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13 September 2013

AUDIT COMMITTEE
TO FOLLOW SUPPLEMENT

Thursday 19 September 2013
2 pm
Warspite Room, Council House

Members:
Councillor Wheeler, Chair
Councillor Dr. Mahony, Vice Chair
Councillors Murphy, Stark and Stevens.

Independent Members:
Mrs Badger, Mr Clarke and Mr Stewart.

PLEASE FIND ATTACHED REPORTS FOR CONSIDERATION UNDER AGENDA ITEMS NOS. 5, 6 AND 7.

Tracey Lee
Chief Executive

AUDIT COMMITTEE

5. ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE - INCLUDING THE AUDIT OPINION **(Pages 1 - 38)**

The Council's external auditor, Grant Thornton, will submit a report.

6. AUDIT PLAN 2012/13 PROGRESS REPORT **(Pages 39 - 52)**

The Council's external auditor, Grant Thornton, will submit a report.

7. VALUE FOR MONEY REPORT - FINANCIAL RESILIENCE **(Pages 53 - 96)**

The Council's external auditor, Grant Thornton, will provide the Committee with an update on the Value for Money Report – Financial Resilience.

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for Plymouth City Council

Year ended 31 March 2013

13 September 2013

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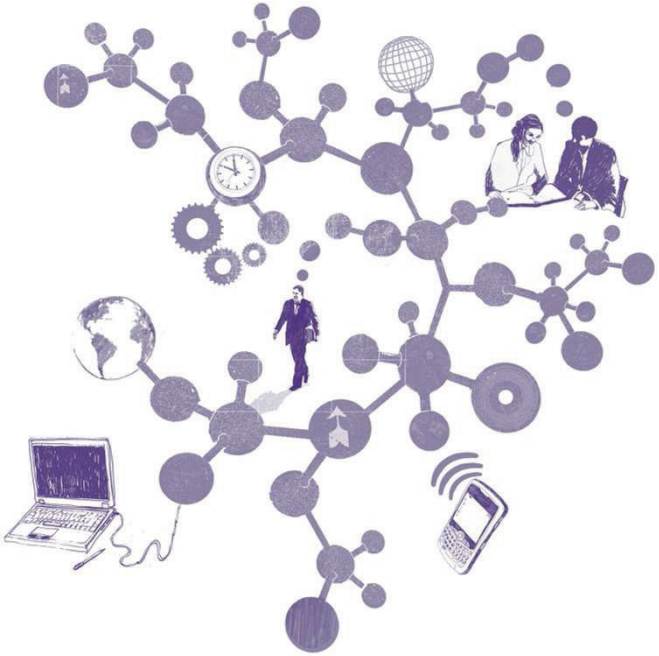

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Plymouth City Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach that was included in the audit plan we discussed with the Council's Audit Committee on 13 June 2013.

We received draft financial statements and accompanying working papers on 1 July 2013 in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of Housing Benefits payments made in the year;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- the completion of the Whole of Government Accounts return work.

We will update the Audit Committee on 19 September when the fieldwork will have been completed.

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Executive summary

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Council's financial statements for the year ending 31 March 2013.

There were no material errors with the Council's financial statements.

As identified in previous years, the Council has not followed the accounting treatment for its Icelandic Bank investments in accordance with the CIPFA guidance issued through the LAAP Bulletins. Had the Council followed this guidance, it would have reversed the £3.2m loss in investment income recognised in the financial statements. Whilst this treatment is consistent with previous years, we are required to bring this departure from the guidance to your attention. Further information is included within section 2 of this report.

We also identified the need to include three additional disclosures in relation to:

- post balance sheet events and the disposal of the Civic Centre;
- the governance arrangements for the Devon waste partnership agreement; and
- further clarification for the amount expended to date on the waste partnership arrangement and future accounting treatment of the asset.

The financial statements were produced to a high standard and there was evidence of good internal Quality Assurance procedures. There were inevitably a small number of tying and grammatical errors and these have since been corrected.

Further details are set out in section 2 of this report.

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VFM Conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.
Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- the approval of journal entries; and
- access controls within the Council's financial systems (Civica)

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Section 151 Officer and Head of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

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Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 13 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to the Audit Plan we discussed with the Audit Committee in June 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

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Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• Walkthrough testing and documentation of the system. • review and testing of revenue recognition policies. • testing of material revenue streams. • review of unusual significant transactions.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• Review of accounting estimates, judgements and decisions made by management. • testing of journal entries made during the year and also after the year end as part of the production of the Council's financial statements. • review of accounting estimates, judgements and decisions made by management. • review of unusual and significant transactions	In our audit plan we reported a weakness as there is no authorisation process for journals prior to posting. We have adjusted our testing strategy accordingly. Our detailed audit testing has not identified any evidence of any inappropriate journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • undertaken analytical procedures to identify unrecorded liabilities. • tested operating expenses including obtaining supporting documentation for a sample of transactions in year.	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • undertaken analytical procedures to identify unrecorded liabilities. • reviewed a sample of creditors / accruals to confirm they had been appropriately accounted for. • reviewed subsequent year payments and sample checked for unrecorded liabilities.	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • reviewed a sample of employee remuneration expenses to confirm they have been appropriately accounted for. • reviewed employee remuneration liabilities to ensure they have been calculated in accordance with the Code (e.g. holiday pay).	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • reconciled the housing benefit and council tax benefit subsidy claim to the ledger and accounts. • substantially completed appropriate testing over HB transactions to support our audit opinion • tested a sample of benefit claims to ensure they were eligible, accounted for in the correct period and had been calculated correctly	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • reviewed the capitalisation policy and confirmed repairs and maintenance accounts had not been inappropriately capitalised. • compared actual capital spend with programmed spend to ensure that expected costs had been capitalised. • reviewed a sample of in year additions and disposals to confirm they had been appropriately accounted for.	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess whether those controls are designed effectively. • evaluated the qualifications and the work completed by the Valuer to ensure that the Code had been complied with. • confirmed that the asset values had been appropriately accounted for in the asset register and accounts.	Our audit work has not identified any significant issues in relation to the risk identified.

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The main sources of revenue for the Council are:- – government grants and contributions. – council tax income. – fees and charges.	We have reviewed the Council's recognition of revenue and found that: • appropriate policies had been used . • accounting policies had been adequately disclosed. • revenue had been appropriately recognised.	Green
Judgements and estimates	Key estimates and judgements include: – useful life of capital equipment. – pension fund valuations and settlements. – depreciation. – revaluations. – impairments. – provisions. – accruals.	We have reviewed the accounting areas where the Council has exercised judgement and used estimates. The Council had not included a provision within its financial statements for the future after-care costs of managing its closed landfill site. Whilst the Comprehensive Income and Expenditure Statement and Balance Sheet had not been amended, an additional disclosure note has been added to the financial statements setting out the estimated future costs of £6.6m Other than that, we found that:- • appropriate policies had been used . • accounting policies had been adequately disclosed. • areas where judgement had been used were supported by the work of an expert or a third party.	Amber
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	Green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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Accounting policies, estimates & judgements (continued)

Accounting area	Summary	Comments	Assessment
Joint Waste PFI Scheme	Plymouth City Council has entered into a joint waste PFI scheme with Devon County Council and Torbay Council, with Plymouth being the lead authority. The scheme will become operational in the next financial year (i.e. 2014/15) and the Council and its partners needs to establish: • the formal status of the entity (i.e. whether it is a Joint Committee or other arrangement); • the governance arrangements for the entity; and • the accounting treatment of the asset that is currently being constructed.	The Council's initial view was that a Joint Committee was formed to oversee the waste PFI scheme, although it has yet to reach an agreement on this with its partners. This issue needs to be resolved promptly. The Council has also agreed to work with Torbay Council and Devon County Council to clarify the governance arrangements and the accounting treatment of the asset being constructed. The Councils anticipate the need to engage external independent financial advisors to support them in resolving the accounting treatment and this needs to be agreed between the partners at the earliest opportunity.	Amber
Governance Arrangements for the Tamar Bridge and Torpoint Ferry Joint Operation	The financial statements for the Tamar Bridge and Torpoint Ferry Joint Committee provide material figures for inclusion within the City Council's own financial statements.	In 2011/12, we recommend that both Cornwall Council and Plymouth City Council draft a memorandum of understanding that formalises the respective roles and responsibilities in relation to assets, liabilities, income and expenditure. This memorandum of understanding has yet to be finalised.	Amber

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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Adjusted misstatements

A small number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

Impact of adjusted misstatement

The one adjusted misstatement is set out below. There was no impact on the key statements or the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	An error within the Council's asset register meant that the deprecation on the assets of schools transferring to Trust status were incorrectly shown in note 10.1. It was included as 'derecognition - disposals' rather than 'derecognition - other '. There was no overall effect on the total depreciation or the total values of the Council's assets.		£1,153	
	Overall impact	**None**	**No net effect**	**None**

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Misclassifications & disclosure changes

The table below provides details of the disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	£6,600	Provisions	The Council has included a note setting out the estimated future after-care costs of managing its closed landfill site
2	Disclosure	N/A	Post Balance Sheet Events	The Council has included a note outlining the proposed disposal of the Civic Centre. This information was not available when the draft financial statements were produced.
3	Disclosure	£3,300 (a) £264 (b)	Joint Waste PFI Scheme	The Council has, in conjunction with its partners, included a disclosure note setting out (a) the costs incurred to date, (b) the costs incurred in 2012/13 and (c) the issues that still need to be resolved regarding the governance arrangements and the accounting treatment.
4	Disclosure	£9 and -£10	Audit Fees Disclosure (Note 26)	The External Audit Fees note was updated to reflect the additional work undertaken in respect of the Plymouth City Airport transactions (disclosure increased from £8,000 to £17,000) and a reduction of £10,000 in the anticipated certification fees for the year.
5	Disclosure	N/A	Remuneration Report (Note 25)	Although the figures were originally correct, we asked for the layout of the note to be changed in order to make the note more understandable.

