OFFICIAL

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AUDIT AND GOVERNANCE COMMITTEE
Supplement Pack

Monday 30 November 2020
3.00 pm
Virtual Meeting

Members:
Councillor Parker-Delaz-Ajete, Chair
Councillor Nicholson, Vice Chair
Councillors Jordan, Pete Smith and Stevens.

Co-opted Representative: Mr Shipperley

Please find enclosed additional information for your consideration under agenda item numbers 6, 7, 9, 10, 11 and 12.

Tracey Lee
Chief Executive

Audit and Governance Committee

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	30 November 2020
Title of Report:	**Annual Governance Statement 2019/20**
Lead Member:	Councillor Peter Smith (Deputy Leader)
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Robert Sowden
Contact Email:	Robert.Sowden@plymouth.gov.uk
Your Reference:	AL/RS
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).

The purpose of the AGS is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify action being taken or planned to address any key weaknesses identified.

The Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.

This report outlines the process followed in order to produce the AGS for 2019/20 and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Service Director for Finance (S.151 Officer).

The report also provides an opinion on the effectiveness of the internal audit system for the same period.
The proposed Statement for 2019/20 is attached to the report.

Recommendations and Reasons

The Audit and Governance Committee is recommended to:

a) Note the processes adopted for the production of the 2019/20 Annual Governance Statement.
b) Endorse the adequacy and effectiveness of the system of internal audit.
c) Approve the Annual Governance Statement, alongside the Statement of Accounts, prior to signature by the Leader, Chief Executive and Service Director for Finance (S.151 Officer).

Alternative options considered and rejected

Not applicable.

Relevance to the Corporate Plan and/or the Plymouth Plan
Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

Implications for the Medium Term Financial Plan and Resource Implications:
None arising specifically from this report.

Carbon Footprint (Environmental) Implications:
None arising specifically from this report.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

The Risk and Opportunity Management Strategy specifically supports the processes which underpin the production of the Annual Governance Statement.

Appendices
**Add rows as required to box below*

Ref.	**Title of Appendix**	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Annual Governance Statement							

Background papers:
**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Directors Assurance Questionnaires							

Sign off:

Fin	djn.20.21.85	Leg	35679/AC/23/11/20	Mon Off	Click here to enter text.	HR	Click here to enter text.	Assets	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Assistant Chief Executive											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 25/08/2020											
Cabinet Member approval: *[electronic signature (or typed name and statement of 'approved by email/verbally')]Approved by Councillor Smith on* Date approved: 02/09/2020											

1.0 Introduction

1.1 This report outlines the background to the statutory requirement to produce an Annual Governance Statement (AGS) and describes the process followed in producing the AGS for 20198/20 for publication alongside the Annual Statement of Accounts.

2.0 The Council's Statutory Responsibility

2.1 Plymouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement.

2.2 There is also a requirement under regulation 5(1) that relevant authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

2.3 The purpose of the AGS process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, in order to give assurance as to their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.

2.4 The AGS is required to be approved at a committee of the Council and this sits most comfortably with Audit and Governance Committee, as its terms of reference include both internal control and risk management.

2.5 The proposed Annual Governance Statement for 2019/20 is attached to this report.

3.0 Scope of the AGS

3.1 The AGS spans the whole range of local authority activities and includes those controls designed to ensure:

- The authority's policies are put into practice
- The organisation's values are met
- Laws and regulations are complied with
- Required processes are adhered to
- Effective risk management processes are in place
- Financial statements and other published information are accurate and reliable
- Governance arrangements are in place for significant partnerships
- Human resources and other resources are managed efficiently and effectively

3.2 In establishing and defining the system of internal control the AGS provides a mechanism by which the authority can maintain, review and keep up to date its control environment. It links internal audit findings, external audit and inspection reports and the risk management process and provides an effective review of the Council's risk management and control mechanisms.

3.3 The Council's control environment is managed through a number of core processes and procedures which are defined within the body of the AGS.

