceptional circumstances where the matter complained about is very serious, we can proceed with an investigation or other action and disclose your name even if you have expressly asked us not to.

Please provide us with details of why you believe we should withhold your name and/or the details of your complaint:

## 7. Additional Help

Complaints must be submitted in writing. This includes electronic submissions. However, in line with the requirements of the Disability Discrimination Act 2000, we can make reasonable adjustments to assist you if you have a disability that prevents you from making your complaint in writing.

We can also help if English is not your first language.

If you need any support in completing this form, please let us know as soon as possible.

This complaint should be submitted to the City Solicitor by email to:  
[michael.lawther@portsmouthcc.gov.uk](mailto:michael.lawther@portsmouthcc.gov.uk)

Alternatively, by post to: The City Solicitor to Portsmouth City Council, Civic Offices, Guildhall Square, Portsmouth, PO1 2AL

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## APPENDIX C

### **Governance and Audit and Standards Committee Arrangements for Assessment, Investigation and Determination of a Complaint that a Member has failed to Comply with the Members' Code of Conduct**

#### **1. Application of these Arrangements**

- 1.1. These are the Arrangements to be followed by the Governance and Audit and Standards Committee of Portsmouth City Council ("the Council") in the assessment, investigation and determination of a complaint that any Member of the Authority has failed to comply with the Members' Code of Conduct. The Arrangements will be followed and applied in accordance with the requirements of the Localism Act 2011.

#### **2. Receipt of Complaint**

- 2.1. A complaint shall be made by email to [michael.lawther@portsmouthcc.gov.uk](mailto:michael.lawther@portsmouthcc.gov.uk) or by post addressed to the City Solicitor to Portsmouth City Council (Civic Offices, Guildhall Square, Portsmouth PO1 2AL). The Complaint Form at Appendix 3 (Part 3) shall be used for this purpose.
- 2.2. Anonymous complaints will not normally be considered unless the complaint is accompanied by documentary or photographic evidence indicating an exceptionally serious or significant matter.

#### **3. Notification to Member**

- 3.1. The City Solicitor shall provide the Member who is the subject of the allegation with written notification that a complaint has been made.

#### **4. Initial filtering of complaints**

- 4.1. The City Solicitor, upon receipt of a complaint, will arrange a meeting with the Chair of Governance and Audit and Standards Committee and one of the Independent Persons.
- 4.2. The purpose of the meeting will be for the Chairman to decide in consultation with the City Solicitor and Independent Person if the complaint should proceed to Governance and Audit and Standards Assessment Sub-Committee ("the Assessment Sub-Committee").
- 4.3. A complaint will not proceed in the event that the Chair decides:
  - 4.3.1. The complaint concerns someone who is no longer a member of the Council;
  - 4.3.2. There has been a delay of more than 12 months prior to the complaint being made;
  - 4.3.3. In order to resolve the matter, the complainant is prepared to accept and the subject member has given a written apology;

- 4.3.4. The complaint does not warrant the expenditure of public funds on an investigation;
- 4.3.5. It is considered appropriate that the complaint is dealt with in a way other than the formal investigation and hearings procedure, such as mediation.

5. **Terms of Reference of Governance and Audit and Standards Assessment Sub-Committee**

- 5.1. The Assessment Sub-Committee is established to receive allegations that a Member of the Council has failed to comply with the Members' Code of Conduct.
- 5.2. The Assessment Sub-Committee shall comprise three members and shall in so far as practicable have a Member of each political group represented upon it.
- 5.3. Following the initial filtering process set out in section 4 above the City Solicitor will set up an Assessment Sub-Committee which shall then do one of the following:
  - 5.3.1. Refer the allegation to the City Solicitor with an instruction that he/she arrange a formal investigation of the allegation or (after consultation with the City Solicitor) directing that he/she arrange training, conciliation or such other appropriate alternative steps; or
  - 5.3.2. Decide that no action should be taken in respect of the allegation; or
  - 5.3.3. Where the allegation is in respect of a person who is no longer a Member of the Council but is a Member of another relevant authority (as defined in Section 27(6) of the Localism Act 2011) refer the allegation to the City Solicitor of that other Authority.
- 5.4. In reaching its decision, the Sub-Committee shall have regard to the Local Assessment Criteria in Appendix 3 (Part 1).
- 5.5. The Assessment Sub-Committee shall instruct the City Solicitor to take reasonable steps to notify the person making the allegation, and the Member the subject of it, of that decision. Where the decision is that no action should be taken, reasons for the decision shall be given, and reference made to the right to request a review of that decision under Paragraph 6 below. This notification shall normally be given within ten working days of the decision being made.
- 5.6. The notification to the Member concerned shall include the name of the complainant and a written summary of the allegation, unless the Sub-Committee determines that to do so would be contrary to the public interest or would prejudice any person's ability to investigate the allegation.
- 5.7. When a matter is referred to the City Solicitor for investigation or other action, it does not mean that the Sub-Committee has made up its mind about the allegation.

The Sub-Committee makes no findings of fact on the matter. It simply means that the Sub-Committee believes the alleged conduct, if proven, may amount to a failure to comply with the Code of Conduct, and that some action should be taken in response to the complaint.

**6. Right to Request a Review**

6.1. Where a decision is made by the Assessment Sub-Committee that no action should be taken in respect of the allegation, the person who made the allegation may make a request for that decision to be reviewed. The request shall be made in writing addressed to the Chair, Governance and Audit and Standards Committee. The request must be received within 30 days of notification being given under paragraph 5.5 above.

6.2. On receipt of a request for review, it shall be passed to the City Solicitor

**7. Convening of Meeting of the Governance and Audit and Standards Review Sub-Committee**

7.1. In consultation with the Chair, the City Solicitor shall appoint, and convene a meeting of, the Governance and Audit and Standards Review Sub-Committee, ("the Review Sub-Committee") from amongst the Members of the Governance and Audit and Standards Committee, provided that at all times the composition of the Sub-Committee complies with paragraphs 7.2 and 7.3. The meeting shall take place within 20 working days of the date of receipt of the request for review, where practicable, and certainly within a maximum of three months from that date.

7.2. The Review Sub-Committee shall comprise three members.

7.3. The Review Sub-Committee shall not include any member who was a member of the Assessment Sub-Committee whose decision to take no action is subject to review. This is to minimise the risk of conflicts of interest and ensure fairness for all parties.

**8. Notification to Member**

8.1. The City Solicitor shall notify the Member who is the subject of the allegation that a request for review has been received.

**9. Terms of Reference of Governance and Audit and Standards Review Sub-Committee ("the Review Sub-Committee")**

9.1. The Governance and Audit and Standards Review Sub-Committee is established to review, upon the request of the person who has made an allegation that a Member of the Authority has failed or may have failed to comply with the Council's Code of Conduct, a decision of the Governance and Audit and Standards Assessment Sub-Committee that no action be taken in respect of that allegation.

9.2. Upon receipt of such request for a review and any accompanying report by the City Solicitor the Governance and Audit and Standards Review Sub-Committee shall, within 20 working days, review the decision of the Assessment Sub-Committee and shall then do one of the following:

- 9.2.1. Refer the allegation to the City Solicitor with an instruction that he/she arrange a formal investigation of the allegation or (after consultation with the Deputy City Solicitor where appropriate) directing that he/she arrange training, conciliation or such other appropriate alternative steps; or
  - 9.2.2. Decide that no action should be taken in respect of the allegation; or
  - 9.2.3. Where the allegation is in respect of a person who is no longer a Member of the Authority but is a Member of another relevant authority (as defined in Section 27(6) of the Localism Act 2011) refer the allegation to the City Solicitor of that other Authority.
- 9.3. In reaching its decision, the Sub-Committee shall have regard to the Local Assessment Criteria in Appendix 3 (Part 1).
  - 9.4. The Sub-Committee shall instruct the City Solicitor to take reasonable steps to notify the person making the allegation, and the Member concerned, of that decision. Where the decision is that no action should be taken, reasons for the decision shall be given. This notification shall normally be given within ten working days of the decision being made.
  - 9.5. When a matter is referred for investigation or other action, it does not mean that the Sub-Committee has made up its mind about the allegation. The Sub-Committee makes no findings of fact on the matter. It simply means that the Sub-Committee believes the alleged conduct, if proven, may amount to a failure to comply with the Code of Conduct, and that some action should be taken in response to the complaint.

## 10. **Referral for Steps other than Investigation**

- 10.1. Where the Assessment Sub-Committee or Review Sub-Committee has consulted the City Solicitor with a view to making a direction to take steps other than investigation that involve conciliation, the City Solicitor shall contact the person making the allegation, and the Member the subject of it, seeking confirmation that they would co-operate with the action proposed if such a direction were made. It must be made clear that the decision to take other action, if pursued, will close the opportunity for the complaint to be fully investigated. The City Solicitor shall inform the Sub-Committee of the responses received from the complainant and member.
- 10.2. Where a direction is then made to take steps other than investigation, the City Solicitor shall produce a written report of the action taken or proposed. The report shall be considered by the Governance and Audit and Standards Committee within three months of the direction being given. This meeting shall normally be open to the press and public, unless the Committee decides that, in accordance with Part VA of and Schedule 12A to the Local Government Act 1972, the report should be considered in private session.
- 10.3. If the Governance and Audit and Standards Committee is not satisfied with the action specified in the report, it shall give a further direction to the City Solicitor to take such further steps as appear appropriate.

- 10.4. If the Governance and Audit and Standards Committee is satisfied with the action specified in the report, it shall authorise the City Solicitor to give written notice to that effect to the person making the allegation and the member the subject of it. A written summary of the main points considered at the meeting, including the conclusion reached in respect of the allegation, and the reasons for it, shall be recorded.

**11. Referral to the Governance and Audit and Standards Committee**

Where the decision of the Assessment Sub-Committee, or Review Sub-Committee is that the matter should be referred to the Governance and Audit and Standards Committee, the City Solicitor shall notify the Governance and Audit and Standards Committee in writing.

Where the referral is accepted by the Governance and Audit and Standards Committee, the further handling of the matter shall be the responsibility of the Governance and Audit and Standards Committee.

**12. Referral for Investigation**

- 12.1. Where the Assessment Sub-Committee or Review Sub-Committee has referred the matter to the City Solicitor for investigation, the City Solicitor shall arrange for such investigation to be carried out by the Deputy City Solicitor, or other person the City Solicitor considers to be suitably qualified and experienced to undertake the task (“the Investigating Officer”). This may include:

- 12.1.1. Making inquiries of such persons as the Investigating Officer considers necessary or expedient;
- 12.1.2. Requiring such persons to give such information or explanation as the Investigating Officer considers expedient;
- 12.1.3. Inspection of such documents as the Investigating Officer considers expedient.

The City Solicitor may refer the matter back to the Assessment Sub-Committee if, as a result of new evidence or information, he is of the opinion that the matter is materially more or less serious than may have been apparent when the decision to refer the matter for investigation was made, and that the Sub-Committee would have made a different decision had it been aware of that new evidence or information. The City Solicitor may also refer the matter back to the Sub-Committee if the Subject-Member has died, resigned, or is seriously ill, and he is of the opinion that it is no longer appropriate to continue with an investigation.

- 12.2. Where the matter is referred back to the Assessment Sub-Committee under Paragraph 12.1, the Sub-Committee may make any of the decisions referred to in Paragraph 5.3.
- 12.3. On completion of an investigation, the Investigating Officer shall prepare a written report of the investigation making one of the following findings:

12.3.1. That there has been a failure to comply with the Code of Conduct; or

12.3.2. That there has not been a failure to comply with the Code of Conduct

12.4. The City Solicitor shall send a copy of the Investigating Officer's report to the Member the subject of the allegation, and to the Governance and Audit and Standards Committee. The Governance and Audit and Standards Committee shall then arrange for the report to be considered at a hearing of the Governance and Audit and Standards Consideration Sub-Committee ("Consideration Sub-Committee").

### 13. **Convening a meeting of the Consideration Sub-Committee**

13.1. In consultation with the Chair, the City Solicitor shall appoint, and convene a meeting of, the Consideration Sub-Committee, from amongst the Members of the Governance and Audit and Standards Committee, provided that at all times the investigation shall be carried out in accordance with any guidance issued by the Governance and Audit and Standards Committee and the composition of the Sub-Committee complies with Paragraph 13.2.

13.2. The Consideration Sub-Committee shall comprise three members. Membership may include any member who has participated in consideration of the allegation at a meeting of the Assessment Sub-Committee or Governance and Audit and Standards Review Sub-Committee at an earlier stage.

13.3. This meeting shall not normally be open to the press and public, provided that the Sub-Committee decides that, in accordance with Part VA and Schedule 12A to the Local Government Act 1972, the report should be considered in private session.

### 14. **Terms of Reference of the Governance and Audit and Standards Consideration Sub-Committee ("the Consideration Sub-Committee")**

14.1. The Consideration Sub-Committee shall be responsible for determining whether:

14.1.1. It accepts the City Solicitor's finding of no failure to observe the Code of Conduct; or

14.1.2. The matter should be referred to consideration at a hearing before the Governance and Audit and Standards Hearings Sub-Committee

### 15. **Finding of No Failure**

15.1. Where a finding of no failure is made, the City Solicitor shall give written notification of this to the person who made the allegation, and the Member the subject of it.

15.2. The City Solicitor shall also arrange for a notice to be published on the Council's website, within 10 working days stating that there has been no failure to comply with the Code of Conduct, unless the Member the subject of the allegation requests that no such notice be published.



16. **Convening a meeting of the Governance and Audit and Standards Hearings Sub-Committee ("the Hearings Sub-Committee")**

- 16.1. Where the Assessment Sub-Committee decides that the matter should be referred for consideration at a hearing before the Hearings Sub-Committee, then, in consultation with the Chair, the City Solicitor shall appoint, and convene a meeting of, the Hearings Sub-Committee for this purpose. The Sub-Committee shall be appointed from amongst the Members of the Governance and Audit and Standards Committee, provided that at all times the composition of the Sub-Committee complies with Paragraph 5.2.
- 16.2. The Hearings Sub-Committee shall comprise three members. Membership may include any member who has participated in consideration of the allegation at a meeting of the Assessment Sub-Committee, Review Sub-Committee or Consideration Sub-Committee at an earlier stage.
- 16.3. The meeting shall be held within three months of the date of completion of the Investigating Officer's report (or as soon as reasonably practicable thereafter) and at least fourteen days after the date on which the City Solicitor sent the Investigating Officer's report to the member the subject of the allegation, (unless the member agrees to it being held earlier).
- 16.4. This meeting shall normally be open to the press and public, unless the Sub-Committee decides that, in accordance with Part VA and Schedule 12A to the Local Government Act 1972, the report should be considered in private session.
- 16.5. The meeting of the Hearings Sub-Committee may consider the report in the subject member's absence if the subject member does not attend the hearing. If the Sub-Committee is satisfied with the subject member's reasons for not being able to attend the meeting, it may arrange for the hearing to take place on another date.

17. **Terms of Reference of Hearings Sub-Committee**

- 17.1. The Hearings Sub-Committee is established to hold a hearing and make one of the following findings:
  - 17.1.1. That the Member did not fail to comply with the Code of Conduct; or
  - 17.1.2. That the Member did fail to comply with the Code of Conduct, but that no action needs to be taken in respect of the matters considered at the hearing; or
  - 17.1.3. That the Member did fail to comply with the Code of Conduct and that one of, or any combination of, the following sanctions should be imposed:
    - 17.1.3.1. Censure of the Member:
    - 17.1.3.2. Restriction for a period not exceeding six months of that

Member's access to the premises of the Authority or that Member's use of the resources of the Authority, provided that those restrictions are reasonable and proportionate to the nature of the breach, and do not unduly restrict the Member's ability to perform the functions of a Member;

17.1.3.3. Recommending to the Member's Group Leader that he/she be removed from any or all Committees or Sub-Committees of the Authority;

17.1.3.4. Reports its findings to the Authority and/or the relevant authority responsible for appointing the Member to the Authority.

17.2. Any sanction imposed shall take effect immediately, except where the Sub-Committee directs that it shall take effect on a later date within the following six months.

## 18. **Pre-Hearing Procedure**

18.1. In consultation with the Chair of the Governance and Audit and Standards Committee, the City Solicitor shall write to the Subject Member proposing a date for the hearing. The letter shall outline the hearing procedure, and the member's rights, asking for a response within a set time. The letter shall enquire whether the subject member:

18.1.1. Wants to be represented at the hearing by a solicitor, barrister or other person;

18.1.2. Disagrees with any of the findings in the investigation report, including reasons for any disagreements;

18.1.3. Wants to give evidence at the hearing, either verbally or in writing;

18.1.4. Wants to call relevant witnesses to give evidence and, if so to provide outlines or statements of the evidence those witnesses intend to give;

18.1.5. Wants any part of the hearing to be held in private:

18.1.6. Wants to have any part of the investigation report or other documents withheld from the public, and

18.1.7. Can attend the hearing.

18.2. The City Solicitor shall send a copy of the Subject Member's response to the Investigating Officer, inviting them to say by a set date whether they wish to:

18.2.1. Be represented at the hearing:

18.2.2. Call relevant witnesses to give evidence;

18.2.3. Have any part of the hearing held in private; and

18.2.4. Have any part of the investigation report or other documents withheld from the public.

18.3. The City Solicitor shall advise the Hearings Sub-Committee as necessary on any matter arising out of the Subject Member's response. At least two weeks before the hearing, the City Solicitor shall send a pre-hearing process summary to everyone involved in the complaint. This should set the date, time and place for the hearing, summarise the allegation, outline the main facts that are agreed and those which are not agreed, note whether the subject member will attend and be represented, list the witnesses who intend to give evidence, and outline the procedure to be followed at the hearing.

## 19. **Hearing Procedure**

19.1. The hearing is a formal meeting of the Authority and is not a court of law. It does not hear evidence under oath, but it does decide factual evidence on the balance of probabilities. The hearing will be conducted in a demonstrably fair, independent and politically impartial way, so that members of the public and members of the Authority have confidence in the Council's procedures and findings.

19.2. The procedure followed at the hearing will be confirmed in the pre-hearing process summary referred to in Paragraph 18.3.

## 20. **Notification of Findings**

20.1. As soon as reasonably practicable after the Hearings Sub-Committee makes its finding on the matter, the City Solicitor shall give written notice of the finding and the reasons for it to the Subject-Member and the person who made the allegation. A summary of the finding and reasons for it shall be placed on the Council's website.