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Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	The Council has not included a provision within its financial statements for the future after-care costs of managing its closed landfill site. However, a disclosure note has been added to the financial statements setting out the estimated future costs.	None	£6,600	The final guidance in relation to the requirement for this provision and associated accounting treatment / entries was not available at the time the draft accounts were published in June, and so no provision was made at this time. However, Officers had been aware for some time that the publication of the guidance was imminent and had therefore anticipated that this would be an issue for consideration for the 2013/14 accounts. Since the guidance was received in mid-July, work has progressed with regards to identifying a reasonable estimate of the provision required. At this stage, after considering the likely value and nature of the provision in terms of its impact on the financial statements, it is proposed that the necessary accounting adjustments be implemented during 2013/14, rather than within the 2012/13 accounts. It is Officer's opinion that the omission of this provision for the 2012/13 accounts will not have a detrimental impact on the reader's understanding or interpretation of the Council's financial position.

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Unadjusted misstatements continued

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
2	As in previous years, the Council has deviated from the guidance provided by CIPFA in a LAAP bulletin regarding the accounting treatment for investments held with Icelandic banks. The Council has made a full disclosure of its approach and the amounts received in the year. If the Council were to follow CIPFA's guidance there would be a reversal of the loss of £3.242m in investment income accounted for in the financial statements. As the Council has not followed the guidance set out in the LAAP bulletin, we have raised this as an unadjusted misstatement for those charged with governance to consider.	£3,242	£3,242	The Council has been consistent and used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery. Impairments have been made in line with actual receipts rather than those anticipated. Officers will continue to monitor the recovery during 2013/14 and make appropriate judgements in terms of the accounting entries accordingly.
	Overall impact	**£3,242**	**-£3,358**	

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Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	Amber	In our audit plan we reported that journals were not authorised prior to being posted on the Council's main accounting system.	We recommended that appropriate arrangements to review and authorise journals within set parameters were introduced. This recommendation was agreed by the Council. The Council is looking to update its main accounting system (Civica) which should improve the internal controls in place over journal transactions. We will follow up this recommendation as part of our 2013/14 interim audit.
2.	Amber	Our review of IT processes identified that: • there were a large number of staff with 'administrator access' (i.e. full access) to the Council's financial systems. There is a risk that inappropriate transactions are processed. • improvements could also be made to the way in which users are added to and removed from the system. There is a risk that staff are given inappropriate access or retain the ability to process transactions. • reviews of user accounts are not undertaken and audit logs are not populated. Review processes are weakened by the absence of an effective audit trail.	• The Council should review which staff have administrator access to its financial systems. • Improvements should be made to the way in which users are added to the financial systems to ensure that their access levels are appropriate; • Improvements should be made to the way users are removed from the system to ensure that access is stopped at an appropriate time. • Reviews of user accounts should be undertaken and audit logs should be populated.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures, including through discussions with Senior Officers and your Internal Auditors. The Council has provided us with written responses on its arrangements in accordance with the requirements of the auditing standards (ISA240) .
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council. • In particular, representations will be requested from management in respect of not amending the financial statements for the two items identified earlier in this report.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed. in Note 28 of the Council's financial statements.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall, our work highlighted that the Council has adequate arrangements in place to secure financial resilience. The Council is in the progress of updating its medium term financial strategy and, once complete, will mean that it is planning over a five year horizon.

The Council reported a deficit of approximately £500k in 2012/13, although this masks significant overspends in some areas, particularly within Adult Social Care. There is a need to challenge future savings plans and to ensure that progress against these is closely monitored.

We have produced a separate financial resilience report which sets out our findings and recommendations in more detail. This will be presented to the Council's Audit Committee in September 2013.

Challenging economy, efficiency and effectiveness

We have concluded that the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. In reaching this conclusion, we reviewed the Council's corporate plan and its proposals for accommodation, ICT and business rates.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Financial resilience, including budgetary control within Adult Social Care	We reviewed the Council's arrangements for • financial planning over the medium term . • budget setting and day-to-day budgetary control .	We have issued a separate financial resilience report setting out our detailed findings. We have made a number of recommendations to help enhance the arrangements in place. No significant weaknesses were identified and we plan to issue an unqualified VFM Conclusion for 2012/13.
Proposed new ICT arrangements	We have spoken to Officers and obtained an overview of the proposals from the business case.	The proposed partnership is not planned to go live until 2014/15 at the earliest. Discussions are on-going about the proposals and which partners will be involved in the project. No decision as been made regarding Plymouth City Council's participation. Consequently, there are no implications for our 2012-13 VFM Conclusion.

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Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	181,428	181,428
Grant certification	23,900	TBC
Total audit fees	**205,328**	**TBC**

Our grant certification work will be completed by 30 November 2013. We will share any significant findings with the Audit Committee and will confirm our final fee for the year once this work has been completed.

Fees for other services

Service	Fees £
Plymouth City Airport Due Diligence Review	£16,900

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

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Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 (page 15)	The Council and its partners need to establish: • the legal status of the waste partnership arrangements (i.e. whether it is a Joint Committee or other arrangement); • the governance arrangements for the entity; and • the accounting treatment of the asset that is currently being constructed.	High	The Governance of the Partnership is through the South West Devon Waste Partnership Committee and Plymouth's Finance staff are currently assessing the appropriate financial reporting arrangements of the partnership contract costs within each authority and the committee. This assessment will be completed by April 2014.	April 2014 Strategic Finance Manager
2 (page 19)	• The Council should review which staff have administrator access to its financial systems. • Improvements should be made to the way in which users are added to and removed from the Council's financial systems • Reviews of user accounts should be undertaken • Audit logs should be populated.	High	The new IT support team are undertaking a review as part of their new remit of all systems. Finance are also in discussions with the financial systems provider regarding enhancements that may be available to the management of system user access and audit logs.	December 2013 Strategic Finance Manager/IT System Support Team Manager

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Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PLYMOUTH CITY COUNCIL

Opinion on the financial statements

We have audited the financial statements of Plymouth City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Plymouth City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Plymouth City Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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Matters on which we report by exception

We report to you if:
- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Plymouth City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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Certificate

We certify that we have completed the audit of the financial statements of Plymouth City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Barrie Morris
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street,
Bristol
BS1 6FT

24 September 2013

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Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	**None**
Precepts and Levies	Council Tax	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income9	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	LAAP guidance not followed re Icelandic Banks
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash and cash Equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	Landfill provision not included
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

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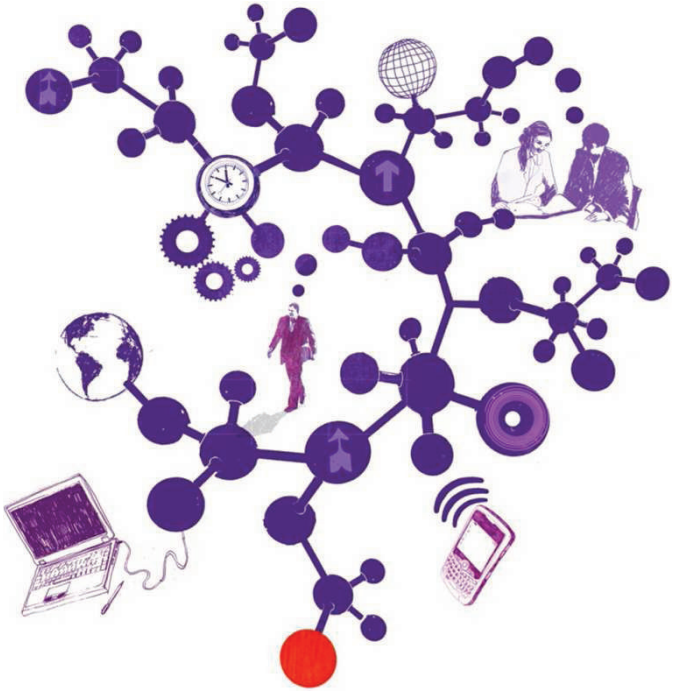
Audit Committee Update for Plymouth City Council

year ended 31 March 2013

10 September 2013



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 10 September 2013

Work	Planned date	Complete?	Comments
2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.	To officers – March 2013 – presented at Audit Committee on 13 June 2013.	Yes	Presented at the June Audit Committee.
Interim accounts audit Our interim fieldwork visit included: • updating our review of the Council's control environment. • updating our understanding of financial systems. • review of Internal Audit reports on core financial systems. • testing of controls. • early work on emerging accounting issues. • early substantive testing; and • proposed Value for Money conclusion work.	February – April 2013.	Yes	Results of the interim work were included in the Audit Plan presented at the June Audit Committee.
2012-13 final accounts audit Including: • audit of the 2012-13 financial statements. • proposed opinion on the Council's accounts. • proposed Value for Money conclusion.	July – September 2013	Yes	The results of our opinion work and the work performed as part of the Value for Money conclusion are detailed in the Audit Findings Report and will be presented as a separate item on the agenda. A separate report reviewing the financial resilience of the Council will also be presented.