20.2. Where the finding is that there was no failure to comply with the Code of Conduct, a summary of the finding and reasons for it shall not be placed on the Council's website if the Subject-Member the subject of the finding so requests.

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<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	13 March 2015
<b>Subject:</b>	Review of Adult Safeguarding Practice
<b>Report by:</b>	City Solicitor
<b>Wards affected:</b>	
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## **1 Purpose of report**

- 1.1 To update Members of the Committee as to considerations arising subsequent to an investigation into Adult Safeguarding Practice following the reported assault on a resident of Portsmouth by a former member of this Council in 2010.

## **2 Recommendations**

- 2.1 It is recommended that Members of the Committee note the report.  
2.2 It is recommended that Members of the Committee consider whether any further action is required by them.

## **3 Background**

- 3.1 At the time of the assault, this Council, together with Hampshire County Council, Southampton City Council, Hampshire Constabulary and the local NHS subscribed to the approved Safeguarding Adults Policy 2010.
- 3.2 The investigation undertaken by this Council concluded that the practice of the Council at the time of the reported assault was compliant with the 2010 Policy on the following bases:
- 3.2.1 There was no conflict of interest between the adult social care service provided to the resident, as the Council at that time was not providing direct services to the resident from Adult Social Care. Moreover the investigating agency into the assault was Hampshire Constabulary and not the Council.
  - 3.2.2 On a review of the records no evidence of contact or influence has been found by the former member on the social work professional practice of Adult Social Care.

3.2.3 Under the 2010 Policy, the guidance refers to the benefit of an advocate but does not provide criteria for such an advocate. In this case, the family support worker from Harbour School was to be the advocate which met the criteria of the Policy.

#### 4 Reasons for recommendations

4.1 The investigation made the following recommendations, in light of the Care Act 2014, which have been made to the Independent Chair of the Portsmouth Adult Safeguarding Board:

4.1.1 Under the 2014 Act, the local authority is now required to carry out enquiries to protect the victim / individual at risk and co-ordinate all services and agencies concerned. The Council's Director of Adult Services and Monitoring Officer would need to consider in any future case whether a conflict of interest arose.

4.1.2 There is a further responsibility on the Council under the 2014 Act to provide an independent advocate to 'represent and support an adult who is the subject of a safeguarding enquiry'. No person 'engaged professionally to provide care or treatment for the adult in question' may be an advocate.

#### 5 Equality Impact Assessment (EIA)

5.1 Not applicable.

#### 6 Legal implications

6.1 The City Solicitor's comments are included in this report.

#### 7 Finance comments:

7.1 There are no financial implications arising from the recommendations set out in this report.

.....  
City Solicitor

#### 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



<b>Title of meeting:</b>	Governance & Audit & Standards
<b>Date of meeting:</b>	13 <sup>th</sup> March 2015
<b>Subject:</b>	Councillor training and development
<b>Report by:</b>	Michael Lawther
<b>Wards affected:</b>	N/A
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## 1. Purpose of report

To update members on the review of the councillor training programme and make recommendations based on the findings.

## 2. Recommendations

Members are recommended to:

- I. Support an enhanced induction programme for new members (content based on consultation and designed to reduce risk) - (Appendix 1 - overview of content)
- II. Support the expectation that members (and standing deputies) receive training prior to committee membership or that appropriate records are kept to demonstrate that formal training is not required for an individual councillor
- III. Support improved partnership working between officers and Group Leaders regarding ongoing professional development training

## 3. Background

### 3.1. Induction training

- I. Induction training has been offered in a number of different formats and all new members over the last four years have received an induction
- II. Members receive training in the Code of Conduct directly via Michael Lawther
- III. Members receive on-going training in matters relating to the Constitution via officers in Democratic Services

3.1.1. There are areas of work (that are treated as mandatory by the organisation) not fully addressed in the induction for members which potentially expose us to risk, including:

- I. Health & Safety responsibilities including fire procedures (the H&S policy states that members should complete the H&S Induction e-learning for Councillors but there is currently one member who is compliant)
- II. Data Protection and Freedom of Information (we have an obligation to 'raise awareness')
- III. Obligations under the Equality Act and best practice around equalities (particularly relating to responsibilities around Equalities Impact Assessments)

### **3.2 Committee training**

3.2.1. There is a lack of clarity around training that should be undertaken prior to committee membership (specifically relating to whether it is mandatory or not)

- I. Governance & Audit & Standards - annual training is offered, but is not mandatory. In 2006, at the creation of the Audit Committee it was agreed that "members to have skills and experience or being trained on....governance, risk management, internal control, accounting, regulation and compliance, the role of the committee and the role of internal / external audit"
- II. Governance & Audit & Standards sub-committees - undertaken by Michael Lawther
- III. Planning Committee - the lead officer reports that it is 'good practice' to ensure that committee members receive training prior to membership and that this should include deputies. Ideally they would like all members to receive training on planning matters
- IV. According to the Planning Advisory Service it is not mandatory to receive training prior to sitting on the Planning Committee, although they note that it is good practice and that some Local Authorities make training compulsory
- V. Licensing Committee - the lead officer reports that "it's not mandatory, but it is certainly expected that members receive training to membership"

3.2.2. There are a number of potential risks identified including:

- I. If a committee decision is challenged, would we be able to demonstrate that members have received training or have been assessed as possessing the required skills and experience?
- II. Would we be open to challenge if deputies (without training) had contributed to the decision made?

### **3.3. Ongoing professional development**

3.3.1. There is an inconsistent approach to supporting continuing professional development (e.g. not all councillors are made aware of opportunities)

3.3.2. There are under-utilised opportunities available from external bodies (e.g. the Local Government Association) that could directly meet expressed areas of need (e.g. Social Media training)

### **3.4. Feedback**



- 3.4.1. Councillor training provision has been assessed by external review and improvements have been identified (e.g. the Peer Review recommendations to improve robustness and identify champions)
- 3.4.2. Councillors were invited to respond to a Member Services Questionnaire and results indicate that:
- I. Councillors were unclear about what constituted 'mandatory' training (either for newly elected councillors or relating to committee responsibilities)
  - II. There were variable responses as to whether the training undertaken had been of value
  - III. Councillors were unclear about how to access training opportunities
  - IV. There are expressed development needs that are currently unmet (e.g. leadership, time management, IT, social media, presentation skills, chairing meetings and conflict management)
- 3.4.3. Councillors elected in May 2014 were invited to provide feedback to improve the training provision:
- I. The induction session carried out by the Chief Executive made them feel valued and welcomed to PCC but did not act as a 'training session'
  - II. Participation in formal meetings can feel 'over-whelming' at first and training should be provided that covers: meeting protocols, public speaking, decision making, conduct at meetings, asking questions, Notices of Motion, Standing Orders, Deputations, Exempt items, pecuniary interests etc. Ideally this would include 'live' practice in the Guildhall. Members felt that this should be facilitated by officers. Parts of this session were piloted in February 2015 with members elected in 2014 and received very favourable feedback (except "this should have been offered much sooner")
  - III. It would be helpful to have a better understanding of 'who's-who' within services (e.g. a contact guide for frequent issues)
  - IV. An IT skills assessment and on-going training would be helpful
  - V. Ongoing training opportunities would be welcome to develop skills (e.g. time management, social media)
  - VI. Ongoing ad-hoc training provided by Officers in Democratic Service is welcome and helpful
- 3.4.4. Members of G&A&S provided verbal feedback as part of discussions at the last committee meeting:
- I. Training sessions are offered at times that are un-suitable for councillors (evenings or weekends would be preferable, or to utilise a full-day session that covered all areas)
  - II. Up-to-date officer contact details would be helpful
  - III. PCC could seek to generate income by providing training for councillors for other Local Authorities
  - IV. Involvement of the Group Leaders is important

- V. Clarity is needed on what training is mandatory (does this also apply to standing deputies - would this for example, leave us open to challenge on planning decisions?)
- VI. It would be helpful to provide the Members Handbook to all members

**4. Reasons for recommendations**

- I. It is essential to bring clarity to the question of 'mandatory' committee training, as it is unclear for members and potentially exposes us to risk
- II. It is essential to better meet the needs of newly elected councillors
- III. There are un-met training needs that have been expressed by councillors. There is a need to develop / commission training that is valuable to councillors and better meets their needs

**5. Equality impact assessment (EIA)**

A preliminary EIA has been completed and a full EIA is not required.

**6. Legal implications**

The City Solicitor is satisfied there are no legal implications arising from the report.

**7. Finance comments**

There are no financial implications arising from the recommendations of this report.

.....  
Signed by:

**Appendices:**

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

.....  
Signed by:

## **Appendix 1 - Moving forwards**

### **Induction training**

Apply the feedback from members to refresh the induction programme ready for May 2015, to include:

- Conduct and protocol at Council meetings
- Committee chairing
- Submitting questions to Council - time limits and content
- Notices of Motion
- Standing Orders
- Decision making across Council (e.g. the difference between the various committees in terms of remit and powers)
- Overview of committees (including what members need to know about the planning issues)
- How to make a deputation at various committees
- Exempt items and implications/responsibilities
- Conduct / Constitution / Pecuniary interests / member officer relations etc.
- Invitation to on-going training as offered by Democratic Services / Training
- Supported by the Member Handbook and who's who guide
- General training - EIAs / dealing with information / H&S / Safeguarding / Corporate Parenting / Finance etc.

### **Practicalities**

- Facilitated by the CX / Michael Lawther / Democratic Services / Training
- Offered as afternoon and evening sessions
- Evaluation of the impact of the session and follow-up discussions with the individual councillor to identify what else may be needed
- All councillors can be invited to attend all or part of this day

### **Committee training**

- Training prior to committee membership remains good practice and will be offered to all members of committees and their deputies
- Records to be kept to provide evidence that councillors had the required skills and experience if formal training is not undertaken

### **Ongoing training**

- Commission / deliver training in the areas expressed as training needs (e.g. time management, social media etc.)
- Offer the training to other authorities as a potential income stream
- Officers in Democratic Services / Training to work with Group Leaders around ongoing training (to identify needs and communicate about opportunities) - training can be offered within groups
- Ensure that training is offered at times suitable for councillors (e.g. evenings)



Agenda item:

**Title of meeting:** Governance & Audit & Standards Committee

**Date of meeting:** 27 February 2015

**Subject:** Data Security Breach Report

**Report by:** Michael Lawther, City Solicitor/Senior Information Risk Owner

**Wards affected:** All

**Key decision:** No

**Full Council decision:** No

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**1. Purpose of report**

To inform the Committee of any Data Security Breaches and actions agreed/taken since the last meeting.

**2. Recommendations**

It is recommended that Members of the Governance & Audit & Standards Committee note the breaches (by reference to Exempt Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

**2. Background**

The Corporate Information Governance Panel, formed of representatives from across the authority and chaired by Michael Lawther in the role of Senior Information Risk Owner (SIRO) meet every other month to

- establish policy and procedures for Information Governance;
- maintain a log of data breaches and determine and monitor onward action.

The Senior Information Risk Owner will update the Committee on any ongoing breaches and notify the members of any new incidents.

**3. Equality impact assessment (EIA)**

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

**4. Legal Implications**

The Council is required to ensure that it has robust procedures in place to comply with its obligations under the Data Protection Act. Bringing this report to the Committee's attention will assist in meeting those requirements.

**5. Finance Comments**

The ICO can issue fines of up to £500,000 for serious breaches of the Data Protection Act and Privacy and Electronic Communications Regulations. The size of any monetary penalty is determined by the Commissioner taking into account the seriousness of the breach and other factors such as the size, financial and other resources of the data controller. Any breaches put the City Council at risk of the unbudgeted cost of a financial penalty which would have to be met from the service responsible for the breach.

.....  
Signed by:

**Appendices: One Exempt Appendix**

**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
Nil	N/A

# Agenda Item 11

Agenda item:

**Decision maker:** Cabinet  
City Council

**Subject:** Treasury Management Policy for 2015/16

**Date of decision:** 5 March 2015 (Cabinet)  
13 March 2015 (Governance and Audit and  
Standards Committee – information only)  
17 March 2015 (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

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## 1. Purpose of report

The purpose of this report is to obtain the Council's approval for 2015/16 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

## 2. Recommendations

**2.1a** the prudential indicators in Appendix A be approved;

**2.1b** 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;

**2.1c** 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

**2.1d the upper limits for fixed interest exposures are set as follows:**

<b>2014/15</b>	<b>£272m</b>
<b>2015/16</b>	<b>£304m</b>
<b>2016/17</b>	<b>£377m</b>
<b>2017/18</b>	<b>£383m</b>

**2.1e the upper limits for variable interest exposure are set as follows:**

<b>2014/15</b>	<b>(£246m) – Investments up to £246m</b>
<b>2015/16</b>	<b>(£278m) – Investments up to £278m</b>
<b>2016/17</b>	<b>(£332m) – Investments up to £332m</b>
<b>2017/18</b>	<b>(£331m) – Investments up to £331m</b>

**2.1f the following limits be placed on principal sums invested for periods longer than 364 days:**

<b>31/3/2015</b>	<b>£265m</b>
<b>31/3/2016</b>	<b>£243m</b>
<b>31/3/2017</b>	<b>£231m</b>
<b>31/3/2018</b>	<b>£228m</b>



**2.1g 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.

	<b>Upper Limit</b>	<b>Lower Limit</b>
<b>Under 12 Months</b>	<b>10%</b>	<b>0%</b>
<b>12 months &amp; within 24 months</b>	<b>10%</b>	<b>0%</b>
<b>24 months &amp; within 5 years</b>	<b>20%</b>	<b>0%</b>
<b>5 years &amp; within 10 years</b>	<b>20%</b>	<b>0%</b>
<b>10 years &amp; within 20 years</b>	<b>40%</b>	<b>0%</b>
<b>20 years &amp; within 30 years</b>	<b>40%</b>	<b>0%</b>
<b>30 years &amp; within 40 years</b>	<b>40%</b>	<b>0%</b>
<b>40 years &amp; within 50 years</b>	<b>50%</b>	<b>0%</b>

**2.1h 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;**

**2.1i 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;**

**2.1j 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;**

- 2.1k** the regulatory method of calculating Minimum Revenue Provision (MRP) be applied to pre 1 April 2008 debt and new government supported debt but excluding finance leases and service concessions (including Private Finance Initiative schemes);
- 2.1l** the asset life (equal instalment) method of calculating MRP is applied to post 1 April 2008 self-financed borrowing but excluding:
- Finance leases
  - Service concessions (including Private Finance Initiative schemes)
  - Borrowing to fund long term debtors (including finance leases);
- 2.1m** 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;
- 2.1n** 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;
- 2.1o** 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;
- 2.1p** the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;
- 2.1q** 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;
- 2.1r** investments should only be placed with institutions based in either the United Kingdom or sovereign states with a AA+ credit rating;
- 2.1s** the Council's investments are limited to senior debt;
- 2.1t** the bodies meeting the criteria of categories 1 to 8 in paragraph 16.15 are approved as repositories of specified investments of the City Council's surplus funds;

- 2.1u that investments in banks, building societies and registered social landlords (RSLs) with a duration exceeding 2 years are secured**
- 2.1v credit ratings be reviewed monthly and that any institution whose credit rating falls below the minimum level stated in paragraph 16.15 of the Treasury Management Policy be removed from the list of specified investments;**
- 2.1w institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;**
- 2.1x non-specified investments in aggregate 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	243m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
<b>Total</b>	<b>331m</b>

**2.1y the total amount that can be directly invested with any organisation at any time should be limited as follows (see paragraph 18.1):**

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£30m for up to 5 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 5 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 5 years
Category 7	£13m for up to 5 years
Category 8	£10m for up to 5 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

**2.1z the Head of Financial Services and Section 151 Officer in consultation with the Leader of the Council is given delegated authority to revise the total amount that can be directly invested with any organisation at any time**

**2.1a that the following investment limits be applied to sectors:**

<b>Money market funds</b>	<b>£80m</b>
<b>Building societies</b>	<b>£107m</b>
<b>Registered social landlords</b>	<b>£80m</b>

**2.1ab that the following investment limits be applied to regions outside the United Kingdom:**

<b>Asia &amp; Australia</b>	<b>£40m</b>
<b>Americas</b>	<b>£40m</b>
<b>Continental Europe</b>	<b>£30m</b>

**2.2 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 and Council;**
- (iii) the Annual Strategy Report to the Cabinet in March 2016;**
- (iv) quarterly Treasury Management monitoring reports to the Governance and Audit and Standards Committee.**

### **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. 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. These 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
- Provide for the repayment of supported borrowing in a way matches Government support for such borrowing
- Provide 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

#### **5. Equality impact assessment (EIA)**

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

#### **6. Legal Implications**

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.

#### **7. 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 2015/16**

**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:

<b>Title of document</b>	<b>Location</b>
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 17 March 2015.

.....  
Signed by the Leader of the Council

# **TREASURY MANAGEMENT POLICY STATEMENT INCLUDING:**

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT**
- **ANNUAL INVESTMENT STRATEGY 2015/16**

**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 10<sup>th</sup> February 2015.

### 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	419
Other Long Term Credit Liabilities	<u>84</u>
	<u>503</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	399
Other Long Term Credit Liabilities	<u>84</u>
	<u>483</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.

It has been necessary to revise the estimated non - Housing Revenue Account (HRA) capital financing requirement since it was approved by the Council on 10 February.

It is recommended that the prudential indicators in Appendix A be approved **(Recommendation 2.1(a))**.

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 2.1(b))**.

## 4 TREASURY MANAGEMENT STRATEGY FOR 2015/16

### 4.1 Objectives

It is estimated that the net interest and debt repayment costs for 2015/16 will amount to approximately £34.6m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2015/16 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
- 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 (CFR). The CFR measures the Council's underlying need to borrow. 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.