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Progress at 10 September 2013 (continued)

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VfM conclusion comprises: • a detailed review of financial resilience. • an overview of management arrangements for Adult Social Care; and • a follow up of recommendations made last year	June – September 2013	Yes	The results of our work and detailed in the Audit Findings Report presented as a separate agenda item.
Other areas of work **Grant Certification Work** **NNDR** **Teachers Pension Return** **Housing Benefit Subsidy Claim**	July – November	In progress	**NNDR** – the NNDR return has been audited and is due for completion by 25 September 2013. **Teachers Pension Return-** The audit of the Teachers Pension return is in progress and is due for completion by 25 November 2013. **Housing Benefit Subsidy Claim** - The audit of the Housing Benefit return is underway and is due to be completed by 25 November 2013.

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Emerging issues and developments

Local government guidance

Social care for older people

In July, the Audit Commission released *Social care for older people: Using data from the VFM Profiles*. This briefing has been drawn from the Commission's Value for Money (VFM) Profiles and show councils spend on different services and how their costs and performance compare with other similar organisations.

The Council should consider:

- Has your Head of Finance and Director of Social Services reviewed the costs and performance of your authority against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Council tax collection – data from the value for money profiles

The Audit Commission has released a briefing on *Council Tax Collection* which uses the data held in the VfM profiles tool. The VfM profiles can be used to consider:

- how the cost and rate of collection compares to different comparator groups
- how changes over time compare to the overall trends described in the briefing
- how council tax collection may be affected by local arrangements in the council tax reduction scheme.

The Council should consider:

- Has your Head of Finance reviewed the costs and performance of your authority against similar organisations?
- Where issues have been identified, has an action plan been implemented?

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Emerging issues and developments (continued)

Local government guidance

Local Government Pension Scheme

The Department for Communities and Local Government has launched a *Call for evidence on the future structure of the Local Government Pension Scheme*. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closes on 27 September 2013.

The Council should consider:
- Has the Head of Finance reviewed the consultation and assessed the potential impact?
- Is your authority intending to respond to the consultation?

Local government claims and returns 2011/12

In June, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:
- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

The Council should consider:
- What procedures does your Head of Finance have in place to ensure that grant schemes terms and conditions are complied with?

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Emerging issues and developments (continued)

Local government guidance

Confidentiality clauses and special severance payments

In June, the National Audit Office published 'Confidentiality clauses and special severance payments'.

The report concludes that 'there is a lack of transparency, consistency and accountability in how the public sector uses compromise agreements, and little is being done to change this situation. This is unacceptable for three reasons: the imbalance of power between the employer and employee leaves the system open to abuse; poor performance or working practices can be hidden from view, meaning lessons are not learned; and significant sums of public money are at stake.'

The Council should consider:

- Have you considered how confidentiality and special severance payments are used in your authority?
- Have you identified issues and planned actions to improve HR procedures?

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Emerging issues and developments (continued)

Grant Thornton

'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

The Council should consider:

- Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?

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Emerging issues and developments (continued)

Grant Thornton

Spending Round 2013

It was announced in the June spending round that the local government resource budget will be reduced by 10 percent in 2015/16.

As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on informationdaily.com, the Chancellor 'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this.'

'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'

The Council should consider:

- Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken?
- How is your authority planning to work with other organisations in the public sector?

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Emerging issues and developments (continued)

Accounting and audit issues

2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013/14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*
- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements.

Both consultations close on Friday 11 October 2013.

The Council should consider:

- Has your Head of Finance reviewed the proposed amendments and assessed the potential impact?
- Has your authority considered whether it wishes to respond to the consultation?

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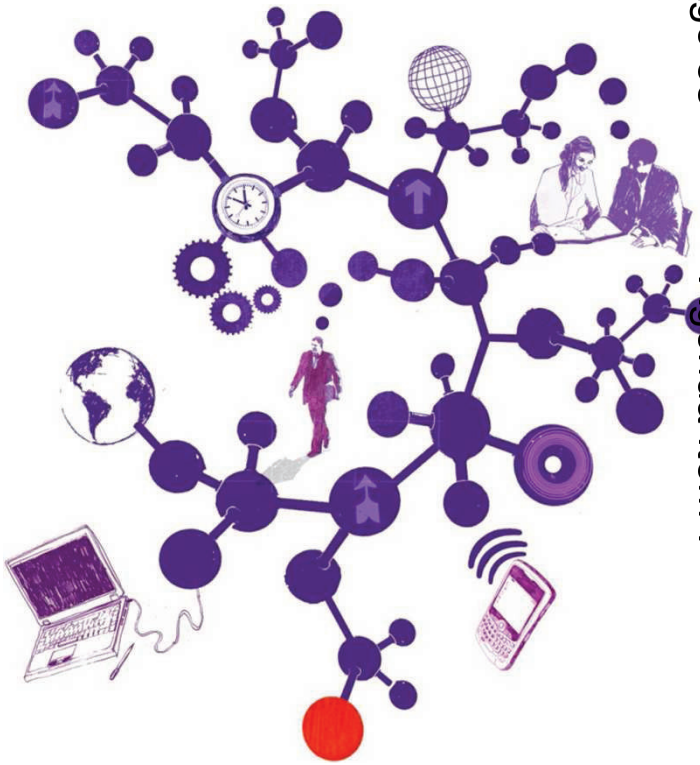
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Review of the Council's Arrangements for Securing Financial Resilience: Plymouth City Council

Year ended 31 March 2013

13 September 2013



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1 Executive Summary
2 Key Indicators
3 Strategic Financial Planning
4 Financial Governance
5 Financial Control

Appendix - Key indicators of financial performance

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

Our overall conclusion is that Plymouth City Council has adequate arrangements in place to secure financial resilience in the short term and we are therefore proposing to issue an unqualified VFM Conclusion for 2012/13. Over the longer term, uncertainties in the public finances will continue to affect the Council.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

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Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

Plymouth City Council has been a Unitary Authority since 1998 serving a population of over 250,000. The Council has an overarching vision to be one of Europe's "finest, most vibrant waterfront cities where an outstanding quality of life can be enjoyed by everyone".

Underpinning this ambitious vision is the Council's corporate plan, '*the brilliant cooperative Council*', which sets out its core values and its four objectives to create a 'fairer Plymouth':

- **Pioneering** – designing and delivering better services in spite of reducing resources;
- **Growing** – creating opportunities for better learning and greater investment;
- **Caring** – putting citizens at the heart of decision making and reducing health and social inequality; and
- **Confident** – growing the City's reputation nationally and internationally.

The Council had a net budget of £204m in 2012/13, a reduction of £3.5m on the previous year, although the fall is more significant in real terms, once the effect of inflation is taken into account.

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Council achieved the planned outturn against budget for the last four years to within its own accepted tolerance of 1% of the net expenditure. However, as shown on page 39, the budgets in the last three years were all overspent. The overspend in 2012/13 of approximately £500,000 masks some large overspends, particularly within Adult Social Care, which were compensated for by savings elsewhere. The Council's General Fund reserves are within its own target of 5% of net expenditure, although these balances have reduced by 8% since 2009. The Council's liquidity is below the recommended optimal level, although the position has stabilised in 2012/13. The collection rates for both Council Tax and Non Domestic rates both increased slightly but remain below the Council's own targets and the national averages for 'all Councils' and 'all unitary Councils'. Levels of sickness absence are on a downward trend, but are still higher than the averages for comparable organisations in the public sector.	Amber
Strategic Financial Planning	The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012. This strategy used 2012/13 as the base year and projected ahead to 2015/16. The Council is now updating its medium term financial strategy using the 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan (i.e. to 2016/17). This will be supplemented with figures for the following two years, meaning that the medium term financial strategy, once produced, will be over a five year horizon.	Green

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	There is a good level of involvement from Senior Officers and Members in setting the Council's budget and supporting savings plans. There is a thorough scrutiny process in place which involves Members, partners and other stakeholders. There is clear financial reporting throughout the Council on its revenue and capital budgets and its savings plans. However, the finance reports to the Cabinet do not include the wider elements of financial management such as Council's cash flow position, key financial ratios or balance sheet position. The delivery against the savings plans should be reviewed in order to assess the reasonableness of the original plans and the actions taken to implement these. There is scope to improve the clarity of the Council's performance reporting and to align the performance reporting and financial reporting more closely.	Green
Financial Control	As noted above, the Council has a good process for setting its budget and it has a track record of delivering its budget to within the tolerance of 1% of expenditure. There were however, some large overspends in 2012/13 which were compensated for by savings elsewhere. The internal controls within the Council's key financial systems are considered to be adequate and we are working with your Internal Auditors to establish a more effective method of reporting to the Audit Committee. The Council has entered into a waste PFI contract with Devon County Council and Torbay Council and needs to clarify the accounting and governance arrangements as a matter of urgency, as the scheme becomes operational in the next financial year. Specific recommendations in this area have also been included in our Audit Findings Report following our audit of the draft financial statements for 2012/13.	Green

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Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	Review the collection procedures for Council Tax and non domestic rates with a view to increasing the collection rates to the national average.	Strategic Manager – Revenues & Benefits	Immediate Effect	We will continue to enhance our methods of collection, accepting the changing economic factors that impact.
	The Council should continue to actively monitor sickness absence to identify the causes of the comparatively high levels, implement appropriate strategies to address these and ensure potential risks in relation to service delivery are effectively managed.	CMT	Implemented and on-going	We have set individual departments targets with thresholds. Monthly management reviews and reports are reported to Cabinet members for scrutiny. In addition, for departments where thresholds are breached, we hold absence review panels with the relevant ADs and Manager.
Strategic Financial Planning	Finalise the medium term financial strategy, covering the three years to 2016/17 and the indicative figures for 2017/18 and 2018/19, in time to inform the 2014/15 budget setting process.	Assistant Director – FETA	On-going	Detailed plans are in place to achieve publication to Scrutiny in January 2014 and Council in February 014. Council meeting on 16th September 2013 seeks approval for the Strategy for Cooperative Council 3-year sustainable plan.
Financial Governance	Consult with Members on the type and volume of financial information they would find helpful.	Assistant Director – FETA	On-going	We continue to work with the members to enhance the reporting framework and information supplied in line with their expectations.
	Seek to clarify the Council's performance reporting and align the performance reporting and financial reporting more closely.	Assistant Director – FETA & Head of PPP	On-going	Management are working on a strategy to align these two important strands.

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Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Control	Review the delivery against the original savings plans in order to assess the reasonableness of these plans and the actions taken to implement them.	CMT	On-going	We will continue to monitor on a monthly basis at both DMT and CMT meetings and discuss progress with Cabinet Members. For 2014/15 and beyond we are moving away from Delivery Plans to broader Council-wide solutions.
	Clarify the accounting and governance arrangements for the PFI scheme with Torbay Council and Devon County Council.	Strategic Finance Manager	April 2014	Management agree the need for clarity whilst noting that the current arrangements have no impact on our revenue budget or Council Tax setting.

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Appendix - Key indicators of financial performance

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Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to Dedicated Schools Grant (DSG) allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's "nearest neighbours" benchmarking group which is made up of the following authorities:

- Sunderland City Council
- Calderdale Metropolitan BC
- North East Lincolnshire Council
- Wirral Metropolitan BC
- Bristol City Council
- Coventry City Council
- Sefton Council
- Derby City Council
- Redcar and Cleveland Borough Council
- Plymouth City Council
- Southampton City Council
- Gateshead Metropolitan Borough Council
- Darlington Borough Council
- Blackpool Council
- North Tyneside Council
- Dudley Metropolitan BC

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	The liquidity ratio analysis suggests that the working capital balance is well below the average considered to be acceptable. In 2011/12 we reported a worsening position and it is pleasing to note that the Council's position has stabilised. The Council has satisfactory arrangements in place for budgetary control and treasury management and has not encountered any cash flow problems in the year. However, there remains a need to keep this under close review and reporting to Members on key financial ratios may be helpful. The collection rates for Council Tax and Non Domestic Rates both increased slightly in the year to 96.5% and 96.7% respectively, continuing the increasing trend over the last 3 years. However, they fell short of the target rates in the Council's medium term financial strategy. Whilst this improvement is welcome, the Council's performance is below both the national averages for all councils and all unitary councils:	Amber
Borrowing	The Council is considered to be reasonably well placed as far as borrowing is concerned. Overall borrowing increased in 2012/13 by £19.8m, almost all of which was short term borrowing. However, as borrowing costs are fixed and the Council's budget is falling, an increasing proportion of its expenditure will be spent on servicing debt. This reduces the amount of flexibility that is available to the Council when it is looking to identify savings. The Council's Annual Report on treasury management activities for 2012/13, presented to the Audit Committee in June 2013, stated that none of the Council's prudential borrowing indicators were breached in the year.	Green

	Plymouth City Council (Actual)	Plymouth City Council (Target)	All Councils	All Unitaries
Council Tax	96.5%	97%	97.4%	97.5%
Non Domestic Rates	96.7%	98%	97.7%	97.4%

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	Plymouth's sickness absence levels have fluctuated over the past four years, although the overall trend is a downwards one. However, the figure for the Council is higher than the average for other Local Government organisations and is above the Council's own target. The Council therefore needs to focus its efforts on identifying the causes of the comparatively high levels of sickness absence and identify what actions it can take to address these, thereby reducing the current levels of sickness absence even further. Further information on sickness absence is included with the appendix to this report.	Amber
Performance Against Budgets: revenue & capital	The Council achieved the planned outturn against budget for 2009/10, 2010/11 and 2011/12 to within its own accepted tolerance of 1% of the net expenditure, although the budgets in both 2010/11 and 2011/12 were overspent. Looking at 2012/13, the financial statements show an overspend of £504k. This is approximately 0.25% of the net expenditure and thus also meets the above accepted tolerance. However, the modest overall overspend does mask some variances within the Council. The £504k overspend is made up of underspends in the executive office (£138k), corporate items (£2,931k) and corporate services (£294k) with overspends in the 'people' directorate of £3,182k and the 'places' directorate of £685k. The main overspend was Joint Commissioning and Adult Social Care, with a final outturn position of a £4.6m overspend. We would acknowledge that the Council identified the overspend in individual directorates early in the year and took effective action to manage this across the Council as a whole. The Council's arrangements for budgetary control are adequate but there needs to be continued robust scrutiny of the original budget and prompt remedial action where variances emerge. Savings plans will also need to be robust in their design and closely monitored. This is particularly the case for "invest to save" schemes, where up-front costs are incurred in the expectation of future savings. The Council underspent against its capital budget by around 11%, spending £46.5m compared to the budget of £53m.	Amber

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	Between 2009 and 2013 Plymouth City Council reduced the value of its General Fund balance from £11.7m to £10.8m, largely as a result of budget overspends. Almost 50% of the overall fall occurred in 2012/13, when the Council exceeded its budget by £504k. However, this was after delivering a significant savings plan for the year. The Council's General Fund balance is still within its target of 5% of net expenditure although, as the budget falls year-on-year, the target balance also falls. This means that it is possible for the General Fund balance to be gradually eroded, whilst keeping it within the Council's 5% target. As noted above, the Council's tolerance regarding any overspend is 1% of net expenditure. This tolerance equates to over £2m per year at the current level of spending and the General Fund reserves would only be sufficient to cover this level of overspend for 4 years. We therefore consider that the Council needs to continue to closely monitors its Reserves position to ensure that the current approach remains appropriate.	Green
Schools Balances	The Council's expenditure on schools is primarily funded by the Department of Education via the Dedicated Schools Grant (DSG). The ratio of the schools balances held by the Council compared to the DSG had decreased over recent years. This was in line with the broad trend of the benchmark group although Plymouth's ratio had fallen more quickly than others. Its ratio of just under 5% for 2011/12 was the fourth lowest in the benchmark group. The ratio increased in 2012/13 by around 0.7% as a result of an increase in the schools balances and a decrease in the DSG received by the Council.	Green

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Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

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Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	Assessment
Focus of the MTFS	The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012. This was reviewed as part of our audit for the year ended 31 March 2012 and was covered in our financial resilience report dated November 2012. The current medium term financial strategy uses 2012/13 as the base year and projects ahead three years after this, to 2015/16. Annual budgets, at Directorate and Service level, sit below the MTFS and set out detailed spending plans and funding arrangements. Delivery plans sit alongside the annual budgets and must be achieved in order for the budget to be met. The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation. The MTFS is aligned to the Council's Corporate Plan, although the MTFS states that the Council could improve its approach to aligning revenue and capital spend to areas of highest and most strategic importance for its local communities and the people of Plymouth. The Council's capital programme is linked to the delivery of the savings and budget plans with clear profiles of how capital expenditure will be funded. The Council acknowledges that there is scope for the capital programme to be more strategic and less reactive. The Council is currently updating its medium term financial strategy using 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan (i.e. to 2016/17). This will be supplemented with figures for the following two years, meaning that the medium term financial strategy, once produced, will be over a five year horizon.	Green