	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	376,471	373,120	369,769	366,417	363,066	359,715
Finance leases	4,978	4,230	3,609	2,958	2,301	1,649
Service Concessions (including Private Finance Initiative schemes)	83,068	82,109	79,639	76,455	73,769	70,264
<b>Total Gross debt</b>	<b><u>464,517</u></b>	<b><u>459,459</u></b>	<b><u>453,017</u></b>	<b><u>445,830</u></b>	<b><u>439,136</u></b>	<b><u>431,628</u></b>
<b>Capital Financing Requirement (CFR):</b>						
Opening CFR in 2014/15	411,405	-	-	-		
Change in CFR in 2014/15	2,616					
Closing CFR in 2014/15	414,021	414,021	414,021	414,021	414,021	414,021
Cumulative increase in CFR in future years		16,330	20,803	20,803	20,803	20,803
<b>Closing CFR</b>		<b><u>430,351</u></b>	<b><u>434,824</u></b>	<b><u>434,824</u></b>	<b><u>434,824</u></b>	<b><u>434,824</u></b>
<b>Under / (Over) Borrowing</b>		<b><u>(29,108)</u></b>	<b><u>(18,193)</u></b>	<b><u>(11,006)</u></b>	<b><u>(4,312)</u></b>	<b><u>3,196</u></b>

The main reason for the Council's gross debt exceeding its CFR relates to borrowing undertaken for the Housing Revenue Account self-financing scheme in advance. The expected direction of gilt yields was upwards. Subsequently 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 a further £88.6m. Consequently, the Council's gross debt will exceed its estimated capital financing requirement by £50.5m at the end of 2014/15. The Council's gross debt is forecast to exceed its capital financing requirement by £29.1m at the end of 2015/16. 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 2019/20.

#### 4.4 Gross and Net Debt

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

	<b>2014/15</b> £'000	<b>2015/16</b> £'000	<b>2016/17</b> £'000	<b>2017/18</b> £'000
Gross Debt at 31 March	464,517	459,459	453,017	445,830
Investments at 31 March	(315,173)	(292,615)	(280,916)	(277,904)
<b>Estimated Net Debt</b>	<b>149,344</b>	<b>166,844</b>	<b>172,101</b>	<b>167,926</b>

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 2015/16

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

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

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%.

Capita Asset Services' estimate that 25-year PWLB certainty rates will be 3.4% at the start of 2015/16, rising to 4.0% by the end of 2015/16 and 4.8% by the end of 2017/18. On this basis the estimated interest rate on any new long-term loans in 2015/16 will be between 3.4 and 4.0%.

The Council does not intend to undertake any new borrowing in 2015/16.

#### 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 fourth quarter of 2015 rising to 2.0% by the first quarter of 2018.

#### 4.6 Borrowing / Lending Requirements

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

It has been assumed that existing maturing debt of £3.4m in 2015/16 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 2.1(c)**).

#### 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 £195m 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 £975k below budget in 2015/16. 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 £975k in 2015/16.

#### 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:

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Maximum Projected Gross Borrowing – Fixed Rate	395	395	392	388
Minimum Projected Gross Investments – Fixed Rate	(123)	(91)	(15)	(5)

It is recommended that the upper limits for fixed interest rate exposures be set as follows (**Recommendation 2.1(d)**):

2014/15	£272m
2015/16	£304m
2016/17	£377m
2017/18	£383m

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:

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(246)	(278)	(332)	(331)

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's maximum projected gross variable interest rate investments increases as existing long term fixed interest rate investments mature. Some of this risk may be mitigated through making further long term fixed rate 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 2.1(e)**):

2014/15	(£246m) – Investments up to £246m
2015/16	(£278m) – Investments up to £278m
2016/17	(£332m) – Investments up to £332m
2017/18	(£331m) – Investments up to £331m

#### 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.

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% 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. There are regular fluctuations in the Council's cash balances which can amount to £50m. In addition cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. On this basis it is recommended that the following limits be placed on total principal sums invested for periods longer than 364 days to **(Recommendation 2.1(f))**:

31/3/2015 = £265m

31/3/2016 = £243m

31/3/2017 = £231m

31/3/2018 = £228m

#### 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 B. 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%.

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 2.1(g))**.

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	1%	4%	(3%)	10%	0%
12 months and within 24 months	4%	4%	0%	10%	0%
24 months and within 5 years	3%	12%	(9%)	20%	0%
5 years and within 10 years	4%	15%	(11%)	20%	0%
10 years and within 20 years	15%	32%	(17%)	40%	0%
20 years and within 30 years	11%	23%	(12%)	40%	0%
30 years and within 40 years	20%	7%	13%	40%	0%
40 years and within 50 years	42%	3%	39%	50%	0%

The current maturity pattern contained in Appendix B 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 3.19% to 5.01%. 42% of the Council's debt matures in over 40 years' time. Appendix B 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 2.1(h)**).



## 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
Local Government Bonds Agency	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) Municipal Bonds Agency

A municipal bonds agency is being established by the Local Government Association (LGA) to enable local authorities to undertake long term borrowing at lower rates than those offered by the PWLB. The LGA plans to have the municipal bonds agency operational in April 2015. Loans will be advanced on fixed dates determined by the municipal bonds agency of which it is anticipated that there will be two in 2015/16. Loans will be repayable at maturity with the duration of the loan being fixed by the municipal bonds agency.

#### (e) 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 2015/16 of £503m set by the City Council on 10 February 2015 must not be exceeded.

It is anticipated that the City Council will not need to use the temporary borrowing facility in 2015/16.

(f) Overdraft

An overdraft limit of £2m has been agreed with the Barclays 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 2015/16 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 finance 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 2.1(i)**).

**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 2.1(j)**):
- 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 2.1(k)**). This is the same method as that adopted for 2014/15.

**10. SELF- FINANCED BORROWING EXCLUDING 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 2.1(l)**). This is the same method as that adopted for 2014/15.

**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 2.1(m))**.

**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 **(recommendation 2.1(n))**. This is in line with the MRP policy adopted in 2014/15 for long term debtors funded by unsupported borrowing.
- 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 2.1(o))**. This is in line with the MRP policy adopted in 2014/15 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 2.1(p)**). 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 C.
- 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 The main rating agencies have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". Standard and Poor have started this process and among others have placed Barclays Bank, HSBC Bank, Lloyds Bank, Nationwide Building Society, and Standard Chartered Bank on negative watch. The removal of all sovereign support from the credit ratings would result in HSBC's long term credit rating being reduced by one notch from AA- to A+, and Standard Chartered's long term credit rating being reduced by one notch from A+ to A. The removal of all sovereign support from the credit ratings would result in Barclays, Lloyds and Nationwide all having their long term credit ratings reduced by 2 notches from A to BBB+. It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis.
- 16.6 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. This has resulted in a number of Long Term ratings being given a negative outlook where they exceed the Financial Strength rating.

- 16.7 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.
- 16.8 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 2.1q**). 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.
- 16.9 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 2.1r**).
- 16.10 When an institution or state has differing ratings from different agencies, the average rating will be used to assess its suitability. This is a change from the previous practice of using the lowest credit rating to assess the suitability of institutions for investment. This change is necessary as Standard and Poor may reduce its long term credit rating for the majority of the UKs high street banks to BBB+ which would not meet the Council's minimum criteria for specified investments. Standard and Poor's changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.
- 16.11 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies, money market funds, enhanced money market funds, RSLs and corporate bonds that meet the Council's investment criteria.
- 16.12 Money market funds are well diversified funds that invest in high quality very short term instruments enabling investors to have instant access to their funds. Enhanced money market funds, also known as short dated investment funds, are also well diversified funds investing in high quality counter parties, but for longer periods, and require a few days' notice of withdrawals.

- 16.13 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.
- 16.14 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.
- 16.15 The risk of loss following a default is much smaller for building societies. 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.
- 16.16 It is recommended that the Council's investments be limited to senior debt (**Recommendation 2.1s**). This recommendation was not included in the 2014/15 Investment Strategy, but is included to provide clarification and does not represent a change in the Council's investment practices. Subordinated corporate bonds are sometimes issued by financial institutions and commercial companies. Subordinated corporate bonds offer higher yields, but in the event of an institution defaulting, senior debtors are repaid before subordinated debtors. Because of this, subordinated bonds often have a lower credit rating than senior debt issued by the same institution.

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

	<b>Recommended Maximum Investment in a Single Organisation</b>
<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	£30m for up to 5 years
<u>Category 3</u> RSLs with a single long term credit rating of Aa-	£30m for up to 10 years
<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, Aa rated enhanced 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 10 years
<u>Category 6</u> Banks and corporate bonds 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.	£20m for up to 5 years.
<u>Category 7</u> Banks and corporate bonds 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-.	£13m for up to 5 years
<u>Category 8</u> Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A-.	£10m for up to 5 years

16.16 It is proposed that the bodies meeting the criteria of categories 1 to 8 in paragraph 16.11 be approved as repositories of specified investments of the City Council's surplus funds (**Recommendation 2.1(t)**). A list of financial institutions currently meeting the Council's investment criteria is contained in Appendix D. There are too many RSLs and companies issuing corporate bonds to include in the list.

- 16.17 The maximum duration for investments in corporate bonds was previously four years and reflected a likely lack of sovereign support in the event of a commercial company getting into financial difficulties. However, given that the likelihood of sovereign support in the event of a bank or building society getting into financial difficulties is now much reduced, it is felt that the duration limits for corporate bonds, banks and building societies should be the same.
- 16.18 It is recommended that investments in banks, building societies and RSLs with durations in excess of two years should be secured in order to reduce the consequences of such institutions defaulting (**recommendation 2.1u**). This represents a change from the current investment strategy as the consequences of default could be particularly severe in the event of a bank or building society defaulting as legislation will allow regulators to use a proportion of the Council's funds to support such an institution if it got into financial difficulties, known as a "bail in". This risk can be mitigated by investing in covered bonds which are typically secured on a pool of mortgages. Loans to RSLs can be secured on their housing stock.
- 16.19 It is recommended that the credit ratings be reviewed monthly and that any institution whose lowest credit rating falls below the criteria for category 8 in paragraph 16.11 be removed from the list of specified investments (**Recommendation 2.1(v)**).
- 16.19 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 2.1(w)**).

## **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 49% 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 2015/16 will be £304m. 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 investment categories be established for non-specified investments that do not meet the criteria for specified investments.

Category 9 - £10m for 2 years

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)

Category 9 will consist of rated building societies that meet the above criteria.

The building societies included in category 9 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. Therefore it is felt that the duration limit for this category should be increased to 2 years. It was previously 364 days.

Category 10 - £6m for 2 years

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.

Category 10 consists of the unrated building societies in the strongest financial position. It is proposed to divide those unrated building societies in a strong financial position into 2 groups with the duration limit for the strongest unrated building societies being increased to 2 years. It was previously 364 days.

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

<b>Building Society</b>	<b>Limit</b>
Furness	£4.2m
Leek United	£4.2m
Newbury	£3.9m
Hinkley & Rugby	£2.8m
Tipton and Crossley	£1.8m
Marsden	£1.7m
Dudley	£1.6m
Loughborough	£1.4m
Harpden	£1.4m
Staffordshire Railway	£1.2m
Swansea	£1.1m
Chorley and District	£1.0m

Category 11 - £6m for 364 days

Category 11 consists of the unrated building societies that are in a strong financial position.

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

<b>Building Society</b>	<b>Limit</b>
Nottingham	£6.0m
Progressive	£6.0m
Cambridge	£5.7m
Monmouthshire	£4.8m
Darlington	£2.6m
Market Harborough	£2.0m
Melton Mowbray	£1.9m
Scottish	£1.9m
Hanley Economic	£1.6m
Mansfield	£1.4m
Vernon	£1.3m

17.4 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd. 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 A rated corporate bonds for 5 years, and to RSLs for 10 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 2.1 (x)**):

	£
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	243m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
<b>Total</b>	<b>331m</b>

## 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 2.1(y)**):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£30m for up to 5 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 5 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 5 years
Category 7	£13m for up to 5 years
Category 8	£10m for up to 5 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
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 2.1(z)**).

- 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 As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council 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 2.1(aa)**):

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 to the geographic areas where investments can be made in foreign countries.
- 18.7 Concerns that there could be a major crisis in the Eurozone (EZ) subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation and the Middle East have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a prolonged period of very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries.

18.8 In addition to weak growth, the Eurozone is also subject to political risks. The Greek general election on 25 January 2015 brought to power a political party which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti-austerity political parties throughout the EU are much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti-austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the European Central Bank to defend their debt.

18.9 However, there is an implicit degree of protection since the policy only allows investments in banks and commercial companies based in sovereign states with a AA+ credit rating.

18.9 For these reasons it is recommended that the limit for total investments in continental Europe be reduced from £40m to £30m.

18.10 It is recommended that the following limits be applied (**Recommendation 2.1(ab)**):

Asia & Australia	£40m
Americas	£40m
Continental Europe	£30m

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. This forecast is used to determine the maximum period for which funds may be prudently committed, ie. the City Council's core cash. 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 The main reason for the Council's gross debt exceeding its CFR relates to borrowing undertaken for the Housing Revenue Account self-financing scheme in advance. The expected direction of gilt yields was upwards. Subsequently 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 a further £88.6m. Consequently, the Council's gross debt will exceed its estimated capital financing requirement by £50.5m at the end of 2014/15. The Council's gross debt is forecast to exceed its capital financing requirement by £29.1m at the end of 2015/16. 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 £4.3m at the end of 2018/19. 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 2019/20.

## **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 Network 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 constitution 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 2016
- (iv) quarterly treasury management monitoring reports to the Governance and Audit and Standards Committee

PRUDENTIAL INDICATORS

APPENDIX A

Capital Expenditure							
	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Children & Education	9,554	10,230	11,905	8,093	738	70	-
Culture & Leisure	2,245	1,552	4,355	2,533	169	100	-
Environment & Community Safety	812	807	12,321	10,040	14,831	12,000	4,400
Health & Social Care (Adults Services)	1,455	1,389	5,243	179	-	-	-
Planning, Regeneration & Economic Development	1,169	46,933	71,498	60,375	25,252	25,361	-
Commercial Port	959	1,197	6,432	4,530	7,030	-	-
Resources	3,368	10,126	5,798	1,224	21	25	-
Traffic & Transportation	31,643	15,030	17,594	5,065	3,721	3,435	3,031
Millennium	(254)	6	-	-	-	-	-
Housing General Fund	2,061	3,434	1,859	2,980	2,623	2,658	2,725
Non HRA	53,012	90,704	137,005	95,019	54,385	43,639	10,156
HRA	30,110	31,147	41,720	30,908	21,906	25,634	31,757
<b>Total</b>	<b>83,122</b>	<b>121,851</b>	<b>178,725</b>	<b>125,927</b>	<b>76,291</b>	<b>69,273</b>	<b>41,913</b>

Ratio of Financing Costs to Net Revenue Stream							
	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non - HRA	10.3%	9.8%	13.1%	14.0%	14.5%	14.0%	15.1%
HRA	12.4%	12.1%	13.4%	12.7%	12.4%	11.8%	11.4%

Capital Financing Requirement							
	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Original - Non - HRA	267,848	270,716	263,192	254,225	245,452	237,304	228,548
Revised Non - HRA	267,848	256,803	260,185	260,161	258,444	250,296	241,540
HRA	143,557	157,218	170,166	174,663	171,735	168,781	165,827

HRA Limit on Indebtedness							
	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
HRA	181,701	181,701	181,701	181,701	181,701	181,701	181,701

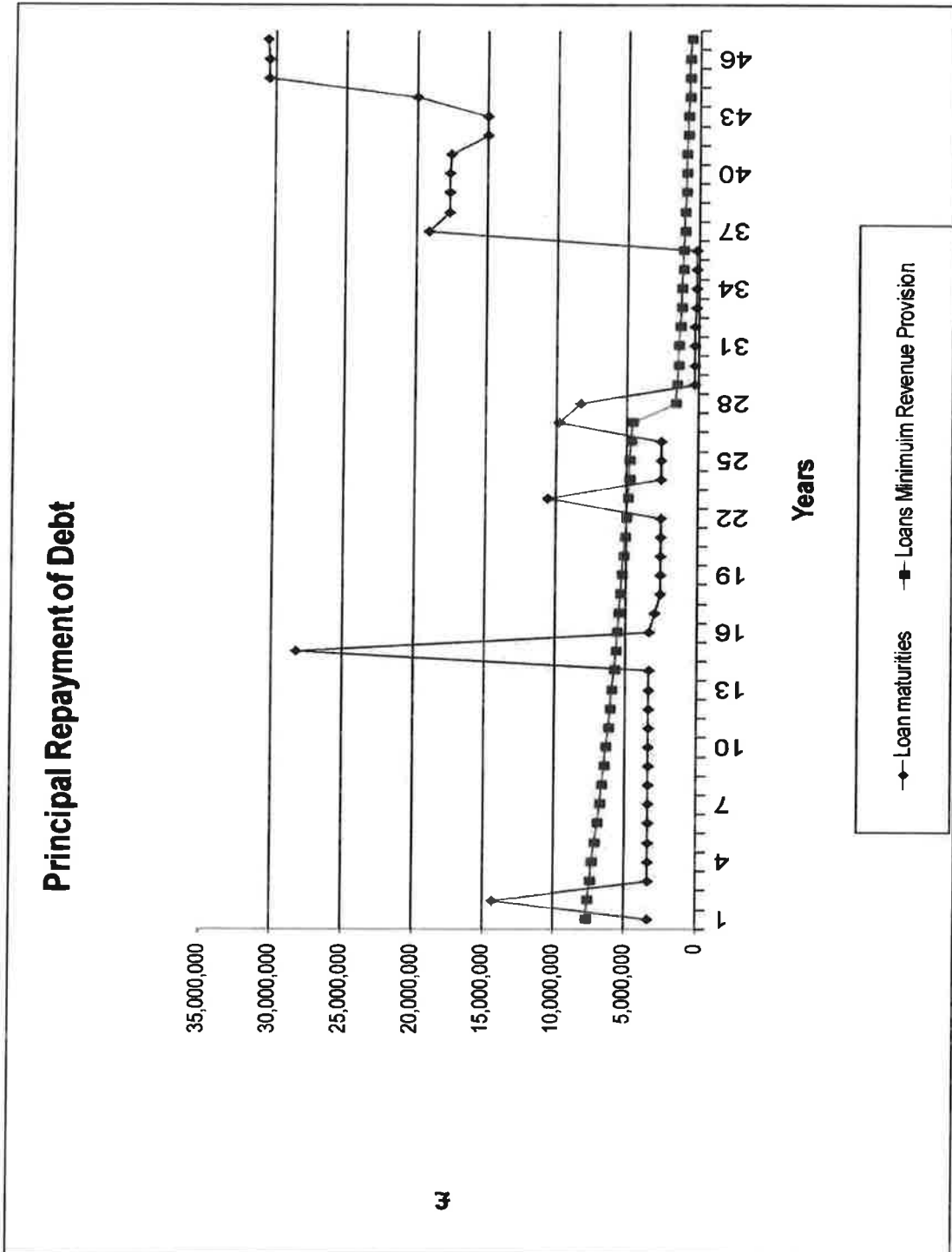
Authorised Limit for External Debt							
	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	426,373	416,768	418,861	417,289	415,083	411,652	400,517
Other Long Term Liabilities (ie Credit Arrangements)	87,148	86,095	84,388	81,297	77,463	74,119	69,962
<b>Total</b>	<b>513,521</b>	<b>502,863</b>	<b>503,249</b>	<b>498,586</b>	<b>492,546</b>	<b>485,771</b>	<b>470,479</b>