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Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	We reviewed the June 2012 medium term financial strategy as part of 2011/12 audit and noted: • The Council had undertaken sensitivity analysis looking at factors that may impact spending such as pay, superannuation, inflation and Social Care Commissioning. • The plan assumed a Council Tax freeze in 2011/12 and 2012/13 which enabled the Council to claim the Council Tax Freeze Grant. The forecasted funding shortfall rose from £6.4m in 2012/13 to £9.1m in 2014/15 The Council had identified that, in total, by 2015 £30m of savings will be required to fund the budget gap. There was national uncertainty regarding Central Government support and Plymouth has worked with the information that they had, focusing upon the need to identify further savings across services where corporate priorities allow. As noted above, the Council's medium term financial strategy is in the process of being updated, using the 2013/14 as the base year. This means that the medium term financial strategy, once produced, will be over a five year horizon.	● Green

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Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	As noted above, the Council's medium term financial strategy is in the process of being updated. We reviewed the June 2012 medium term financial strategy as part of 2011/12 audit and noted: • Detailed savings plans had been identified for 2012/13 and 2013/14. These concentrated on the need for strategic partnerships and reduced back office costs whilst supporting frontline priority services. This remains the ambition of the Council. • Revenue delivery plans had been devised with the ultimate responsibility lying with departmental Directors. This is still the case, with an overview being provided by the Corporate Management Team (CMT). Reports continue to go to Cabinet highlighting detailed performance against departmental budgets and savings plans.	Green

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Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012. The expectation is that the MTFS will be revised and updated on an annual basis before being approved by the Cabinet. The Council is currently updating its strategy using 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan. This will be supplemented with figures for the following two years, meaning the Council is planning over a five year horizon.	Amber
Responsiveness of the Plan	As noted above, the MTFS is in the process of being updated, with the expectation that the revised strategy will span a five year period. Some Councils plan over a longer horizon, although this is at a very high level and reflects anticipated demographic changes and key strategic objectives.	Green

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Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment

Understanding the Financial Environment	The Strategic Directors fully understand the financial environment in which they operate. All the Directorates have weekly management meetings and regularly discuss key financial and performance issues as required. Performance against the budget is reviewed monthly with all budget holders receiving monthly budget reports.
	The Audit Committee receive updates on the risk management strategy and the risk registers on a regular basis.
	Members are involved in the budget setting process and there is a good budget scrutiny process in place which involves Members, representatives from key partnerships and other stakeholders.
	Training is provided to members and finance staff on an on-going basis.
	Joint finance and performance reports are presented to Cabinet on a quarterly basis. There is scope to improve these reports to:
	• clearly identify the links between financial outturn and the achievement of the Council's objectives and priorities; and
	• ensure the Council's actual performance is being measured in a timely way. Some reports had missing information or ambiguous / unclear performance indicators. Examples include:
	  • *"To decrease the rate of teenage pregnancy in the most deprived fifth (eight) of neighbourhoods by 9.7% by 2020" - the reported performance is 80.3%.*
	  • *"Reduction in City-wide carbon emission. (Per Capita Co2 emission Local Authority area (kilo tonnes) – the reported performance is 1,315 (2010) although there is no target or benchmarking information.*
	  • Others simply say awaiting data and there are examples where the report says 'N/A' for the first three years and 'awaiting data' for the fourth year.
	There is a corporate scorecard showing performance against departmental budgets and whether delivery plans are on schedule or not. Areas of overspend and failure to meet targets are covered through individual Director's reports and scrutinised at Cabinet.
	The finance summary takes into account the current position and projected outturn that is monitored against the latest approved budget. The summary includes a delivery plan update which includes a Red-Amber-Green rating to give an indication of progress.
		Green

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement	The 2013/14 budget was subject to scrutiny from the Overview and Scrutiny Management Board. This involved the chamber of commerce, other stakeholders and the Council's key partners: • Devon and Cornwall Police; • NEW Devon NHS Clinical Commissioning Group Western Locality; • Plymouth Community Healthcare CIC; • Plymouth Hospitals NHS Trust; and • Devon and Somerset Fire and Rescue Service Authority. The Council also launched a postal consultation on the 2013/14 budget, sending out over 8,000 questionnaires to members of the public. Each directorate's budget plans have been subject to a cross-directorate challenge at both CMT and SMT level. Also, for the first time, portfolio holders and directors were challenged by the portfolio holder for finance together with the Director for Corporate Services. As noted previously, there is good engagement of Senior Officers in the budget setting process.	Green
Overview for controls over key cost categories	There is clear financial reporting across the Council. The Council was aware of the high cost areas such as Adult Social Care in a timely manner and has assigned performance indicators and targets for these areas. Despite these measures, there were still some significant overspends in some areas of the Council in 2012/13. Were these not able to be largely offset by savings elsewhere, the outturn for 2012/13 would have been fundamentally different. Pressures in areas such as Adult Social Care are set to continue, as the population ages and care packages become more expensive. Robust challenges of the plans and close scrutiny of the financial performance, with prompt remedial action if required, will be essential to safeguard the Council's financial position.	Green

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	The Council's Internal Auditors reported on the main accounting system (including budgetary control) in 2012/13 and they concluded that the level of assurance was of a 'high standard' in respect of variations (i.e. overspends and underspends) not being identified and reported. This reflected our own assessment of the Council's budgetary control arrangements that we reported in our 2011/12 financial resilience report. A Performance and Finance Report is provided to the Cabinet on a quarterly basis. This covers both the Council's revenue and capital budgets and shows the Council's performance against a number of performance indicators. Earlier in this report we noted that there was scope to improve some aspects of the performance reporting. The report to Cabinet also covers the delivery of the Council's savings plans and performance against these is RAG rated (i.e. Red-Amber-Green) to ensure Members are aware of the progress that is being made.	Green
Adequacy of other Committee/ Cabinet Reporting	As noted above, the reports to Cabinet cover the Council's revenue and capital budgets and an assessment of the progress being made against its savings plans. These reports also cover the collection rates for the key income streams of Council Tax and non domestic rates. However, these finance reports do not cover areas such as the Council's balance sheet position (including the position regarding debtors and creditors), the Council's cash flow position, key financial ratios (such as liquidity) or other important measures such as staff turnover rates. Members should be consulted on the type and volume of information they would find helpful.	Amber

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

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Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	The Council has good processes in place for budget setting, including appropriate involvement from Members and Senior Officers, effective scrutiny arrangements and good engagement with external stakeholders, including key partners and members of the public. On a day-to-day basis, all budgets have been allocated to named budget holders who have access to financial support from their designated finance officer. Monitoring of budgets on a monthly basis is carried out at Departmental and Directorate level, with the Cabinet being provided with information on a quarterly basis.	Green
Performance against Savings Plans	The budget setting process included the production of financial delivery plans for each of the Council's directorates, identifying where savings would be made . However, opportunities for achieving savings are constantly assessed and are taken wherever possible. This process involved Senior Officers from the Council who were able to identify where savings could be made that would either not have an impact or would improve performance within their own areas. However, given the scale of the likely savings that will need to be made by the Council over the lifetime of its emerging medium term financial strategy, it is almost inevitable that there will be an adverse impact on service delivery in some areas. Savings plans are regularly monitored and reported to Members, although there was no reporting of the outturn position for the year. The Council has a track record of delivery its budget to within the tolerance of 1% of expenditure, although there were some large overspends in 2012/13 which were compensated for by savings elsewhere which were not originally envisaged. Looking ahead, the Council needs to ensure that its savings plans are robust and regularly monitored, with outturn reports being scrutinised to assess the accuracy of the original plans.	Amber

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Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	The key financial systems in place at Plymouth City Council are generally considered to be sound. Internal Audit's Annual Report was presented to the Audit Committee in June 2013 and this did not identify any major concerns, although some areas, of which Housing Benefits was the only significant one, were assessed as 'Improvement Required'. Our interim audit work did not identify any significant control weaknesses within the Council's key financial systems.	Green
Finance Department Resourcing	Historically, staff turnover within the Council's finance function has been relatively low. We have not had any concerns regarding the competency of the finance team or its knowledge of the Council's financial systems and processes. The section 151 officer has recently left the authority with interim arrangements being put in place. In addition, the officer responsible for the production of the Council's financial statements is due to leave the Council in September 2013 and will be replaced by a person on a 12 month contract. This contract will expire before our 2013/14 audit has been completed. The Council will need to ensure that there is appropriate supervision during the production of its financial statements and that staff with sufficient knowledge are available to manage the audit process within the Council on a day-to-day basis.	Green

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Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements	During our interim audit we concluded that the Internal Audit provided an independent and satisfactory service to the Council. We are therefore able to take assurance from Internal Audit's work in contributing to an effective internal control environment at the Council. We had previously made recommendations regarding Internal Audit's plans and its communication with the Audit Committee. We reviewed the Internal Audit Plan for 2013/14 to assess whether these recommendations have been addressed. We reported in our interim report in June that whilst the audit plan did identify the quarters in which the work was planned to be undertaken, the audits were not clearly aligned to the risks that had been identified. Consequently, we reported that whilst some of the improvements have been implemented, improved transparency over the risk assessment supporting the programme of work has yet to be developed. We are currently working with Internal Audit to establish a more effective method of reporting to the Audit Committee.	Green
External audit arrangements	We have continued to maintain a constructive working relationship with Plymouth City Council and received co-operation and support during the conduct of our audit. However, unlike previous years, officers have been slow to respond to some significant accounting issues we have identified through our audit, including the accounting for future landfill costs and the energy from waste PFI arrangement it has entered into with Devon County Council and Torbay Council. This latter issue relates to a scheme that becomes operational in the next financial year (i.e. 2014/15) but the Council has yet to finalise the arrangements, with its partners, over the formal status of the entity (i.e. whether it is a Joint Committee or other arrangement); the governance arrangements for the entity; and the accounting treatment of the asset that is currently being constructed.	Amber

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Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/risk management	As part of the 2012/13 Internal Audit work, an evaluation of operational risk management arrangements operating within Council directorates was undertaken. Internal Audit reported their findings in October 2012 and they concluded that the overall risk management arrangements operating within Plymouth City Council Directorates were "Embedded and Integrated". In December 2012 the Council updated its risk management strategy – the *'risk and opportunity management strategy 2012-14'*. Risk management forms a part of the Council's competency framework and this will be used to assess the contribution and performance of relevant employees. The strategy sets out the requirement for the Council to operate two different types of risk and opportunity register – strategic and operational. The strategic register records medium to long term high level risks and the operational register records those risks affecting the day-to-day departmental operations. These operational risks should link to the service area's business plan – which in turn demonstrate the service's focus on the Council's priorities. The role of Cabinet members is to approve the strategy itself and to receive both monitoring reports on the strategic risk register and an annual risk management report. The Audit Committee will continue to receive reports on the compliance with the Council's risk management arrangements. The role of Officers – from the senior 'Champion' downwards – are clearly articulated in the Council's the risk and opportunity management strategy.	Green

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Key Indicators of Financial Performance

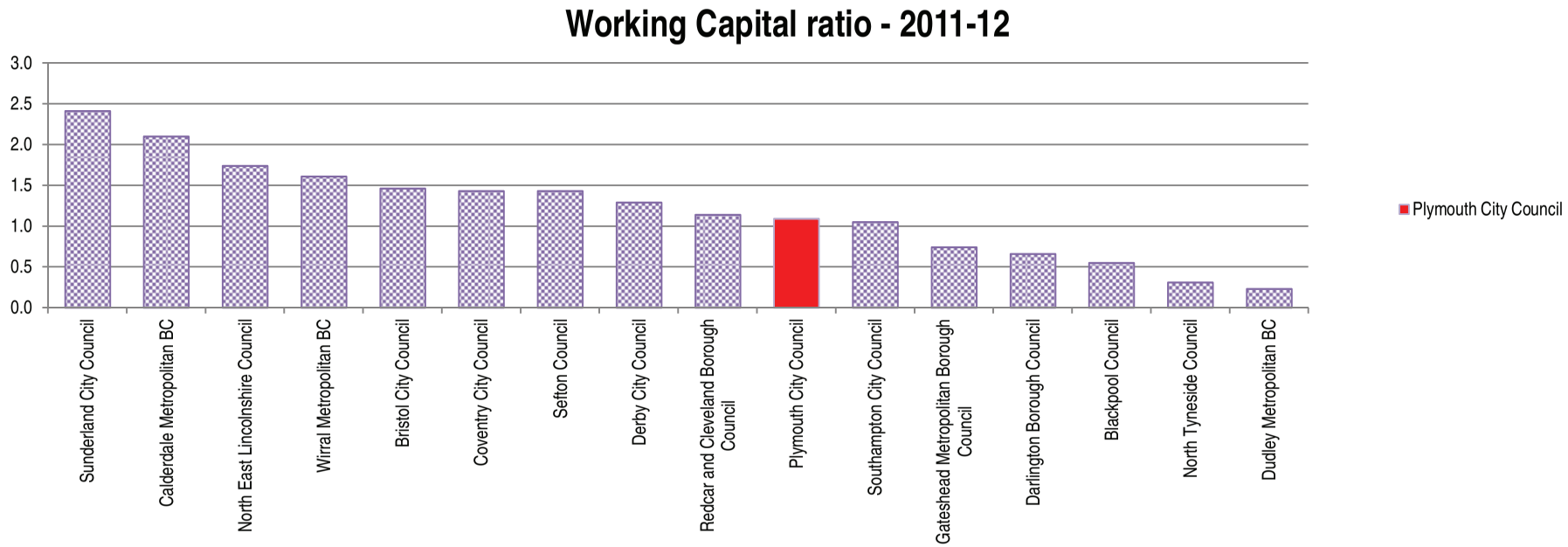
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

The working capital ratio has remained fairly static over the last five years, as illustrated in the chart on the following page. Although the ratio for Plymouth is a long way off the 'ideal' of 2:1, it has maintained a positive working capital ratio - unlike some other authorities in its benchmark group. Close monitoring has meant that the City Council has not encountered any cash flow problems. Working capital will come under increasing pressure in the future and will need to continue to be carefully monitored.



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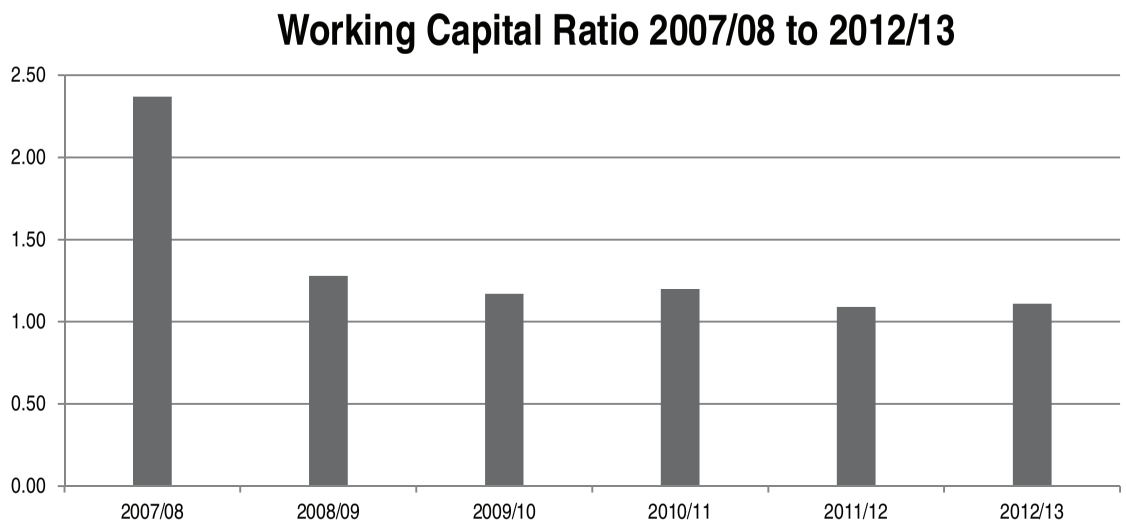
Key Indicators of Financial Performance

Working Capital Trend For Plymouth City Council



As can be seen, the Council's working capital ratio has remained fairly static over the last five years.

The Council has maintained a positive ratio (i.e. above one) for the entire period. The ratio at the end of 2012/13 was 1.11:1, although it is still a long way off the "ideal" ratio of 2:1.

Good budgetary control and treasury management arrangements have ensured that the Council has not encountered any cash flow problems, leaving it unable to pay its staff and creditors on time or meet other liabilities as they become due.

Continuing financial challenges across the entire public sector are likely to keep working capital under pressure and so the close monitoring will need to continue. Members may find it helpful to have some key financial ratios included in the financial reports provided to them.