Operational Boundary for External Debt							
	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	361,501	397,422	399,129	397,162	394,553	390,712	379,158
Other Long Term Liabilities (ie Credit Arrangements)	87,148	86,095	84,388	81,297	77,463	74,119	69,962
<b>Total</b>	<b>448,649</b>	<b>483,517</b>	<b>483,517</b>	<b>478,459</b>	<b>472,016</b>	<b>464,831</b>	<b>449,120</b>

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	2019/20 Estimate £000	
Revenue effect of existing capital programme	538	1,891	1,768	1,503	1,042	1,854	
Revenue effect of proposed capital programme	538	2,039	1,703	1,208	662	1,474	
Increase in revenue effect	0	148	(65)	(295)	(380)	(380)	
Increase in Council Tax Band D	£0.00	£2.78	(£1.21)	(£5.54)	(£7.12)	(£7.12)	

Incremental Impact of Capital Investment Decisions on Housing Rents							
	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	
Revenue effect of existing capital programme	22,590	29,218	27,476	22,420	18,778	22,405	
Revenue effect of proposed capital programme	29,218	27,476	22,419	18,778	22,404	28,396	
Increase in revenue effect	6,628	(1,742)	(5,057)	(3,642)	3,626	5,991	
Effect on average weekly rent	£8.42	(£2.22)	(£6.46)	(£4.66)	£4.65	£7.70	





3

**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.

## INVESTMENT COUNTER PARTY LIST

Category	Counter Party	Average 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		30,000,000	5 years
3	Registered Social Landlords (RSLs)	AA-		30,000,000	10 years
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	Bank of Montreal	AA-		26,000,000	5 years
4	Bank of Nova Scotia	AA-		26,000,000	5 years
4	Canadian Imperial Bank of Commerce	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	Pohjola Bank Plc	AA-		26,000,000	5 years
4	Rabobank Nederland NV	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	Nordia Bank AB	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	10 years
6	Standard Chartered Bank	A+		20,000,000	5 years
6	HSBC Bank plc	A+		20,000,000	5 years
6	National Bank of Canada	A+		20,000,000	5 years
6	Svenska Handelsbanken	A+		20,000,000	5 years
6	Swedbank AB	A+		20,000,000	5 years
6	JP Morgan Chase Bank NA	A+		20,000,000	5 years
6	DNB Bank	A+		20,000,000	5 years

Category	Counter Party	Minimum Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
7	ABN Amro Bank NV	A		13,000,000	5 years
7	ING Bank NV	A		13,000,000	5 years
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	Barclays Bank Plc	A-		10,000,000	5 years
9	Leeds Building Society	A-	Short term rating F2	10,000,000	2 years
9	Yorkshire Building Society	BBB		10,000,000	2 years
10	Furness Building Society	Unrated		4,200,000	2 years
10	Leek United Building Society	Unrated		4,200,000	2 years
10	Newbury Building Society	Unrated		3,900,000	2 years
10	Hinckley & Rugby Building Society	Unrated		2,800,000	2 years
10	Tipton & Coseley Building Society	Unrated		1,800,000	2 years
10	Marsden Building Society	Unrated		1,700,000	2 years
10	Dudley Building Society	Unrated		1,600,000	2 years
10	Loughborough Building Society	Unrated		1,400,000	2 years
10	Harpden Building Society	Unrated		1,400,000	2 years
10	Stafford Railway Building Society	Unrated		1,200,000	2 years
10	Swansea Building Society	Unrated		1,100,000	2 years
10	Chorley and District	Unrated		1,000,000	2 years
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		5,700,000	364 days
11	Monmouthshire Building Society	Unrated		4,800,000	364 days
11	Darlington Building Society	Unrated		2,600,000	364 days
11	Market Harborough Building Society	Unrated		2,000,000	364 days
11	Melton Mowbray Building Society	Unrated		1,900,000	364 days
11	Scottish Building Society	Unrated		1,900,000	364 days
11	Hanley Economic Building Society	Unrated		1,600,000	364 days
11	Mansfield Building Society	Unrated		1,400,000	364 days
11	Vernon Building Society	Unrated		1,300,000	364 days

Notes

\* The long term credit ratings shown are adjusted to take account of possible future actions resulting from negative watches & outlooks.



<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	13 <sup>th</sup> March 2015
<b>Subject:</b>	Audit Performance Status Report to 6 <sup>th</sup> February 2015
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## 1. Summary

- 1.1 Two new critical risk exceptions have been highlighted in this report. A further three audits have resulted in "No Assurance" being given (One of these audits PAT Testing was reported on at the January meeting). Further details can be found under Section 6 of this report
- 1.2 There are now 159 planned audits for 2014/15 made up of 108 new reviews and 51 follow up audits. Of these 125 (79%) have been completed or are in progress as at 6<sup>th</sup> February 2015. This represents 84 audits (53%) where the report has been finalised, 5 audits (3%) where the report is in draft and 36 audits (23%) currently in progress.
- 1.3 In addition to the planned audits there are 12 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 194.5 Days of reactive work have been undertaken to 6<sup>th</sup> February 2015, with 200 days set aside within the 2014/15 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 2014/15 to 6<sup>th</sup> February 2015 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

## 3. Recommendations

- 3.1 That Members note the Audit Performance for 2014/15 to 6<sup>th</sup> February 2015

3.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan

#### **4. Background**

4.1 The Annual Audit Plan for 2014/15 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30th January 2014 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

#### **5. Audit Plan Status 2014/15 to 6<sup>th</sup> February 2015**

##### **Percentage of the approved plan completed**

5.1 79% of the annual audit plan has been completed or is in progress as at 6<sup>th</sup> February 2015. Appendix A shows the completed audits for 2014/15. Appendix B shows the completed follow up audits for 2014/15

The overall percentage figure is made up as follows:

- 55 new reviews (35%) where the report has been issued, 4 in draft form (3%) and 33 (20%) where work is in progress
- 29 planned follow ups (18%) where the report has been issued, 1 in draft form (1%) and 3 (2%) where work is 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. Where specific parts of the control framework have not been tested on an area (because it has been assessed as low risk for example) it is recorded as NAT (No Areas Tested) within the Appendix.

##### **Changes to the 2014/15 Audit Plan**

5.3 Six full audits have been removed and five follow up audits added since the last meeting of the Committee.

5.3.1 Integrated Commissioning Unit - Pre birth to 5 care pathway review - The strategy for this has yet to be agreed by the Joint Health & Well-being Board and as such cannot be tested at this time

5.3.2 Integrated Commissioning Unit - Contracts taken over from the PCT - the contracts transferred across were extended. More value will be obtained from reviewing these contracts in 2015/16 as more will have been re-tendered

5.3.3 Adult Social Care - New Models of Care - The focus of this audit was to be the construction of a new home for dementia patients. At this time the project has yet to go out to tender and as such the audit has been deferred until 2015/16.

5.3.4 Children's Social Care- Placement Panel - deferred after discussions with Head of Service. Placement panels will be included as part of a wider audit of Out of City Placements in 2015/16.

5.3.5 External - MMD - originally included within the Audit Plan were 4 unnamed full audits at MMD. Discussions with the MMD board have resulted in this being amended to 2 full audits (Distribution & Invoicing for Terminal Services) and 5 follow up audits (Accounts Payable, Accounts Receivable, Payroll, Transport all of which have open critical exceptions after an initial follow up and Customs Agency, which was carried out in 2013/14).

### **Reactive Work**

5.4 200 days have been allowed for reactive work and investigations in 2014/15 and 194.5 have been used to 6th February 2015.

5.5 The 194.5 reactive days were used for:

- 25 special investigations
- 23 items of advice

As well as the following unplanned reviews

- Adoption Reform Grant
- Pilots National Pension Fund verification of contributions
- Personal Travel Budgets
- Parking Cash Office

### **Exceptions**

5.6 Of the full audits completed so far this year the number of exceptions within each category have been:

- 8 Critical Risk
- 107 High Risk
- 31 Medium Risk
- 8 Low Risk (Improvements)

5.7 The table below is a comparison of the audit status figures for February for this financial year and the previous two years

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
<b>% of the audit plan progressed</b>	91%	83%	79%
<b>No. of Critical exceptions</b>	1	15	8
<b>No. of High risk exceptions</b>	93	159	107
<b>No. of reactive days</b>	234	223	194.5

### **Ongoing Areas**

- 5.8 The following 11 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 200 days of reactive work)
  - Financial Rules waivers
  - National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
  - 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

### **Continuous Audit Areas**

- 5.9 The following 4 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

## **6. Areas of Concern**

### **New Areas of Concern**

#### **6.1 Finance - Purchasing Cards**

- 6.1.1 A critical risk exception was raised after testing undertaken on 25 purchase card logs containing 179 transactions identified breaches of Financial Rules in the following areas:
- 7 transactions where an adequate VAT receipts were not provided
  - 2 transactions which did not have a genuine business need
  - 1 transaction where the collection of loyalty card points had occurred
- 6.1.2 Agreed Actions:
- Guidance relating to VAT and general purchase card "Dos and Don'ts" to be recirculated to all purchase card holders.
  - A targeted communication will be sent to line managers identifying key weaknesses to look out for when signing off transaction logs.



- Education and Children's Social Care managers to receive reminder training on inappropriate expenditure
- Purchase Card Policy to be reviewed in line with the implementation of a purchase card system which is expected during 2015/16

6.1.3 This will be followed up by Internal Audit in the first quarter of 2015/16.

## 6.2 **Finance - Concessionary Travel Passes**

6.2.1 A critical risk exception was raised regarding the storage and accounting for car parking scratch cards. Scratch cards were found to be stored securely and numbered however no records are kept with regard to the opening stock, number issued and the closing stock. This leaves the stock open to a risk of being misappropriated. At the time of audit testing the value of the stock was £121,680.

6.2.2 The following agreed actions have already been completed:

- All scratch cards to be counted. This action has been completed, there were at the time of the count 1014 books
- Dispose of 764 books via confidential waste and complete the required disposal form, which leaves enough stock until approximately March 2018.
- Remaining 250 books indelibly marked and entered into a control recording book.

6.2.3 The following agreed actions will form part of the new controls:

- When scratch cards are sold they will be marked against the relevant book within the control book, any issuing of cards is to be signed off by two members of staff
- The control book is reconciled on a monthly basis and any discrepancies investigated fully.

6.2.4 This will be followed up by Internal Audit in the first quarter of 2015/16

## 6.3 **Housing & Property Services - Homecheck Telecare**

6.3.1 The audit of Homecheck Telecare resulted in 5 high risk exceptions being raised and no assurance being given.

6.3.2 Four high risk exceptions related to breaches of PCC Financial Rules in the following areas:

- Cash Handling Instructions being unsigned and not being followed with respect to countersigning receipts when cash is transferred
- Compilation of paying in sheets and the frequency at which money is paid into cashiers
- The key to a lockable safety deposit box was held in a cupboard accessible by non Telecare staff
- Lack of formal process for stock control and inventory management

- 6.3.3 Agreed Actions: The following agreed actions have been implemented as a result of the exceptions detailed above:
- All relevant staff have signed the Cash Handling Instructions and have been instructed to ensure all receipts acknowledging the transfer of cash are now countersigned
  - Job numbers are now included within paying in sheets. All cash now paid in on at least a weekly basis
  - The key to the safety deposit box has been moved to a secure location
  - A process for monitoring inventory was implemented during the audit which involves staff having to sign in and out stock. A sample of 10 items were tested with no issues recorded
- 6.3.4 The final exception was raised as testing found that only 1 of the 5 Telecare staff had undertaken the necessary Manual Handling Course on the Managed Learning Environment. Failure to provide adequate training may leave the Authority open to the risk of litigation should an accident occur.
- 6.3.5 Agreed Actions: The four staff identified within the testing are to complete the training by March 2015.
- 6.3.6 To be followed up as part of the 2015/16 Audit Plan
- 6.4 **External - Wimborne Infant School**
- 6.4.1 The full school audit of Wimborne Infant School resulted in 12 high risk exceptions being raised, as such Internal Audit were unable to give any assurance as to the effectiveness of the financial management controls at the school.
- 6.4.2 The high risk exceptions related to non-compliance with the following PCC policies or SFVS requirements which has resulted in an audit opinion that the Governor's self-assessment of the financial management of the School is not in line with our findings as per the Schools Financial Value Standard (SFVS):
- SFVS (No clear framework of the relative responsibilities of the Head teacher, Finance Officer and Governors to ensure that effective financial management standards are in place and operating)
  - Financial Rules (no income trail from receipt to banking, poor inventory management, poor petty cash administration, cash handling instructions not signed by Finance Officer, no evidence staff are aware of the Whistleblowing Policy and no current IT Acceptable Use Policy)
  - HR Policy (no evidence of references being sought for some employees, retention of DBS documentation and incomplete Single Central Record)
  - H&S Policy (incomplete Business Continuity Plan)
  - PCC Scheme for Financing Schools (PTA Account - No audited statement of account)
- 6.4.3 Actions have been agreed and will be followed up as part of the 2015/16 Audit Plan.

## **7. Comments on the plan to date**

7.1 The revised plan is on target to be achieved by 31<sup>st</sup> March 2015. A total of 10 critical exceptions have been reported to date for this financial year (2 from the 2013/14 Plan and 8 from the 2014/15 Plan) and the number of high risk exceptions found has decreased compared to previous years.

## **8. Equality impact assessment (EIA)**

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

## **9. Legal Implications**

9.1 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.

9.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

## **10. Finance Comments**

10.1 There are no financial implications arising from the recommendations set out in this report.

10.2 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.

.....  
Signed by: Lyn Graham, Chief Internal Auditor

### **Appendices:**

Appendix A – Completed audits from 2014/15 Audit Plan

Appendix B - Completed follow up audits from 2014/15 Plan

**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	<a href="http://www.legislation.gov.uk/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>
2 Audit Strategy 2014/15	<a href="http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&amp;Ver=4">http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&amp;Ver=4</a>
3 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online <a href="http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeed=148">http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeed=148</a>

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

.....  
 Signed by:

APPENDIX A

2014/15 Completed Full Audits between 1st April - 26th August

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	Internal Control Environment	Compliance	Effectiveness of Operations	Safeguarding of Assets	Reliability & Integrity	Audit Assurance	Summary	
<b>Children's Social Care - Stephen Kitchman</b>													
1415-006   CSC - Corporate Parenting	0	0	0	0	0	0	No areas tested (NAT)	0	NAT	NAT	Assurance	No exceptions were raised from this audit. It was found that the Corporate Parenting Strategy follows best practice as set out by the Local Government Association, clearly sets out the governance arrangements. Performance targets are monitored closely by the Corporate Parenting Board and Children's Trust Board and the targets take into account the views of Looked After Children.	
1415-010   CSC - Private Foster Carers	1	3	1		5	1	2	2	NAT	NAT	No Assurance	One critical exception was raised in relation to Disclosure and Baring Service checks. Three high risk exceptions were raised which relate to non-compliance with PCC procedures, incomplete 'capacity to care assessments' and a lack of monthly supervision of private fostering cases	
1415-013   CSC - Family Support Children in need			1		1	0	1	0	NAT	NAT	Limited Assurance	Testing has highlighted an improvement in compliance with procedures in comparison to previous reviews in this area. One medium risk exception has been raised as a result of testing in relation to the fact that there was no evidence that 3/10 Children in need Plans for the sample tested had been signed and copied to all concerned within 5 working days of the planning meeting.	
1415-015   CSC - Social Work Matters	0	0	0	0	0	0	0	0	NAT	NAT	Assurance	No exceptions were raised from this audit. It was found that there is a clear framework within which the project was managed and the programme board was given regular progress updates. The objectives of the project appear to have been met.	
<b>HR, Legal &amp; Performance - Jon Bell</b>													
1415-067   HLP - eBay Account		1	1	1	3	1	0	NAT	1	1	Limited Assurance	A high risk exception was raised as passwords for Paypal and eBay were found to be identical and weak in nature. Medium risk exception raised as whilst procedures are in place they are in need of expansion.	
<b>Integrated Commissioning Unit - Preeti Sheth</b>													
1415-089   ICU - Care homes placements		0	2		2	4	1	2	1	NAT	NAT	Limited Assurance	Two medium risk exceptions were raised, the first is in relation to a lack of communication between Social Workers/ Care Managers and Contract Officers prior to care home reviews. The second is in relation to a lack of evidence of checks of staff turnover and/or financial checks undertaken as part of the monitoring review process.
<b>Transport &amp; Environment - Simon Moon</b>													
1415-111   T&E - Climate Change and Sustainability	0	0	0	0	0	0	0	0	NAT	NAT	Assurance	An audit of the Carbon Reduction Return for 2013/14 was undertaken before submission of the required figures to the Environment Agency. Assurance was given on the accuracy of the return based on the arithmetical checking of the return and sample testing.	