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Useable Reserves - Benchmarked

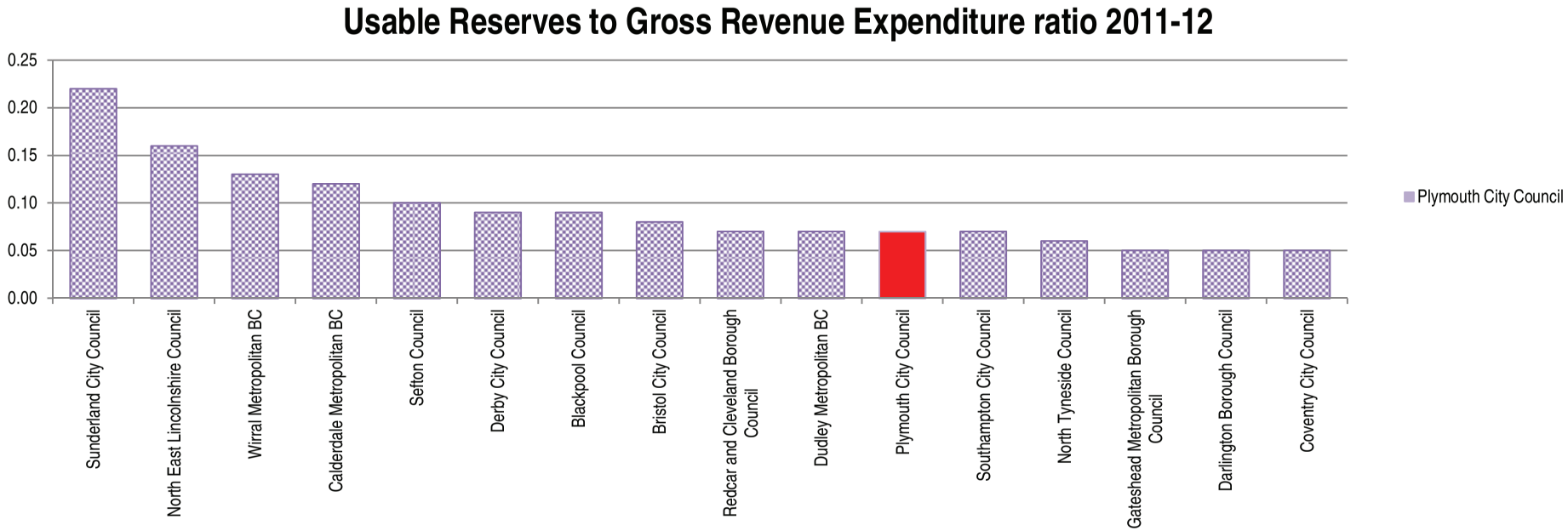
Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure, with a ratio of 0.1 meaning that the reserves were 10% of the Council's annual expenditure.

Findings

Between 2009 and 2013 Plymouth City Council has reduced the value of its General Fund balance from £11.7m to £10.8m, largely as a result of budget overspends. Almost 50% of the overall fall occurred in 2012/13.

The Council's General Fund balance is still within its target of 5% of net expenditure, although as the budget falls year-on-year, the target balance also falls. This means that it is possible for the General Fund balance to be gradually eroded, whilst keeping within the 5% target.



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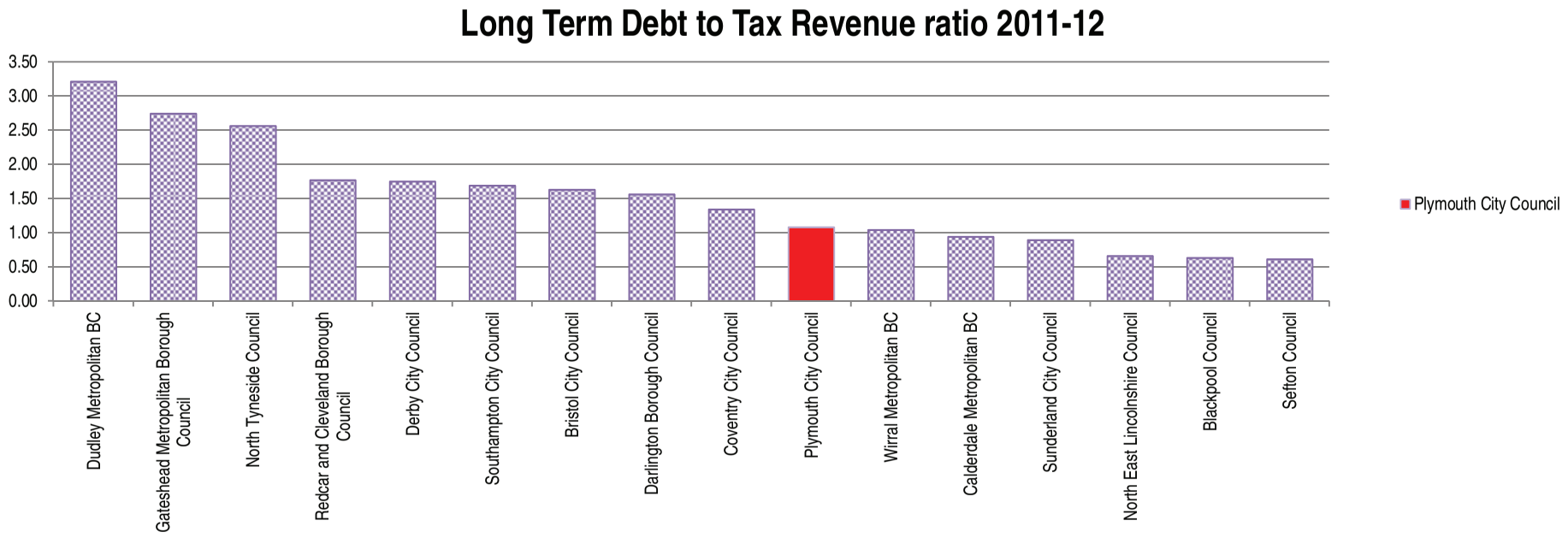
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Plymouth City Council's ratio of 1.08 in 2011/12 indicates that it had long term borrowing which was almost in line with its tax revenue. Although this was slightly above the "ideal ratio" of 1, Plymouth is relatively well placed compared with other the authorities in its benchmarking group. However, any plans for an increase in borrowing could increase the difference from the "ideal ratio" of 1.



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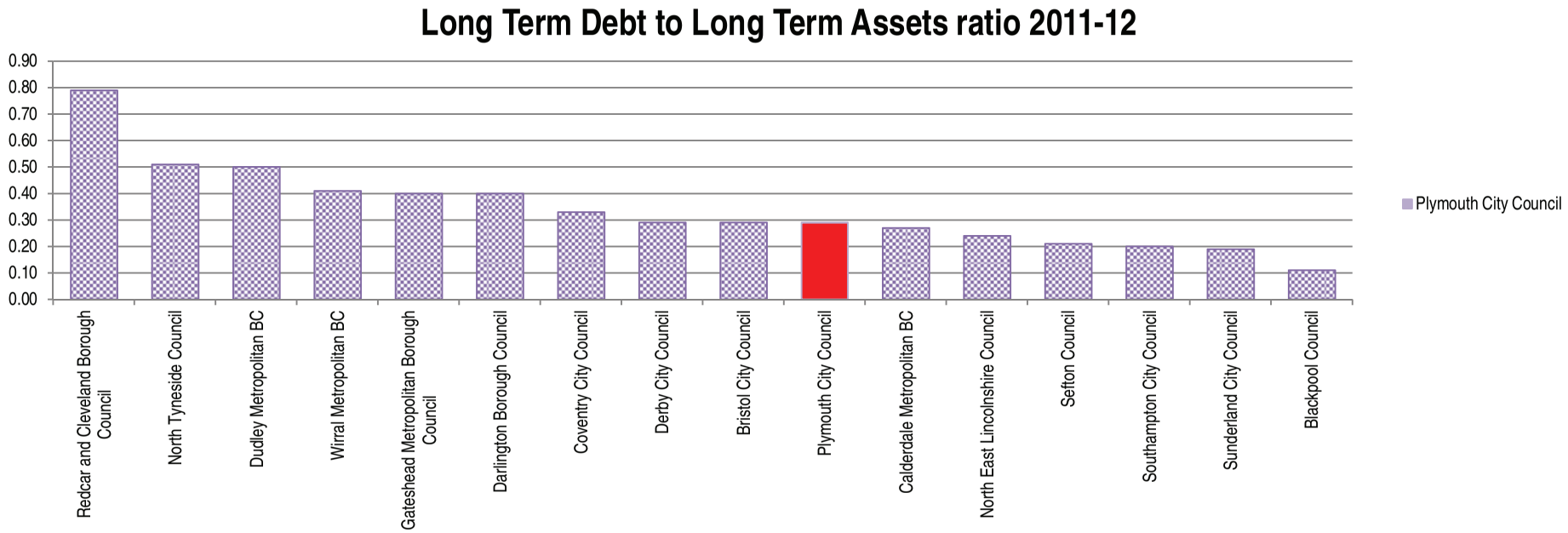
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

Plymouth's most recent bench-marked ratio (2011/12) of 0.29 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Plymouth has a lower than average long term borrowing to long term assets ratio. The ratio for Plymouth City Council for 2012/13 is almost unchanged at 0.31.



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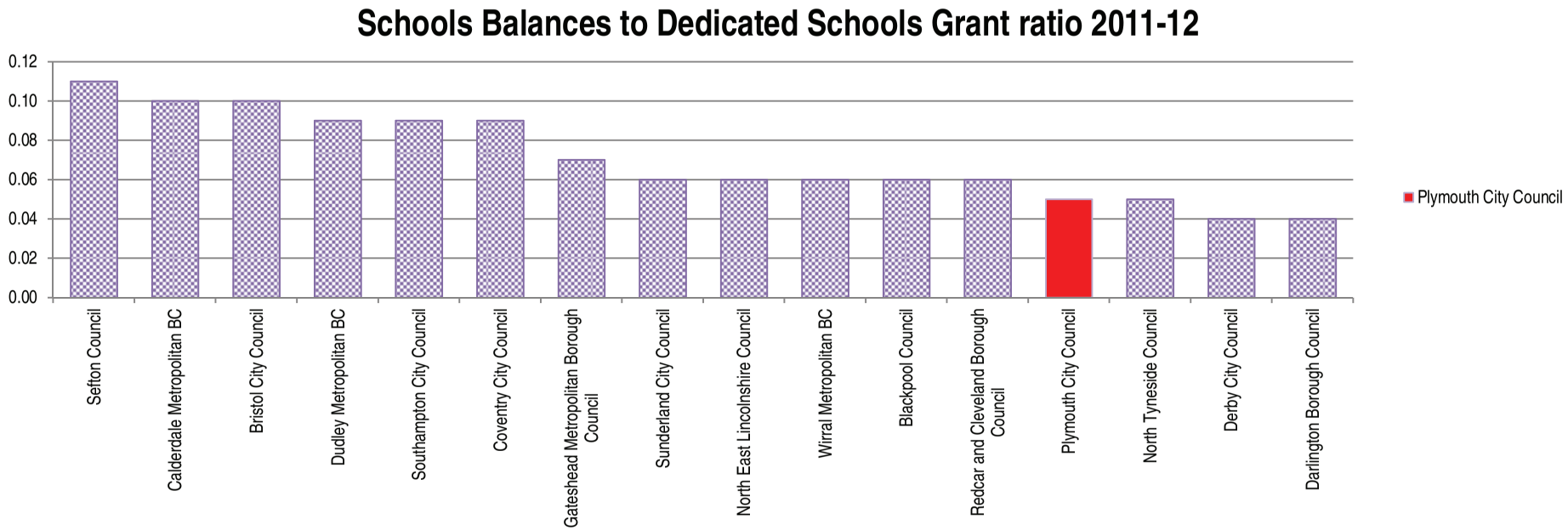
Schools balances to Dedicated Schools Grant (DSG) allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Plymouth's ratio has decreased over recent years and this is in line with the broad trend of the benchmark group. However, Plymouth's ratio has fallen more quickly than others and its ratio of just under 5% for 2011/12 was the fourth lowest in the benchmark group. The ratio increased in 2012/13 by around 0.7% as a result of an increase in the schools balances and a decrease in the DSG received by the Council.



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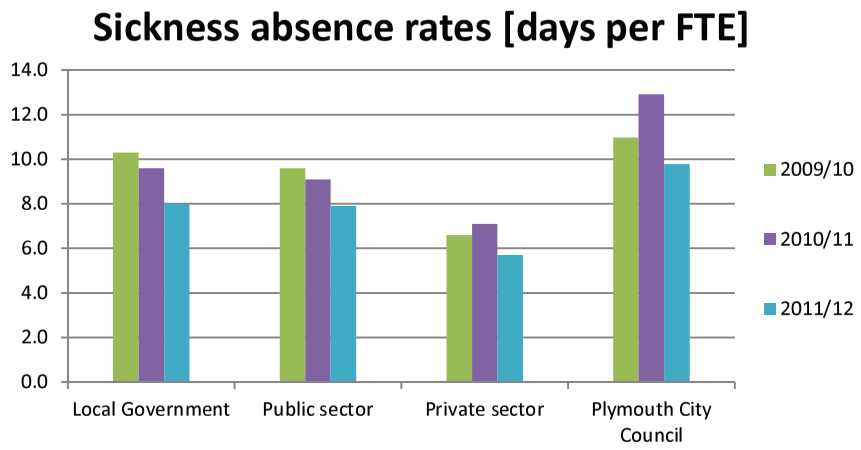
Sickness Absence Levels

Background

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average was 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher approach sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities given the context of significant pressures on staff to deliver "more for less".



Findings

Plymouth's sickness absence levels have fluctuated over the past four years, although the overall trend is a downwards one.

The adjacent chart shows the Council's performance against other Local Government bodies, the wider public sector and the private sector for the period 2009/10 to 2011/12. As can be seen, the sickness levels at Plymouth are higher than at these other types of body.

The chart on the following page also includes data for 2012/13. Although this year's performance reflects a slight improvement, it is still higher than other comparable organisations and the Council's own target of 8.49 days per FTE.
The Council needs to focus its efforts on reducing the current levels of sickness absence even further.

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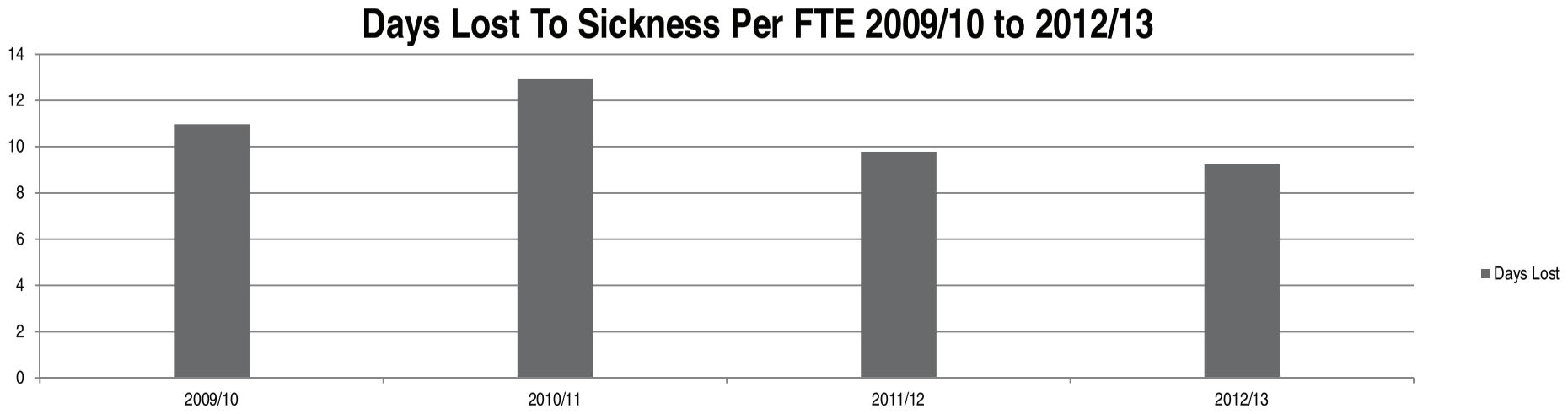
Sickness Absence Levels



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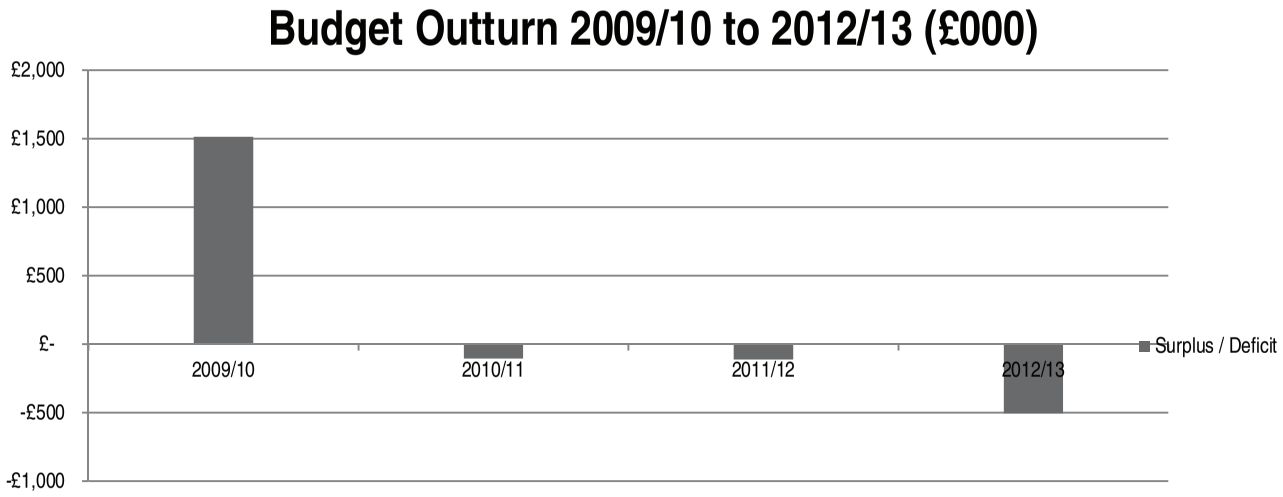
Performance Against Budget: Track Record



Plymouth City Council has a sound system of budgetary control.

However, in each of the past three financial years the Council's General Fund expenditure has exceeded its budget – albeit within the Council's tolerance of 1 % of net expenditure. As noted earlier, these overspends have reduced the Council's General Fund balance.

In future years, recurrent savings will be increasingly difficult to both identify and achieve and the Council must strive to keep its expenditure in line with its income.

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