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2014/15 Cont

External													
1415-119   EXT - Gatcombe Park Primary		4	2		6	1	3	1	0	1	Limited Assurance	The Full Audit resulted in four high risk exceptions relating to the petty cash account being overdrawn, an out of date internet policy, a failure to take up references for a member of staff and a failure of the Friends of Gatcombe Park to submit an audited statement of account within the expected timeframe. Two medium risk exceptions were also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.	
1415-121   EXT - Northern Parade Primary		1	1		2	0	2	0	0	0	Limited Assurance	The Full Audit, highlighted one high risk exception in relation to non compliance with Cash Handling instructions and one medium risk exception was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.	
1415-132   EXT - Meredith Infant		2	1		3	0	1	0	1	1	Limited Assurance	The Full Audit resulted in two high risk exceptions relating to a failure of staff to sign the responsible internet use statement and a lack of internal control in relation to the inventory. One medium risk exception was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.	
1415-133   EXT - St Judes Primary		6	2		8	1	7	0	0	0	Limited Assurance	The Full Audit, resulted in six high risk exceptions in relation to retention of DBS documentation, lack of / or out of date hire agreement forms, no signed cash handling instructions by finance staff, non compliance with quotation requirements, an incomplete register of pecuniary interest and a failure of the Friends of St Judes to submit an audited statement of account within the expected timeframe. Two medium risk exceptions were also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.	
1415-135   EXT - Devonshire Infant & Nursery	0	0	0	0	0	0	0	0	0	0	Assurance	The Full Audit resulted in no exceptions being raised for any of the areas tested. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.	
Grand Total For Period	1	17	11	3	32	5	18	4	2	3			

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2014/15 Completed Full Audits  
Between 26th August & 6th October

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	Internal Control Environment	Compliance	Effectiveness of Operations	Safeguarding of Assets	Reliability & Integrity	Audit Assurance	Summary
Children's Social Care - Stephen Kitchman												
1415-012   CSC - Direct Payments	2	1	1		4	1	2	1	0	NAT	No assurance	The audit highlighted that the checks carried out to ensure that the expenditure incurred is genuine are inadequate. Members of the Finance Team were not provided with the appropriate information as to the agreed use of the Direct Payment as detailed in the young person's care plan or the vetted carers, this is essential when considering the appropriateness of the returns. In addition to this a number of the returns were found to be overdue and identified concerns had not been escalated to the Social Work staff to follow-up. Overall our opinion is that no assurance is given in relation to Children's Social Care Direct Payments.
Customer, Community & Democratic Services - Louise Wilders												
1415-038   CCD - Freedom of Information (FOI)		1			1	NAT	1	NAT	NAT	NAT	Limited Assurance	The review found that the Authority is currently not meeting the Information Commissioners Office target of answering Freedom of Information requests within 20 working days
City Development & Cultural Services - Stephen Baily												
1415-047   CDC - Portsdown Hill & Hilsea Lines Rangers			1	1	2	1	0	NAT	1	NAT	Limited Assurance	Testing has highlighted one medium risk exception in relation to evidencing an annual 'Work Activities' Health & Safety Risk Assessment. One low-risk improvement exception was also raised.
Financial Services - Chris Ward												
1415-064   FIN - Payment of travel and subsistence			2		2	0	1	0	1	NAT	Limited Assurance	Two medium risk exceptions raised. First exception relates to small areas of non compliance in respect of subsistence limits and mileage claims being checked and queried by managers. The second relates to members of staff not providing proof that they have the required insurance to drive their vehicle for work purposes.
Housing & Property Services - Owen Buckwell												
1415-077   H&P - Homelessness & Temporary Accommodation		1	1		2	NAT	1	0	1	NAT	Limited Assurance	Testing found 1 high risk and 1 medium risk exception. One for incorrect payments to suppliers and the other for a previous breach of legislation, Homelessness Order 2003.
1415-084   H&P - Maintenance Repairs					0	NAT	NAT	0	NAT	NAT	Assurance	No exceptions were raised as a result of this audit. Testing reviewed customer satisfaction measures confirmed how value for money was obtained within the Repairs & Maintenance and Green & Clean services

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<b>Information Service - Mel Burns</b>													
1415-097   INS - Vendor Management			1		1	NAT	0	1	NAT	NAT	Limited Assurance	One medium risk exception relating to lack of monitoring on a IS related contract which arose from a lack of clarity from the service as to who was responsible for this monitoring.	
<b>Revenues &amp; Benefits - Ed Woodhouse</b>													
1415-103   R&B - Housing & Council Tax benefits					0	NAT	0	0	NAT	NAT	Assurance	No exceptions were raised as a result of this audit. Testing reviewed a sample of 25 Housing Benefit and Council Tax support claims, no areas of conflicting evidence were identified. Performance and quality management were also reviewed. At the time of this audit testing established there are good controls in place when monitoring individual performance and overall quality.	
<b>Transport &amp; Environment - Simon Moon</b>													
1415-107   T&E - PFI Contract					0	0	NAT	NAT	NAT	NAT	Assurance	Audit have reviewed the negotiation strategy formulated to renegotiate the Highways PFI Modernisation Programme (HPMP), along with the changes made to the insurance cover for the Highways PFI contract and have no comment to make at this time due to the Highways PFI contract being under renegotiation with the contractor Ensign. No further audit work will be undertaken until the renegotiation process has been completed.	
1415-108   T&E - PFI Contract Claims					0	0	NAT	NAT	NAT	NAT	Assurance		
<b>External</b>													
1415-120   EXT - Secondary School		14	1		15	2	9	4	0	0	No assurance	Internal Audit reviewed the effectiveness of the Internal Control Framework, specifically, but not exclusively on the financial operations, including preparation, monitoring and oversight. No judgement has been made on the academic side of the school's activities. Overall, areas of weak financial practices and non-compliance with PCC Financial Rules, Ofsted requirements, DBS Code of Practice, Data Protection Act and Keeping Children Safe in Education legislation were identified. Based on audit testing, no assurance overall is given.	
1415-125   EXT - Meon Infant		2		1	3	0	1	0	1	1	Limited Assurance	The Full Audit resulted in two high risk exceptions relating to non-compliance with Insurance requirements in relation to keys to the 'safe' and weaknesses in the administration and control of assets. One low risk improvement was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment	
1415-128   EXT - Corpus Christi		3	3		6	1	2	2	0	1	Limited Assurance	The Full Audit resulted in three high risk exceptions relating to the petty cash account being overdrawn, the Single Central Register not being current and a failure to take up references and evidence qualifications for 3 members of staff. Three medium risk exceptions were also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment	



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1415-130   EXT - St Swithuns Primary		2	1		3	0	1	0	1	1	Limited Assurance	The Full Audit resulted in two high risk exceptions relating to a lack of income trail for uniform purchases and a weakness in controls for the administration of school assets. One medium risk exception was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment
1415-134   EXT - Langstone Harbour Board						0	0	0	0	0	Assurance	External work
Grand Total For Period	2	24	11	2	39	5	18	8	5	3		

**2014/15 Completed Full Audits  
Between 6th October & 22nd  
December 2014**

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	Internal Control Environment	Compliance	Effectiveness of Operations	Safeguarding of Assets	Reliability & Integrity	Audit Assurance	Summary	
<b>Audit Social Care - Julian Wooster</b>													
1415-004   ASC - Maritime Lodge					0	0	0	0	NAT	0	Assurance	Audit testing has not highlighted any exceptions relating to the Four Sites Scheme (Maritime House). As no exceptions have been raised as a result of this review, based on the testing, Internal Audit considers this to be of low risk to the Authority at this stage.	
<b>Children's Social Care - Stephen Kitchman</b>													
1415-009   CSC - Looked after Children's Funds		4			4	2	1	0		3	NAT	No Assurance	Four high risk exceptions were raised as part of this review. These related to a formal procedures for the processing of savings payments, a lack of controls throughout the Looked After Children's Funds operation, reviews not being undertaken on Disabled Living Allowance expenditure and incorrect payments of foster allowances being made.
1415-014   CSC - Portsmouth Safeguarding Children's Board		4			4	3	NAT	1	NAT	NAT	Limited Assurance	Four high risk exceptions were raised as part of this review. These related to a lack of clarity within the Boards Constitution, a lack of risk register being in place, no consultation having taken place when forming the business plan and there being no formal escalation process in place	
<b>City Development &amp; Cultural Services - Stephen Baily</b>													
1415-018   CDC - Development Control			1		1	0	1	NAT	NAT	NAT	Limited Assurance	1 medium risk exception arose under testing for compliance relating to the length of time taken for decision. From the sample taken 16% breached the statutory 8 week requirement.	
<b>Corporate Assets, Business &amp; Standards - Alan Cuffley</b>													
1415-028   CAB - Housing Assistance					0	0	0	0	0	0	NAT	Assurance	No exceptions were raised during this audit. Testing reviewed the procedures in place for awarding Housing Assistance as well as testing that those procedures had been complied with for a sample of 25 cases.

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<b>Education &amp; Strategic Commissioning - Julien Kramer</b>												
1415-051   ESC - Health & Safety School Trips					0	0	0	0	NAT	NAT	Assurance	Based on the testing conducted, assurance can be given that the Authority is complying with the Health & Safety at Work Act 1974 in relation to school off-site activities and trips.
1415-053   ESC - School Sufficiency Programme		1			1	0	NAT	0	3	NAT	Limited Assurance	One exception arose regarding an overspend on the project due to unexpected remedial works. Testing confirmed that the processes involved within the School Sufficiency Programme were adequate and assurance can be given on those areas
<b>Financial Services - Chris Ward</b>												
1415-060   FIN - Cash Collection		5			5	NAT	4	NAT	0	1	No Assurance	Five high risk exceptions have been raised in relation to a lack of separation of duties at Portsmouth Dog Kennels, a breach of the PCC anti-money laundering policy at the Main Cashiers, cash handling instructions not being signed by staff at the Somerstown Hub. Testing also identified at the Somerstown hub cashiers floats were not being spot checked in accordance with cash handling instruction and the safe was reviewed which identified a gift of £100 cash and a previous tenants new debt card.
<b>Housing &amp; Property Services - Owen Buckwell</b>												
1415-076   H&P - Claims		2		1	3	1	1	NAT	NAT	1	Limited Assurance	Two high risks were raised as a result of audit testing. The first relates to a lack of process for handling claims under the £500 departmental excess. The second relates to an inconsistency across the services when handing claims resulting in insufficient evidence of the damage, no signed documentation from the tenant, payments being made against incorrect cost codes and a lack of separation of duties.
1415-086   H&P - PAT Testing		1		2	3	1	1	0	1	NAT	No Assurance	Testing found 1 critical risk, 1 high risk and 1 medium risk exception. The critical risk exception relates to coverage of PAT testing throughout the Civic Offices. This lack of coverage poses a risk of damage to property and equipment as well as risk of death and injury from potentially faulty equipment and risk of subsequent litigation claims. The high risk relates to a lack of suitable PAT testing monitoring in investment properties and the medium to incorrect details in recharge forms.
<b>Integrated Commissioning Unit - Preeti Sheth</b>												
1415-088   ICU - Contract Monitoring					0	0	0	0	0	0	Assurance	Tested looked at the contract monitoring process for 5 ICU contracts and found no exceptions
<b>External</b>												
1415-123   EXT - Langstone Infant		5			5	1	2	2	0	0	Limited Assurance	The Full Audit resulted in five high risk exceptions relating to unclear definitions of financial responsibility and accountability, lack of clarity of financial reporting to the Full Governing Body, incomplete Business Continuity Plan, a School Improvement Plan that is not linked to the budget and missing bank statements. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is not in line with Internal Audit's judgment.

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1415-129   EXT - Manor Infant		13			13	1	8	2	1	1	No Assurance	Thirteen high risk exceptions have been raised as a result of non compliance in relation to the Head Teacher delegated spending limit, security of safe keys, ICT acceptable use policy, income trail from receipt to banking, Financial reports to Governors, School Emergency Plan, Administration and control of assets, school uniform, petty cash and purchase card, CCTV policy, references and voluntary fund. Overall no assurance can be given on the effectiveness of financial controls. A follow up audit has been arranged for April 2015.
1415-136   EXT - Wimborne Junior		1	1		2	1	0	0	0	1	Limited Assurance	The Full Audit resulted in one high risk exception in relation to weakness in controls for the Voluntary Fund which is being run on behalf of the School. One medium risk exception was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment
1415-138   EXT - Stamshaw Junior		2	1		3	1	2	0	0	0	Limited Assurance	The Full Audit resulted in two high risk exception in relation to a lack of financial framework for the Interim Education Board and no evidence of obtaining three quotations for replacement windows. One medium risk exception was also raised. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment
Transport & Environment - Simon Moon												
1415-141   T&E - Park & Ride		1			1	0	1	NAT	0	NAT	Limited Assurance	One high risk exception has been raised, at the time of audit testing it was not possible to get live data from the ticketing machine.
Exceptions for the period	1	38	5		1						45	

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Completed Audits between 22nd December 2014 and 6th February 2015

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	Internal Control Environment	Compliance	Effectiveness of Operations	Safeguarding of Assets	Reliability & Integrity	Audit Assurance	Summary
City Development & Cultural Services - Stephen Baily												
1415-022   CDC - Tipner Regeneration		1			1	1	NAT	NAT	NAT	NAT	Limited Assurance	Audit testing has highlighted one high risk exception relating to the finalising of the risk register. Details of the project risk register highlighted a number of risks which could have a serious financial & reputational effect to the Authority and should be flagged up on the Corporate risk register. The Corporate risk register has now been updated
1415-023   CDC - City Deal					0	0	NAT	0	0	NAT	Assurance	Based on the testing conducted, assurance can be given that an adequate governance framework currently exists, relevant project objectives are being set and project. monitoring is occurring at both an operational and strategic level
1415-025   CDC - Seafront Water Safety		3			3	2	1	0	NAT	0	Limited Assurance	Three high risks exceptions were highlighted two relating to policy and strategy and one related to procedure. All of which have been progressed.

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<b>Corporate Assets, Business &amp; Standards - Alan Cuffley</b>													
1415-027   CAB - Homecheck Telecare					5	3	1	0	1	NAT	No assurance	Testing has highlighted 5 high risk exceptions. Three exceptions referred to breaches of the Cash Handling Policy and Financial Rules. One high risk exception related to the lack of manual handling training by Homecheck Staff. The final high risk exception arose due to a lack of inventory management.	
<b>Financial Services - Chris Ward</b>													
1415-056   FIN - Purchase Cards													
1415-056   FIN - Purchase Cards	1	1	0	1	3	0	2	1	NAT	NAT	No assurance	One critical risk exception and one high risk exception have been raised as a result of audit testing. The critical risk relate to non-compliance with Financial Rules and the Purchase Card Policy and the high risk exception relates to spot checks not being conducted by Education Finance. Whilst not material in themselves, extrapolation of the critical exception over the whole sum of purchase card expenditure could be. With the addition of the fundamental breach in the principles of proper control of purchase card use and the fact that these have been raised as issues in previous audit reports. Although there has been an improvement in errors identified during audit testing from the 2013/14 audit and follow up audit the administration of Purchase Cards still remains an area of high risk. In 2013/2014 a total of £3.4 million was spent on PCC Purchase Cards with approximately 800 card holders. Audit testing found an overall transactions error rate of 13% when reviewing 3% of PCC transaction logs.	
1415-066   FIN - Concessionary Travel Passes													
1415-066   FIN - Concessionary Travel Passes	1				1	0	1	NAT	NAT	0	No assurance	Audit testing highlighted one critical risk exception relating to the control of the Parking Scratch cards. No stock records were maintained to show the opening stock of cards, cards issued, closing stock. At the time of the audit the number of books held was 1014. Daily Parking charges at Southsea Seafront is £12, this gives the stock a value of £121,680. It has not been possible to verify if the current stock held is in line with what it should be as no reconciliations are undertaken. Stock records have now been introduced and the stock of cards has been reduced to 250 books. The balance of the remaining cards were destroyed; classified as confidential waste.	
<b>Housing &amp; Property Services - Owen Buckwell</b>													
1415-086   H&P - PAT Testing													
1415-086   H&P - PAT Testing	1		2		3	1	1	0	1	NAT	No assurance	Testing found 1 critical risk, 1 high risk and 1 medium risk exception. The critical risk exception relates to coverage of PAT testing throughout the Civic Offices. This lack of coverage poses a risk damage to property and equipment as well as risk of death and injury from potentially faulty equipment and risk of subsequent litigation claims. The high risk relates to a lack of suitable PAT testing monitoring in investment properties and the medium to incorrect details in recharge forms.	
<b>Revenues &amp; Benefits - Ed Woodhouse</b>													
1415-102   R&B - Council Tax & NNDR													
1415-102   R&B - Council Tax & NNDR		1	1	1	3	NAT	3	0	NAT	NAT	Limited Assurance	One high risk was raised as a result of audit test, this relates to accounts where the liable party is deceased. Testing identified 20% of the accounts selected for testing did not comply with expected procedures.	

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External													
1415-122   EXT - St George's Beneficial					0	0	0	0	0	0	0	Assurance	The Full Audit resulted in no exceptions being raised for any of the areas tested. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.
1415-127   EXT - Langstone Junior					0	0	0	0	0	0	0	Assurance	The Full Audit resulted in no exceptions being raised for any of the areas tested. Completion of the Schools Financial Value Standard (SFVS) statement for year ending March 2014 is in line with Internal Audit's judgment.
1415-131   EXT - Wimborne Infant		12			12	3	5	2	1	1		No assurance	Twelve high risk exceptions have been raised as a result of non compliance in relation to the Governors Financial Competency Matrix, ICT acceptable use policy, income trail from receipt to banking, School Emergency Plan, Administration and control of assets, petty cash, whistle blowing policy, cash handling instructions, single central record, retention of DBS documentation, references and voluntary fund. Overall no assurance can be given on the effectiveness of financial controls. Discussions were held with the HT regarding a follow up audit for 2015/2016.
1415-142   EXT - Redwood Park Secondary - Review		2			2	0	2	0	0	2		Limited Assurance	Overall, based on the testing conducted, Internal Audit can give assurance that good progress has been made by the School to strengthen the weaknesses highlighted in the previous Audit Report and a cohesive financial management framework is now in place and being actively monitored by the Governing Body.
<b>Total For Period</b>	<b>3</b>	<b>25</b>	<b>3</b>	<b>2</b>	<b>33</b>								
<b>Total Exceptions</b>	<b>7</b>	<b>104</b>	<b>30</b>	<b>8</b>	<b>149</b>								

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2013/14 Followed Up Audits - Critical Risk Exceptions	Critical Risk Open		Critical Risk Closed		Total Critical Risk	Comments
Audit Title						
F1314-073   Children's Social Care & Safeguarding - Independent Fostering Team Agreements	0	0%	2	100%	2	The critical risk exception as reported on as part of the January 2015 meeting was downgraded to a high risk exception
1213-063 Second Follow Up - Planning and Building Control	0	0%	1	100%	1	
<b>Total</b>	<b>0</b>	<b>0%</b>	<b>2</b>	<b>100%</b>	<b>2</b>	

2013/14 Followed Up Audits - High Risk Exceptions	High Risk Open		High Risk Closed		High Risk Total	Comments
Audit Title						
F1314-014   Financial Services - Petty Cash/Imprest Accounts	3	75%	1	25%	4	One high risk exception remains open and two high risk exceptions remain in progress at the time of follow up testing. The open high risk is in relation to updating the petty cash account list to reflect current accounts only. Further testing also identified that children's homes appeared twice and four schools that are now academies are still on the balance sheet. The two high risk that remained in progress were as a result of a reminder to schools highlighting breaches of Financial Rules not being actioned as agreed.
F1314-015   Financial Services - Controlled Stationery	2	100%	0	0%	2	The controlled stationery process is to be reviewed to include guidance on chasing receipt acknowledgement memos that have not been returned and future reports will now be retained. The second high risk exception was for information only and reported on in the 2013/14 Performance Development Review and Mandatory Training audit.
F1314-018   Financial Services - Local Enterprise Partnership funding (e.g. growing places)	0	0%	1	100%	1	
F1314-024   Housing Management - Security	1	100%	0	0%	1	Due to a system upgrade the facility to complete the agreed action was not available. Reports are being rebuilt in conjunction with IS and software provider
F1314-027   HM - Energy and sustainability	1	100%	0	0%	1	Follow up testing identified 9 leaseholder properties which had recently transferred from Housing Options to the Leasehold & Commercial department and were missed as part of the changeover. The Repairs and Maintenance Team will now conduct EPC's for the Leasehold Team.
F1314-031   Housing Management - Sheltered Housing Service	0	0%	2	100%	2	
F1314-035   Housing Management - Sub letting prevention	0	0%	2	100%	2	
F1314-038   CABS - Seizure of property	0	0%	1	100%	1	
F1314-042   Corporate Assets, Business & Standards - Houses in Multiple Occupation	0	0%	2	100%	2	

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F1314-050   Adult Social Care - Residential and Day Centres self assessments	1	50%	1	50%	2	The high risk exception that has not been addressed was due to some purchase orders not being raised in advance. The reason given behind this is that these are usually for spend on repairs and maintenance of items and the units do not have any idea how much these will cost until the company has been out to do the work and have then invoiced PCC. Action agreed is that purchase orders will be raised in advance even if they are with a nominal amount.
F1314-056   HR, Legal & Performance - Gifts and Hospitality	1	100%	0	0%	1	Agreed action to highlight and take action on non compliant gifts was not fully implemented, (previously in place then lapsed). Process to identify non compliance now working. City Solicitor to keep a log of actions taken from now on.
F1314-059   HR Legal & Performance - Solicitors fees Court Costs	0	0%	1	100%	1	
F1314-071   Children's Social Care & Safeguarding- Targeted Youth Support 9-16 emerging needs	0	0%	3	100%	3	
F1314-072   Children's Social Care & Safeguarding- Youth Offending Team	5	83%	1	17%	6	Four of the open high risk exceptions relate to issues within producing and reviewing asset assessments and intervention plans. These are to be resolved by having every assessment reviewed by the YOT management board on a monthly basis and exception reports being escalated to the Head of Children's Social Care. The final exception relates to a lack of evidence of young people completing self assessment forms. In response the service are going to review the tools used in assessments.
F1314-074   Children's Social Care & Safeguarding - YOT Volunteer Recruitment	0	0%	1	100%	1	
F1314-076   Children's Social Care & Safeguarding - Kinship Policy	0	0%	1	100%	1	
F1314-079   Children's Social Care & Safeguarding - Foster Placements and residential care self assessments	1	100%	0	0%	1	The high risk exception that has not been addressed related to Information Governance training. 6 casual staff transferred to permanent in April 2014 and had not as at 28/5/14 carried out this training. Unit Manager agreed that staff will do this training by the end of November 2014.
F1314-080   Children's Social Care & Safeguarding - HR Safer recruitment Children's Services	2	67%	1	33%	3	One high risk exception that has not been addressed relates to Safer Recruitment Training. Some staff had booked onto the course but had not attended and some staff had not booked onto the course at all. The other issue related to interview notes not being returned to Human Resources who will chase these but are not always successful in getting them returned by the service.
F1314-087   CDCS - Mountbatten Centre Client Monitoring	0	0%	1	100%	1	



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F1314-112   T&E - Hire Cars	2	67%	1	33%	3	The high risk exception relating to a system for monitoring fuel purchases and damage has yet to be fully implemented. Fuel cards now monitor fuel use but testing of an online system for confirming the vehicle condition was not successful. Further development is planned once the contract is retendered. The transferring of the invoicing process to the admin team was in progress at the time of testing and has since been completed
F1314-113   Transport & Environment - Fuel purchases	1	50%	1	50%	2	The open exception relates to a school failing to adequately complete it's mini bus mileage log. The finance officer for the school will now check and evidence the log on a termly basis.
F1314-116   Port - Winter Storage	1	100%	0	0%	1	
F1314-118   T&E - Waste collection, waste disposal and recycling contract	1	100%	0	0%	1	
F1314-138   Financial Services - External Bailiffs	3	100%	0	0%	3	Due to the implementation of the new contract agreed actions have been delayed. Quarterly contract monitoring to commence in August 2014 and the agendas of the meetings will be retained. A reconciliation of accounts held with company A was undertaken on 4 August 2014. Monthly STATs will be reviewed to ensure that all requested information is provided.
1213-032   Revenues & Benefits - Debt Recovery	0	0%	1	100%	1	
1213-063 Second Follow Up - Planning and Building Control	2	67%	1	33%	3	Two high risk exceptions remained open as a result of follow up testing. The service is currently working on securing a partnership with Fareham and Gosport Councils. If this partnership is successful then procedures will need to be reviewed in line with the partnering authorities and as such the review has not yet been undertaken. The second exception is in relation to Performance Development Reviews (PDR's). At the time of the second follow up, the City Development Manager confirmed that Team Leaders PDR's were being undertaken and all PDR's are scheduled to be completed by April 2015
<b>Total</b>	<b>25</b>	<b>53%</b>	<b>22</b>	<b>47%</b>	<b>47</b>	

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**2013/14 Audits Followed Up - Medium Risk Exceptions**

Audit Title	Medium Risk Open		Medium Risk Closed		Medium Risk Total
	Count	Percentage	Count	Percentage	
F1314-030   HM - Risk Assessments of outlying buildings	0	0%	3	100%	3
F1314-031   Housing Management - Sheltered Housing Service	0	0%	3	100%	3
F1314-035   Housing Management - Sub letting prevention	0	0%	1	100%	1
F1314-042   Corporate Assets, Business & Standards - Houses in Multiple Occupation	0	0%	1	1%	1
F1314-050   Adult Social Care - Residential and Day Centres self assessments	1	100%	0	0%	1
F1314-056   HR, Legal & Performance - Gifts and Hospitality	0	0%	1	100%	1
F1314-059   HR Legal & Performance - Solicitors fees Court Costs	0	0%	1	100%	1
F1314-061   HR, Legal & Performance - Data Quality checks	0	0%	5	100%	5
F1314-079   Children's Social Care & Safeguarding - Foster Placements and residential care self assessments	0	0%	1	100%	1
F1314-112   T&E - Hire Cars	1	100%	0	0%	1
F1314-138   Financial Services - External Bailiffs	1	50%	1	50%	2
<b>Total</b>	<b>3</b>	<b>18%</b>	<b>14</b>	<b>82%</b>	<b>17</b>

**2013/14 Audits Followed Up - Low Risk Exceptions**

Audit Title	Low Risk Open		Low Risk Closed		Low Risk Total
	Count	Percentage	Count	Percentage	
F1314-031   Housing Management - Sheltered Housing Service	0	0%	1	100%	1
F1314-061   HRLP - Data Quality checks	0	0%	1	100%	1
<b>Total</b>	<b>0</b>	<b>0%</b>	<b>2</b>	<b>100%</b>	<b>2</b>

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**2013/14 Audits Followed Up - All Exceptions**

Audit Title	Original Number of Exceptions	% Open	% Closed
F1314-014   Financial Services - Petty Cash/Imprest Accounts	4	75%	25%
F1314-015   Financial Services - Controlled Stationery	2	100%	0%
F1314-018   Financial Services - Local Enterprise Partnership funding (e.g. growing places)	1	0%	100%
F1314-024   Housing Management - Security	1	100%	0%
F1314-031   Housing Management - Sheltered Housing Service	6	0%	100%
F1314-035   Housing Management - Sub letting prevention	3	0%	100%
F1314-042   Corporate Assets, Business & Standards - Houses in Multiple Occupation	3	0%	
F1314-050   Adult Social Care - Residential and Day Centres self assessments	3	33%	33%
F1314-056   HR, Legal & Performance - Gifts and Hospitality	2	50%	50%
F1314-059   HR Legal & Performance - Solicitors fees Court Costs	2	0%	
F1314-061   HR, Legal & Performance - Data Quality checks	6	0%	100%
F1314-071   Children's Social Care & Safeguarding- Targeted Youth Support 9-16 emerging needs	3	0%	
F1314-072   Children's Social Care & Safeguarding- Youth Offending Team	6	83%	17%
F1314-073   Children's Social Care & Safeguarding - Independent Fostering Team Agreements	2	0%	
F1314-074   Children's Social Care & Safeguarding - YOT Volunteer Recruitment	1	0%	100%
F1314-076   Children's Social Care & Safeguarding - Kinship Policy	1	0%	100%
F1314-079   Children's Social Care & Safeguarding - Foster Placements and residential care self assessments	2	50%	50%
F1314-080   CSCS - HR Safer recruitment Children's Services	3	67%	33%
F1314-087   CDCS - Mountbatten Centre Client Monitoring	1	0%	
F1314-113   Transport & Environment - Fuel purchases	2	50%	50%
F1314-138   Financial Services - External Bailiffs	5	80%	20%
1213-032   Revenues & Benefits - Debt Recovery	1	0%	100%
<b>Total</b>	<b>60</b>	<b>35%</b>	<b>65%</b>

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2014/15 Audits Followed Up In Year	Critical Risk Open	Critical Risk Closed	Total Critical Risk	Comments
1415-010 Children's Social Care - Private Foster Carers	0	1	1	All 5 exceptions for this audit were followed up in December 2015. Actions have been implemented as agreed for the 1 critical risk and 3 high risk exceptions. The medium risk exception related to working procedures being outdated. The new procedures are not due to be updated until January 2015
	<b>High Risk Open</b>	<b>High Risk Closed</b>	<b>Total High Risk</b>	
1415-010 Children's Social Care - Private Foster Carers	0	3	3	
	<b>Medium Risk Open</b>	<b>Medium Risk Closed</b>	<b>Total Medium Risk</b>	
1415-010 Children's Social Care - Private Foster Carers	1	0	1	

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# Agenda Item 13



Portsmouth  
CITY COUNCIL

Agenda item:

**Title of meeting:** Governance & Audit & Standards / Full Council

**Date of meeting:** 13<sup>th</sup> March / 17<sup>th</sup> March 2015

**Subject:** Health and Wellbeing Board Constitution

**Report From:** Director of Children's Services and Adults Services

**Report by:** Matthew Gummerson, Principal Strategy Adviser

**Wards affected:** All

**Key decision:** No

**Full Council decision:** Yes

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## 1. Purpose of report

- 1.1. To seek approval of the changes to the constitution for the Health and Wellbeing Board (HWB). The HWB have requested the changes to its constitution for approval by Full Council to improve the effectiveness of the HWB as it fulfils its leadership role across the health and wellbeing system locally. Governance, Audit and Standards Committee will be asked to support the consequent constitutional change.

## 2. Recommendations

- 2.1. **Full Council is recommended to approve the changes to the constitution for the Health and Wellbeing Board set out below.**
- 2.2. **Governance, Audit and Standards Committee are asked to support the consequent constitutional change and to give authority to the City Solicitor to include wording in the Standing Orders to allow appropriate appointments to the Health and Wellbeing Board to be made at Annual Council.**

## 3. Background

- 3.1. Health and Wellbeing Boards (HWBs) were introduced as part of the Health and Social Care Act 2012. They are statutory in all upper tier local authorities in England, bringing together Elected Members, key council officers, the

Portsmouth Clinical Commissioning Group (PCCG), the NHS Commissioning Board and local Healthwatch to develop a Joint Strategic Needs Assessment and deliver it through a Joint Health and Wellbeing Strategy.

- 3.2. The HWB is a committee of the council and has been formally established as such since April 2013.
- 3.3. The statutory regulations allow changes to be made to the membership of the HWB that have previously been agreed as desirable by the HWB. If so directed by the council, this allows voting rights to be withdrawn from statutory members of the board (for example the Directors of Children's Services, Adults Services and Public Health) and other partners. This enables voting on certain matters (part b items) to be restricted if necessary, ensuring that on such matters Elected Members from the council and PCCG's nominated representatives retain an equal voting share.

#### **4. Proposed changes recommended by the HWB**

- 4.1 That the chairing arrangements change from a Chair and Vice-Chair arrangement to joint chairing, with the Lead Member for Health and Social Care and the Clinical Lead from PCCG alternating chairmanship of the HWB on an annual basis.
- 4.2 In order to ensure the HWB constitution is able to adapt to future requirements, that provision is made for voting on certain matters to be restricted to the four Elected Members from PCC and the four representatives of PCCG. This reflects the current principle that 50% of voting membership shall comprise elected local councillors while allowing greater flexibility to broaden the membership. The legislation allows the council to delegate a wide range of executive functions to the HWB, and integrated budgets across health and social care (e.g. through section 75 agreements) are an increasingly important part of the commissioning picture.
- 4.3 That additional key stakeholders in the local health and wellbeing system should be invited to join the HWB in order to secure the widest possible engagement with, and buy-in to, the strategic direction set by the HWB. These additional stakeholders are the largest local providers of acute and community NHS services, and a local voluntary and community sector organisation (reflecting the vital role the VCS play in delivering health and wellbeing services):
- Portsmouth Hospitals NHS Trust
  - Solent NHS Trust
  - A representative of the local voluntary and community sector nominated by Portsmouth Voluntary and Community Network
- 4.4 These changes have been incorporated into the revised Constitution for the Health and Wellbeing Board at appendix A.

## **5 Reasons for recommendations**

- 5.2 Full Council is recommended to support these proposals as they will support the Health and Wellbeing Board to operate effectively and continue to enable the council to fulfil its statutory requirements with regard to the Health and Wellbeing Board.
- 5.3 The recommendations have been developed with the full involvement of the Leader of the Council and the Lead Member for Health and Social Care and agreed in principle by all members of the HWB including PCCG's representatives.

## **6 Equality impact assessment (EIA)**

- 6.2 A preliminary EIA has been completed, indicating that there is no requirement for a full EIA at this stage.

## **7 City Solicitor comments**

- 7.1 The Health and Social Care Act 2012 (the Act), s194, specifies a number of required appointees to Health and Well-being Boards. These include:

- a) At least one councillor appointee
- b) The director of adult social services
- c) The director of children's services
- d) The director of public health
- e) A representative of the Local Health Watch organisation
- f) A representative of each relevant clinical commissioning group for the area
- g) Such other persons as are considered appropriate

The Act requires that members nominated by the Council must be nominated by the Leader, unless the Leader appoints herself.

The Act requires that the Council must consult the Health and Wellbeing board before appointing persons under g) above.

## **8 Head of finance's comments**

- 8.1 There are no direct financial implications arising as a result of this report.

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Signed by: Director of Children's and Adults' Services

**Appendices:**

Appendix A - –constitution for Portsmouth’s Health and Wellbeing Board

**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

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

.....  
Signed by: Name and Title



Appendix A – revised constitution for Portsmouth’s Health and Wellbeing Board (March 2015)

### **Constitution for Portsmouth’s Health and Wellbeing Board**

#### 1. Aims

- 1.1 The Health and Wellbeing Board (HWB) will provide strategic leadership to improve the health and wellbeing of the population of Portsmouth through the development of improved and integrated health and social care services along with a range of other public service dependencies, including public health and children’s services. It will:
- a) Identify health and wellbeing needs and priorities across Portsmouth, and oversee the refresh and publication of the Joint Strategic Needs Assessment (JSNA) to support evidence-based prioritisation, commissioning and policy decisions.
  - b) Prepare and publish a Joint Health and Wellbeing Strategy (JHWS) for approval by the city council and Portsmouth Clinical Commissioning Group (CCG), which sets objectives and describes how stakeholders will be held to account for delivery, taking account of the JSNA and Director of Public Health Annual Report as well as national policy developments and legislation.
  - c) Encourage integrated working between health and social care and oversee, where appropriate, partnership arrangements under the NHS Act such as pooled budgets.
  - d) Oversee, where appropriate, the use of resources across a wide spectrum of services and interventions, to achieve its strategy and priority outcomes and to drive a genuinely collaborative approach to commissioning, including the co-ordination of agreed joint strategies.
  - e) Support the inclusion of the voice of the public, patients and communities in the setting of strategic priorities, including (but not solely) through the involvement of local Healthwatch.
  - f) Communicate and engage with local people in how they can achieve the best possible quality of life and be supported to exercise choice and control over their own personal health and wellbeing.

#### 2. Membership

- 2.1 Membership of the HWB shall reflect the fact that the HWB has a role in setting strategic direction for the whole health and care system. It will also contain provisions that allow it to be given greater executive powers on behalf of the city council and in partnership with the CCG, with provision for voting on certain matters to be reserved. Those items on which all members of the HWB can vote shall be termed 'part A items' while those on which voting is reserved shall be termed 'part B items'.
- 2.2 The members of the HWB, who shall have voting rights on all non-reserved items (part a items) shall comprise the following:
- Lead Member for Health and Social Care (Joint-Chair)
  - Clinical Commissioning Group Chief Clinical Officer\* (Joint-Chair)
  - Lead Member for Children’s Services

- Leader of the Council (or their nominated representative)
- Leader of the largest opposition group (or their nominated representative)
- Clinical Commissioning Group Chief Operating Officer\*
- Two nominated CCG representatives chosen by the CCG Board
- Director of Public Health
- Director of Adults Services
- Director of Children's Services
- Healthwatch Portsmouth nominated representative\*
- NHS Commissioning Board (Wessex) nominated representative\*
- Portsmouth Hospitals NHS Trust nominated representative\*
- Solent NHS Trust nominated representative\*
- Portsmouth Voluntary and Community Network representative

2.3 The members of the HWB who have reserved powers to vote on 'part B items' are as follows:

- Lead Member for Health and Social Care (Joint-Chair)
- Clinical Commissioning Group Chief Clinical Officer\* (Joint-Chair)
- Lead Member for Children's Services
- Leader of the Council (or their nominated representative)
- Leader of the largest opposition group (or their nominated representative)
- Clinical Commissioning Group Chief Operating Officer\*
- Two nominated representatives from Portsmouth's Clinical Commissioning Group

\*voting rights for co-opted members on what is a committee appointed under section 102 of the Local Government Act 1972 are provided for in Statutory Regulations published in February 2013 "unless the local authority which established the board otherwise directs" and "before making a direction [to empower co-opted members], the local authority must consult the Health and Wellbeing Board"<sup>1</sup>. The provisions above are therefore subject to direction from the council in consultation with the board.

### 3. Chairing arrangements

- 3.1 The HWB will appoint the Lead Member for Health and Social Care at the City Council and the Chief Clinical Officer of the CCG as joint chairs of the HWB, with chairmanship alternating between the two on an annual basis. The other joint-chair shall act as vice chair during that year.
- 3.2 In the event that neither Chair nor Vice chair are present but the meeting is quorate, the voting members present at the meeting shall choose a chair for that meeting from amongst their number who has power to vote on 'part B items'.

### 4. Quorum

- 4.1 It is important that sufficient members are present at all meetings so that decisions can be made and business transacted. The quorum for the Board will comprise of four voting members and must include at least one voting Member from the City Council and one voting member of the CCG. If a meeting has fewer members than

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<sup>1</sup> The Local Authority (Public Health, Health and Wellbeing Boards and Health Scrutiny) Regulations 2013 No.218 regulation 6

this figure it will be deemed inquorate - matters may be discussed but no decisions taken.

5. Substitutes

- 5.1 Nominating groups may appoint a named substitute member for each position. Substitute members will have full voting rights when taking the place of the ordinary member for whom they are designated substitute.

6. Appointments

- 6.1 In line with the Health and Social Care Act, before appointing another person to be a member of the Board (other than those that are statutorily obliged to be a member) the local authority must first consult the Health and Wellbeing Board. Nominations by the local authority must be in accordance with the Act.

7. Decisions and Voting

- 7.1 The HWB will be accountable for its actions to its individual member organisations and representatives will be accountable through their own organisation's decision making processes for the decisions they make.
- 7.2 It is expected that decisions will be reached by consensus, however, if a vote is required any matter will be decided by a simple majority of those members voting and present in the room at the time the motion is put. This will be by a show of hands, or if no dissent, by the affirmation of the meeting. If there are equal votes for and against, the Chair will have a second or casting vote. There will be no restriction on how the Chair chooses to exercise a casting vote.
- 7.3 Decisions within the terms of reference will be taken at meetings and will not normally be subject to ratification or a formal decision process by partner organisations. However, where decisions are not covered by the HWB's statutory functions and power or within the delegated authority of the Board members, these will be subject to ratification by constituent bodies.
- 7.4 Decisions within the current terms of reference will be deemed 'part A items'. In the event that the city council or the CCG delegate additional decisions to the HWB, it will be for the delegating authority to determine whether these are deemed 'part B items' with reserved voting rights as set out above.

8. Status of Reports

- 8.1 Meetings of the Board shall be open to the press and public and the agenda, reports and minutes will be available for inspection at Portsmouth City Council's offices and on the City Council's website at least five working days in advance of each meeting. This excludes items of business containing confidential information or information that is exempt from publication in accordance with Part 5A and Schedule 12A to the Local Government Act 1972 as amended.

9. Members' Conduct

- 9.1 With the exception of those referred to at 9.2 below, the Councillors Code of Conduct of Portsmouth City Council will apply to all Board members, and such members should note in particular the obligations relating to Disclosable Pecuniary Interests

(so described within the Councillors Code of Conduct), which they must declare upon appointment to the committee to the Monitoring Officer (unless they have made such a declaration).

- 9.2 The Code of Conduct for Employees of Portsmouth City Council will apply to all Board members who are officers of Portsmouth City Council.
  - 9.3 The Monitoring Officer of Portsmouth City Council shall provide Board members with guidance in relation to these provisions
10. Review
- 10.1 This constitution and any conflicts of interest will be reviewed as and when required but at least annually.



<b>Title of meeting:</b>	Governance and Audit and Standards Committee
<b>Date of meeting:</b>	13 <sup>th</sup> March 2015
<b>Subject:</b>	Performance Management update - Q3, 2014-15
<b>Report by:</b>	Head of HR, Legal and Performance
<b>Wards affected:</b>	n/a
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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**1. Purpose of report**

- 1.1 To inform members of performance issues arising in the third quarter of the 2014-15 reporting period.

**2. Recommendations**

**The Governance and Audit and Standards Committee are asked to:**

- 1) note the report; and
- 2) comment on the performance issues highlighted in section 4, including agreeing if any further action is required
- 3) comment on the governance issues highlighted in section 5, including agreeing if any further action is required.

**3. Background**

- 3.1 This report is part of the regular series of quarterly report highlighting significant performance issues across the organisation. The reports are based on the quarterly highlight reports prepared by Heads of Service, which are in turn based on the priorities for their services identified by Strategic Directors.
- 3.3 Reports are considered by Strategic Directors to identify where action is required and where there are themes of collective interest for the organisation emerging. There is also a much closer relationship with the risk register than has previously been the case.

**4. Reasons for recommendations**

- 4.1 Appendix 1 contains a full summary of the quarterly responses provided by Heads of Service, against the service priorities.

4.2 What becomes apparent from the reports are that whilst there are some service-specific issues highlighted, there are also some common themes that might be worth considering, along the lines of **demand**, where this is seen to be increasing despite an accepted need to reduce demand; challenges in delivering on change projects already in the pipeline to **reduce costs** and particularly to **deliver on income**; workforce **capacity** in some areas critical to longer term objectives, linked to **sustainability of services**; some difficulties in describing **impact**. These themes are similar to those highlighted in the last quarter.

4.3 Examples could include (although there are others throughout the report):

- Service demand in children's social care and safeguarding continues at a high rate - open cases and child protection plans show an increase on the same period for last year (**demand**) - the service budget is predicting an overspend of c£3.9m, with maternity leave and vacancies putting pressure on budgets via agency costs. YOT performance continues to require improvement across a range of areas (**capacity**)
- It is not clear how robust the arrangements in the Education and Strategic Commissioning service around school improvement are against Ofsted expectations, with **capacity** in key areas is a challenge (secondary education, senior management, SEND implementation). Sufficiency and quality of schools is an emerging challenge.
- Increased **demand** is noted in a number of areas in the Corporate Assets, Business and Standards service; a particular area highlighted this quarter is the increase in the number of people dying without burial arrangements - local authority resources will be further under pressure as QA hospital cease performing the function for people who die in hospital.
- There is an issue highlighted by Housing and Property Services in relation to the Housing Revenue Account, where land acquisitions being brought forward for the "corporate good" is creating a significant threat to the forecast position (**capacity**).
- £44m funding letter has been received by the Environment and Transport service in respect of the North Portsea Coastal Scheme, representing a significant success.
- Customers, Community and Democratic Services report that there have been great improvements in call waiting times for high volume areas in city helpdesk.
- Information Services report that **capacity** to deal with demand for work is stretched, and a number of projects are now on hold and will not be started until 2015/16.

## 5. Significant governance issues

5.1 It was agreed at a previous meeting of the Governance, Audit and Standards Committee that significant governance issues arising from the most recent Annual Governance Statement would also be considered alongside the quarterly performance report, and that lead officers for the issues would attend to provide

updates to the committee on developments. The three issues that will be considered this quarter are:

- a) **Mandatory training** - requirements are unclear and staff are not completing known requirements such as financial rules training - the committee will receive an update on the PDR review and update on completion statistics following January Employment Committee.
- b) **Non-completion of financial rules training resulting in non-compliance with Financial Rules**
- c) Report on action points following **Ofsted inspection** in July 2014.

5.2 More details on each of these issues can be found at Appendix 2. In summary, good progress is being made in addressing each of the areas of concern highlighted in the Annual Governance Statement. One further issues, in respect of ongoing development of corporate performance management arrangements, has been deferred to the meeting, so that full account can be taken of the senior management restructure in proposing adjustments to the existing arrangements.

## 6. **Equality impact assessment (EIA)**

6.1 Any equality matters arising through performance or value for money consideration will be considered as a discrete process, as separate EIAs will be completed for these areas of work.

## 7. **Legal Implications**

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

## 8. **Finance Comments**

8.1 There are no financial implications to bring to member's 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 progress on significant governance issues**

**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:

<b>Title of document</b>	<b>Location</b>
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 and Standards Committee on 13<sup>th</sup> March 2015.

.....  
Signed by:



# Appendix 1 – Service Summaries Q3 October 2014 – Dec 2014

# Children's Social Care and Safeguarding : Overall Summary

## Highlights

- The main elements of the Social work Matters programme have now become 'business as usual'; evaluation indicates service delivery and workforce development objectives met, the next phase of this programme will focus on the development of our Social Work Academy set to launch by May.
- Ofsted Inspection has graded Looked After Children, Adoption Leadership & Management & Safeguarding Board as 'Good.' We remain high in the Ofsted league table of those authorities inspected to date.
- Independent Fostering Agency carers remain at an all time low in line with savings projections; reduced from 83 in 2013 to 61 as of 31/12/14.
- Fostering recruitment continues to be a strength with targets met/exceeded; 29 carers currently in assessment, with 30 new carers approved since April 2014.
- Focus on permanence planning has allowed successful rehabilitation of children to their parents, good use of Special Guardianship Orders and Adoption with 34 children moving to permanence via this route for the year to date.
- National Adoption scorecard was published in December 2014, with the percentage of children who wait less than 18 months between entering care and moving in with their adoptive family Portsmouth now ranked 46<sup>th</sup> nationally (last year 130<sup>th</sup>)
- Sufficiency duties are well met regarding accommodation for children and young people, with expansion of offer planned via commissioning of more bespoke semi-independence provision; in line with this a joint programme with the Roberts Centre & Housing is about to go live.
- The majority of our PI's are good or better, we are clear regarding which areas of performance need improvement & plans are in place to deliver this.
- Work on Multi-Agency teams has been undertaken with a bid to the DfE Social care Innovation Fund; PCC are now in the final 28 of the 250+ bids submitted

## Areas that need watching

- Targeted recruitment of adopters is required as there is a growing mismatch between the needs/ages of our children waiting and the profile of adopters waiting for a match.
- More teenage, remand and parent & baby foster carers are needed, this is increasing budget pressures, particularly via court ordered assessments; a recruitment strategy is in place.
- Joint Action Team/Early help developments are progressing via 'Priority E' of the Children's Trust work.
- Demand for service is increasing with higher open cases & Child Protection (CP) plans than same period 2013/14; CP numbers are 252 Sept 2014 , last year at same point 206.

## Areas requiring improvement

- Service budget is predicting c£3m+ plans are in place and being implemented to reduce expenditure in 2015/16
- Strengthening service provision for children on the edge of care offer, particularly for the 6-13 year olds.
- Sickness is reducing albeit over PCC averages, a programme is in place to address; Year ending 1<sup>st</sup> August 2013 average sickness per person was 12.20. Year ending 1<sup>st</sup> August 2014 average per person (days) was 11.97. PCC average as of 01 August is 8.26.
- Youth Offending Team performance whilst progressing still requires improvement across a range of national standards
- Maternity leave & vacancies are putting pressure on budget via agency costs.

# Adult Social Care : Overall Summary

## Highlights

- As of 31/12/2015 there were 897 clients with an Individual Budget; 315 clients with a Direct Payment, of which 40 received carers grants and 288 who receive just DP (the difference is where 13 clients hold both carers grant DP and support based DP)
- Panel used to identify any eligible clients that may have been missed by practitioners
- Learning Disability and employment – Employment Opportunities Co-ordinator has helped to arrange 11 voluntary placements, 4 paid positions and 5 social enterprise positions.
- Carers – Latest Carers survey carried out in October 2014. Surveys are carried out every two years and contribute towards Adult Social Care Outcomes Framework outcomes. Preliminary results have been analysed and indicate a small downward trend in all 5 outcome areas, but national results will not be available until summer 2015 so it is too early to identify if this national trend or specific to Portsmouth. Highest ever response rate – 55%.
- Clinical Commissioning Group targets on track and being met

## Areas that need watching

- Care Act challenges remain the same – capacity to meet expected increased demand for assessments and estimated 15% increase in eligibility for services.
- 2015/16 savings target for ASC of £4m does not include additional pressure of £2.2m as a result of non recurrent money which is no longer available to us (use of prior year's portfolio reserve). Additional Budget pressures that are adding to savings targets, include "Cheshire West" Deprivation of Liberty judgement where costs have risen from £18k p.a. to £320k for 14/15, predicted to reach £500k for 15/16. Savings plans are in place however, with the vast majority of ASC budget funding direct social care reductions in this area would seem inevitable. Care Act and new eligibility criteria will create difficulties in achieving savings with a predicted 15% rise in eligibility.

## Areas requiring improvement

- A panel process has been put in place to identify people eligible for a domiciliary care service who have not accepted a Direct Payment.

# Integrated Commissioning Unit (ICU) : Overall Summary

## Highlights

Better Care submission approved.

Portsmouth City selected to be one of the nine sites across the country to implement Integrated Personal Commissioning – which aims to bring about a radical integration of health and social care at service user level.

Mental health crisis care concordat agreed amongst key partners in Portsmouth, the city being one of the few sites across the country to achieve this.

Significant progress in joint working and collaboration across Education, Health and Social Care for implementing SEND reforms- a steering group established to inform future planning and commissioning.

Savings continued to be realised within Adults and Children Social Care through service redesign and contract negotiations.

Work programme for the ICU has been reviewed and priorities agreed with the Council and CCG.

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## Areas that need watching

ICU capacity as a result of reduced staffing and need to deliver on more transformational programmes

Pace of transformation and remodelling of services, e.g. Learning Disability Day Services and Personalisation

## Areas requiring improvement

Clarity around the role of ICU for commissioning of Health Visitors and Family Nurse Partnership service

Corporate procurement process need to be rationalised to facilitate People's Commissioning and taking into account reduced staffing resource

# Positive Family Steps Service : Overall Summary

## Highlights

- Department for Communities and Local Government (DCLG) published all 152 LA's performance – PCC one of six LAs that have met all the phase 1 commitments
- DCLG invited PCC to start Phase II of the programme early (from the 1<sup>st</sup> January 2015)
- Phase 2 implementation recommendations presented to main partnership, cabinet, boards during September 2014. Recommendations to be presented to Public Service Board on 3<sup>rd</sup> October 2014 – all agreed (including celebrate success of phase 1, reframe Troubled Families Co-ordinator post to include broader remit, go early with phase 2, opportunity to create a 5-Year Strategy)
- Multi-systemic therapy business case complete – success in securing funding from Clinical Commissioning Group and Local Authority (Police and Crime Commissioner bid to be submitted in Jan 2015)
- Positive Family Futures work (Paulsgrove & Wymering work) – work used as an exemplar to launch the DCLG delivering differently in Neighbourhoods fund. PCC encouraged to submit bid. Bid submitted December 2014. Met with the Early Intervention Foundation to discuss support from the foundation.

## Areas that need watching

- Phase 2 go early offer includes requirement to populate a cost savings calculator for 25% of the phase 1 cohort
- Impact assessment of Priority B services completed by Integrated Commissioning Unit – report will be available in Jan 2015
- University of Portsmouth research completed in December 2014 – report to be finalised January 2015
- Preserving the Positive Family Futures as different to the emergent 'locality models' – governance structure agreed in Oct 2014 (first governance meeting due to take place in January 2015)

## Areas requiring improvement

- Positive Family Futures suite of measures – agenda item for governance meeting / key part of DCLG bid (support for impact evaluation)

# Education and Strategic Commissioning : Overall Summary

## Highlights

- Proportion of schools that are either Good or Outstanding is above 70%; 6 out of 7 schools inspected in Q3 were rated Good or Outstanding
- Launch of School Improvement Commissioning Board
- SEN place planning – reviews of provision commissioned for Early Years / KS1; Social, Emotional, Behavioural Disorders; Sensory Impairment
- Early Years Foundation Stage profile remains 5% above national – 65% of 5 year olds achieve a good level of development
- Robust Q3 peer reviews completed for all nine Children Centres
- Joint LA and Teaching School Alliance Early Years Quality Improvement Bid has progressed to Stage 2
- Two year old funding programme continues to deliver – 77% of target achieved in Q3
- Successful implementation of Universal Infant Free School Meals + 3 capital bids submitted on behalf of College Park, Devonshire and Mayfield
- Academy transfers completed for Miltoncross (TKAT) and Newbridge and Isambard Brunel Junior Schools (TSAT)
- Youth Experience Fund bid submitted for Portsmouth, Southampton and Hampshire – potential £900k investment for Portsmouth over 3 years
- University Technical College bid submitted for 14-18 provision focusing on advanced engineering and manufacturing on the City Boys' site

## Areas that need watching

- The 'Getting to Good' programme has been re-positioned as 'Getting to and maintaining Good' with a focus on coasting schools
- Leadership in vulnerable schools and governance in some schools
- Transfer of Stamshaw Junior School to academy status (Portswood)
- Capacity to deliver on the implementation of SEND reforms
- Impact of budget cuts on Early Years
- Detailed capital plans for condition and sufficiency have been discussed with Members; awaiting news of outcome of Priority School Building Programme Round 2 bids (six submitted)
- Lack of surplus places in Year for September 2015 – late applications monitored. Sufficiency plans in place subject to Member approval
- Feasibility study for King Richard School rebuild has been completed by the EFA – no further progress on challenging £2m shortfall
- Transfer of Integrated Targeted Youth Support Service functions (careers guidance and data tracking) to Education

## Areas requiring improvement

- Two schools remain of maximum concern to the LA (City Boys' and Stamshaw Junior)
- Some "Requires Improvement" schools require stronger support and appropriate wider partnerships
- Secondary school pupil attendance – 5.75% for Autumn term compared to 5.1% national target
- Levels of fixed period exclusions in special schools (specifically Harbour School)
- Health data about new births is not yet routinely shared with Children's Centres nor are new births registered with Health partners
- East Playing Field at Mayfield School remains closed – land management plan from LQM due in Q4

# Revenues and Benefits : Overall Summary

## Highlights

- Overall maintaining good performance at Q3, with key measures achieved. This continues to be a remarkable performance considering the Service has seen staff reductions of over a third and work increases of over 20% in 5 years.
- 2015/16 savings proposals are completed and are being implemented through to May 2015. These savings continue to increase the pressure on HB subsidy & Tax income

## Areas that need watching

- Single Fraud Investigation Service – transfer of work will occur in September 2015. Work continues to prepare for this change
- Universal Credit – date for Portsmouth is not known at this stage, although it is expected to be around the end of 2015. Planning for this is in its early stages, with the expectation that it will be a slow start and we will be able to learn from the initial take up so as to develop a Local Support Service that is fit for purpose
- Local Welfare Assistance Scheme – the scheme is being brought to a close as there is no Government funding beyond March 2015. Work is in progress to implement a scaled down scheme using £90K carried forward funds from 2014/15.

## Areas requiring improvement

- Sickness absence is around 9.35 days per person per annum – actions are ongoing to reduce the level of absence

# Corporate Assets, Business and Standards : Overall Summary

## Highlights

- 95% of applications under the Additional Licensing of Houses in Multiple Occupations (HMO) scheme now have licences issued. Pro-active inspection of these HMOs has confirmed the case for introducing the scheme.
- Data obtained from the Department of Energy and Climate Control (DECC) on the energy performance of Portsmouth's housing will enable us to take a targeted approach to the least energy efficient properties (mostly in the private rented sector). This will assist people in fuel poverty; improve the housing stock; and given that housing is responsible for 25% of carbon emissions, will contribute to a reduction in the city's overall CO2 emissions.
- The Food Standards Agency have, following inspection, confirmed that Portsmouth is compliant with national operating standards.
- The disposal of underperforming, smaller assets, providing capital receipts of £230,000. This is part of the Corporate Asset strategy to dispose of properties with low rental yields.
- As a result of exceeding the required performance on the NEET contract, Barnardo's have expanded the size of the contract with Employment and Learning Services, enabling 30 more young people in Portsmouth to join the 118 already benefitting from the support we provide to move into education, training or employment.

## Areas that need watching

- The first phase of the Tipner Housing Development will only provide general needs housing with an element of affordable housing. We are working to ensure that the second phase provides a mix of property to meet community needs; and includes housing for people with physical and learning disabilities.
- The number of people dying with no arrangements for burial has increased. The local authority's resources will be further stretched as QA hospital is due to stop performing this function for people who die in the hospital.

## Areas requiring improvement

- The number of Telecare customers remains lower than anticipated. We are adapting the service offer to enable us to support more people without family or friends to assist them. These are often the most vulnerable Social Care clients whose needs cannot be met by other providers.



# Housing and property services : Overall Summary

## Highlights

- Continued good performance on the Schools programme.
- The energy efficiency programme (externally funded) providing improved homes for residents
- Continued good performance on the refurbishment of Sheltered housing

## Areas that need watching

A forecast deficit position for the Housing Revenue Account over the next 3 years is a potentially significant threat, as a result of land acquisitions being brought forward for the corporate good. This forecast position is expected to worsen if internal costs continue to increase.

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## Areas requiring improvement

Nothing significant to report

# Transport and Environment (T&E): Overall Summary

## Highlights

- North Portsea Coastal Scheme – £44m Funding letter received. Work has commenced with tree clearance - February. Commended by Cabinet for going the 'extra mile' with public consultation. Tender evaluation for construction – March 2015
- Canoe lake area has been developed, with the selling of previously under-utilised green space. This has created a tennis club, café and (coming summer 2015) pre-school nursery. The area has been improved and costs to PCC have reduced.
- Negotiations were effectively completed with Veolia regarding the waste disposal contract. Savings of £350k pa were achieved (rising in future years) in exchange for a 5 year extension.
- Successful autumn for Park and Ride with impressive numbers using the service at weekends and for special events

## Areas that need watching

- Residents parking zones – charging for first permit (delayed timescales will affect budget) and workload
- Negotiations started with Parkwood with the aim of minimising rises in the charge for the Mountbatten centre Contract
- Highways PFI negotiation

## Areas requiring improvement

- Park and ride commuter parking.
- Carbon footprint for PCC is not expected to hit the targets set by the council of 30% reduction. Main reasons are street lighting, and a non joined up approach by services.

# City Development and Cultural Services : Overall Summary

## Highlights

### Visitor Economy

Independent research by Tourism South East released in the Economic Impact report for 2013 presents a positive picture of growth.

Annual visitor numbers increased by 9.5% to 9.2 million and is the most significant annual increase this decade. Value to the local economy significantly increased by 10% to £593,511,000 and tourism related jobs increased to 12,396, an increase of 6% from 2012 . The strategic direction and actions in the Visitor economy action plan , destination marketing , city branding and cultural programme and events management are contributing to these positive growth trends . The exciting opportunities presented by America's Cup World Series events and Ben Ainslie racing will continue to improve perceptions of the city , attract further investment and broaden our visitor profile

**Collections and Archives** :Official opening of the **Southsea Library Archive Store** which provides accessible long term storage solution for archives and works on paper .This building now provides an archive storage which meets national standards and maximises the building utilisation of the first floor of Southsea library

**City Deal**: the transfer of Horsea Island East and the Tipner Firing Range from the Ministry of Defence to Portsmouth City Council was of key project achievement this quarter. Work commenced on master planning the sites, assess viability and start working on initiatives to secure marine and maritime uses. City Deal will play a vital role in bringing investment into the Portsmouth area and creating future jobs.

**Destination Management** : Portsmouth was confirmed as the UK Host city for Americas Cup World Series international premier sporting and entertainment events in July 2015 and again in July 2016. The branding of the series is now ACWS Portsmouth.

## Areas that need watching

- **Realising current savings targets** whilst delivering long term sustainability of the services to deliver the strategic outcomes for the city continues to be explored including national and international funding / shared services / partnership working / alternative delivery models and income generation.

## Areas requiring improvement

None reported

# Health, Safety and Licensing : Overall Summary

## Highlights

- Alignment of pre birth-19 offer and Healthy Child Programme now being developed to link with the wider integration of children services
- Mental Health Alliance strategy group has been established and work has begun on scoping out the mental health strategy.
- **ASB** incidents continue to reduce (police stats) but ASBU casework for local authority housing has increased (68%) last calendar year
- Outline business case for the establishment of Newco completed, local market analysis being further developed prior to Cabinet decision 5 March
- Somerstown Health and Well Being Neighbourhood Programme underway with Peer Supporters Programme first cohort recruited
- Approval by Licensing Committee to review policy relating to licensing of hackney carriages and private hire
- All annual childhood vaccination rates continue to increase; biggest increase in pre-school boosters. All health protection areas were reviewed and assurance received at the November health protection assurance group
- Portsmouth's alcohol related hospital admissions are now consistently below the England average. Alcohol Specialist Nurse Service, based at QA but PH funded, was cited as best practice in a special report on Liver Disease by The Lancet in November.
- Physical Activity Strategy development underway
- Substance misuse pathway review demonstrated good evidence of integrated working and clear focus on engaging people with recovery action plan to further improve this is being implemented through service managers group
- **Teen Pregnancy** - Delivered targeted programme to all 11 secondary schools, (boys and girls aged 12-16 to promote delaying under age sexual activity.

## Areas that need watching

- City-wide integration of children services needs to focus on health outcomes whilst acknowledging the importance of the safeguarding agenda
- **ASB** - Increase in PCC referrals (68%) is currently being assessed to identify increase. Early indications are an increase in housing officers and better reporting to the ASB Unit rather than a genuine increase in ASB in local authority tenancies
- **Chlamydia Screening** – Q2 Data has been released for 2014. Portsmouth is indicated as red as only completed 1576.7 per 100,000. Solent Service Specification target 1700 per 100,000, National target 2400 per 100,000
- **Smoking** - numbers accessing specialist services and achieving 4 & 12 week quits still below last year's target (perceived impact of increased use of e-cigarettes)
- **Substance misuse** - impact of funding reductions on numbers accessing and completing treatment needs monitoring, as does performance in relation to non-opiate users engagement with treatment and recovery
- Contract negotiation with Pompey Quit for April – Sept 2015 has been escalated to senior officers in Solent Trust and PCC to resolve

## Areas requiring improvement

- Staff resource overstretched. Workload needs to be reviewed and prioritised to reflect capacity against vacancies and recruitment restrictions to avoid overall impact on transformation
- **Hidden Violence** - IDVA provision due to reduce. Bid in to OPCC for continued funding - awaiting to hear outcome
- **Teen Pregnancy** - More requests to provide specialist support to schools as a consequence of reducing mainstream young persons sexual health promotion service
- **Better Care Fund** - Interface with Primary Care and other social services information governance and data sharing / IT access

# Customer, Community and Democratic Services : Overall Summary

## Highlights

- CHD average call waiting down to below one minute for highest volume areas ( Revenues and Benefits)
- Average 75k unique visitors per month on web, with further 5% online payments
- Registrars Service on national policy group looking at nationality bill and sham marriages
- Memorandum of Understanding agreed for transfer of Coroners Service to PCC
- Managed University Technical College consultation
- Savings targets from corporate print review achieved
- Advertising framework established
- 92% of voters now registered under Individual Electoral Registration (IER)
- 52% increase in online transactions
- 100% increase in funding from Clinical Commissioning Group for Freedom Of Information and complaints work secured with 100% satisfaction

## Areas that need watching

Prioritising web and channel shift resources from Information Services

Electorate on publication of 2015 register reduced by 1,500 from 2014.( National issue)

Elections budget under pressure due to increased mailing volumes and increased cost of canvassing associated with IER.  
(need to ensure Government funding in future years)

Issues with Department for Work and Pensions verification process, resulting in higher than average numbers requiring additional evidence of identity – staffing pressures

Lack of effective consultation/ pre- decision Equality Impact Assessment in developing policies or changing policies – which could risk judicial review of decisions

Funding for Big Recycle, My Journey and super-connected ends March 2015 expect significant reduction in marketing activity

Clarity required on Better Care Fund communications and marketing activity

## Areas requiring improvement

- None reported

# Information Services : Overall Summary

## Highlights

- Operational Performance continues to be high – System Availability @ 99.99%; Incident Resolution and Requests Completion both @ 96% within Service Level Agreements
- IT Security Programme is well progressed, the installation of Hardware / Software is complete meeting the new requirements; key IT services are in the process of being migrated to the new infrastructure in such a way that it is transparent to all PCC customers
- Customer Satisfaction remains at 100%
- 'My City WiFi' is being rolled out across the City, it is being hailed as a very positive step to supporting our community, aiming for the official launch in February
- Overall staff morale within the Information Service remains high

## Areas that need watching

- PSN Compliance - this provides a critical communication channel between PCC and Central Government, the security criteria has been substantially tightened requiring complete replacement of our Security Firewall / DMZ infrastructure to ensure our Code of Connection is maintained, the renewal has been submitted and any work requested must be undertaken by end of March '15 to ensure service continuity (which may impact other work inflight)
- The demand for new work and thereby IT related projects remains very high however staffing is being cut to meet the financial pressures facing the Authority, a number of Customer requested projects are now on hold and will not be started until Q2 2015/16

## Areas requiring improvement

- None reported

# HR, Legal and Performance : Overall Summary

## Highlights

- Excellent progress on some key HR priorities, including reducing absence and promoting apprenticeships
- Success in securing HR contract for Clinical Commissioning Group
- New contract for sourcing temp staff signed, delivering operational efficiencies and cost savings
- Continued effectiveness of governance activities, despite reduced capacity in service and across organisation
- Strategic contract review delivering savings and cost-avoidance
- Legal team performance continuing to improve, now sector-leading in some areas, e.g. childcare
- HR Self Service system now rolled out across council

## Areas that need watching

- Reducing capacity making it harder to maintain effective governance and assurance
- Employee opinion survey identified some significant workforce issues, e.g. around pay, Personal Development Reviews (PDRs) and opportunities for development
- Increasing demands on legal team, especially in childcare
- Capacity to maintain momentum on strategic contract review
- Erosion of client base for traded services due to academisation of schools

## Areas requiring improvement

- Further development of HR Self Serve system to ensure it adds full value
- Longer term approach to strategic workforce issues, e.g. talent management, future skills and reward

# Finance Services : Overall Summary

## Highlights

- Financial rules training has been refreshed
- New payroll contract secured for 12 Academy schools
- R12 upgrade completed on time and rolled out.
- Smooth implementation of new Income Management System and implementation of bank switch
- All portfolios except Health and Social Care (£0.2m) and Education and Children's Social Care (£3.9m) forecast to meet their 2014/15 budget

## Areas that need watching

- A minor breach of the Council's approved investment policy (error is very low risk)
- Payroll and IS capacity to bid for and take on new business
- Financial modelling for number of major projects awaiting completion
- Bank reconciliations not up to date due to diversion of resources to implementation of new Income Management System and the bank changeover from Co-op to Barclays
- Overall budget forecast for 2014/15 expected to be £1.2m overspent but may possibly be covered by council's corporate contingency
- Health and social care 2015/16 – cumulative £7m savings required alongside the demands of the Better Care Fund and the new burdens of the Care Act.

## Areas requiring improvement

- Education and Children's portfolio underlying budget deficit of £3.9m for 2015/16 (£2.9m covered within the Council's Corporate Contingency). Action plan developed and approved by Cabinet to make savings of £1.9m. Further review instigated to evaluate the cost effectiveness of all agency workers, supernumerary posts and contribution to Integrated Commissioning Unit. Fortnightly monitoring arrangements between Head of Finance, Leader, Portfolio Holder and Head of Children's Social Care.



## **Appendix 2 - Significant governance issues**

It was agreed at a previous meeting of the Governance, Audit and Standards Committee that significant governance issues arising from the most recent Annual Governance Statement would also be considered alongside the quarterly performance report, and that lead officers for the issues would attend to provide updates to the committee on developments. The three issues highlighted for this period are:

- a) **Mandatory training** - requirements are unclear and staff are not completing known requirements such as financial rules training - the committee will receive an update on the PDR review and update on completion statistics following January Employment Committee.

**Progress Update:** Consideration has been given to three key elements of mandatory training - the induction, the annual assessment of learning, and the annual Performance Development Review (PDR).

In relation to **Induction:**

- The induction day for new starters has now been created - to act as a welcome to new staff, provide an overview of key policies and to give essential information about mandatory training areas (i.e. Information Governance, Financial Rules, Equalities etc.)
- The session has been piloted within the training team and a further pilot with selected new starters from the last six months is scheduled for March
- There will be an assessment of learning at the end of the day (of the mandatory areas) to ensure that new starters leave with the key messages about working safely in these areas
- Delegates will be advised that this day is intended to cover the basics, but they need to apply this key information to their own work place (e.g. what are the local procedures for keeping information safe and protected?)
- Discussion and consultation has taken place to ensure that new starters attend this day (e.g. wording in the probation policy that expects attendance)
- New starters need to get their knowledge of mandatory training areas up to the expected level, for all staff, in their first year (i.e. they will need to pass the annual knowledge check that is required for all staff)
- The process of alerting new starters to the expectation that they attend the training will be automated (via MLE). An automated message will be sent to all new starters (in every month) to advise them of booking arrangements.
- Training will run regular reports on attendance on the induction course, to track compliance.

For the **annual assessment of learning**, it has been agreed that rather than mandate attendance on a course / completion of e-learning (which is achieving a low level of compliance and potential exposure to risk because the focus is on

training rather than demonstration of knowledge), we will mandate that people can demonstrate the required level of knowledge (courses, information and e-learning is still available to support people to pass the assessment. This will ensure that we minimise impact on business time (spent in sometimes unnecessary training) and that we can demonstrate that all staff have the required level of knowledge to work safely.

The annual **PDR** PDR paperwork now includes statements about the application of key knowledge to local work practices (e.g. I understand Data Protection arrangements for my work place). As the majority of knowledge of mandatory areas is about local work practices, this will help to ensure that local learning takes place (as this can never be covered to sufficient depth within any corporate training).

**b) *Non-completion of financial rules training resulting in non-compliance with Financial Rules***

**Progress Update:** Financial Rules training is delivered through MLE as an online training resource. It is for line managers to ensure that their staff undertake the required training in accordance with the needs of their job role.

Financial Rules were updated following a major review conducted in 2013. Since this review, the content of the Financial Rules training material has also been reviewed. The conclusion from the review is that modules 1 & 2 remain fit for purpose and relevant, but modules 3 & 4 require some updates to reflect some changes since they were originally designed, such as a change in the financial limit applied to the Gateway Process which (lowered from £100,000 to £75,000); and the merger of the Section 151 Officer and Head of Finance roles.

The review also highlighted that the Contract Procedure Rules are currently being reviewed by Procurement and Legal Services staff. On completion of that review, it is expected that further changes will be required to Financial Rules and the on-line training material.

Consideration has also been given to how we ensure that the correct staff are receiving the correct level of financial rules training, and are able to demonstrate and apply the required level of knowledge. In line with the approach to mandatory training set out in section a) above, Heads of Service now receive a regular report that can be shared with managers so that staff who need to undergo the training can be identified and trained accordingly.

c) *Report on action points following **Ofsted inspection** in July 2014.*

**Progress Update:** Portsmouth local authority was inspected under Ofsted's Single Inspection Framework in June/July 2014. The report published on the 1<sup>st</sup> September 2014 gave the following judgements;

Overall Effectiveness	Requires Improvement
Children who need help and protection:	Requires Improvement
Children looked after and achieving permanence	Good
- Adoption performance	Good
- Care leavers	Requires Improvement
Leadership, management and governance	Good

The full report can be viewed at:

[http://reports.ofsted.gov.uk/sites/default/files/documents/local\\_authority\\_reports/portsmouth/051\\_Single%20inspection%20of%20LA%20children%27s%20services%20and%20review%20of%20the%20LSCB%20as%20pdf.pdf](http://reports.ofsted.gov.uk/sites/default/files/documents/local_authority_reports/portsmouth/051_Single%20inspection%20of%20LA%20children%27s%20services%20and%20review%20of%20the%20LSCB%20as%20pdf.pdf)

In response to the report and its findings, a detailed Improvement Plan was put together. This Plan was submitted to Ofsted in December 2014. This Improvement Plan is governed by the Portsmouth Children's Trust Board, as many of the improvement areas are closely related to the Children's Trust Plan 2014-2017. However, the progress is also reported into the Portsmouth Safeguarding Children Board and Corporate Parenting Boards respectively. Monitoring takes place on a quarterly basis.

In addition to the headline areas of improvement, the Improvement Plan is also informed by some of the detail in the text of the Ofsted report, the lessons we learnt about safeguarding and care through the inspection preparation and process and lessons learnt from the individual cases Ofsted raised with the local authority during the inspection

Each of the 11 areas identified for improvement has a simple action plan which includes;

a) Expected Outcome

- b) Measures of Success
- c) Actions

At this early stage in the implementation of the plan, there are no major areas of concern in the delivery of the improvement plan. Some actions have been delayed and some evidence of impact is under development (e.g forthcoming audits of cases), but as it stands, there is good progress against the issues identified by Ofsted in the Summer, and confidence among the lead officers that the current Action Plan will deliver the impact required.