3.4 The AGS has been compiled by carrying out an annual review of the control environment which has involved researching and formally recognising and recording the processes already in place across the Authority.

3.5 Recognising that preparation of the AGS is a wide-ranging and corporate issue, a Working Group of key officers was established to oversee the process. This Group comprised:

- Oversight and Governance Manager
- Acting Head of Legal Services
- Audit Manager, Devon Audit Partnership
- Head of Integrated Finance
- Head of Financial Planning & Reporting
- Senior Performance Advisor
- Policy and Intelligence Advisor
- Corporate Risk Advisor

3.6 The Working Group is responsible for producing the AGS which is then approved by the Corporate Management Team and the Deputy Leader of the Council prior to ratification by the Audit and Governance Committee.

3.7 Risk Champions from each department and members of the Performance and Risk Team were also involved in the process to support the corporate wide approach.

3.8 The Council's external auditors will consider the arrangements in place to enable preparation of the AGS, including the degree to which the Council recognises and can demonstrate corporate ownership of its governance arrangements.

4.0 The Assurance Gathering Process

4.1 Those with responsibility for signing the AGS need to feel confident that the information used to review the control environment is complete and accurate. The AGS is therefore required to be signed by the most senior member and the most senior officer (i.e. the Council Leader and the Chief Executive). It is also signed by the Service Director for Finance in his capacity as S.151 Officer.

4.2 Although the production of the AGS is required by the Accounts and Audit Regulations, the responsibility for securing effective internal control does not rest solely with Finance staff.

4.3 Preparation of the AGS has therefore involved a variety of people charged with delivering corporate governance:

- Directors, Heads of Service and managers assigned with the ownership of risk and the delivery of services
- The Chief Financial Officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts
- The Monitoring Officer in meeting her statutory responsibilities
- Elected Members (e.g. through Audit or Scrutiny Committees)
- Others responsible for providing assurance (e.g. Internal Audit and Risk Management)

4.4 The primary source of information which informs the content of the AGS comes from Assurance Questionnaires completed by Directors, Head of Service and other senior managers covering key questions around the internal control and governance framework.

4.5 When completing these questionnaires respondents are asked to review a number of sources where internal control/governance weaknesses may be identified:

- Risks identified in Strategic and Operational Risk Registers
- Issues arising from Internal Audit Reviews completed in 2019/20
- Issues arising from external inspections

5.0 Code of Corporate Governance Self-Assessment/Annual Review

5.1 The Council's Code of Corporate Governance Framework was updated and approved by this Committee on 31 May 2018. The Code is consistent with the principles of the CIPFA/SOLACE 2016 Framework Delivering Good Governance in Local Government.

5.2 The framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance.

5.3 Examples of the framework the Council adopts to comply with the Codes key principles are included in the AGS, as well as key delivery and improvement areas arising from the review and an accompanying assurance statement.

6.0 Review of Internal Audit System

6.1 Continuous review of the effectiveness of the Council's internal audit system is conducted by the Audit and Governance Committee whose terms of reference include:

- To agree the annual Internal Audit Plan
- To monitor the progress and performance of Internal Audit
- To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council

6.2 The Chief Auditor's annual report was presented to this Committee on 27 July 2020 where the Head of Internal Audit's Opinion was of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework for the year ending 31 March 2020.

6.3 It is recommended that this endorsement forms part of the Annual Governance Statement for 2019/20.

7.0 Identifying control weaknesses significant for the purpose of the AGS

7.1 Whilst there is no absolute definition of the term, the following indicators (provided by CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:

- The issue has the potential to seriously prejudice or prevent achievement of a principal objective;
- The issue may result in a need to seek additional funding to allow it to be resolved;
- The issue has the potential to result in significant diversion of resources from another aspect of the business;
- The issue may lead to a material impact on the accounts;
- The issue, or its impact, may attract significant interest or seriously damage the reputation of the Council;
- The issue may result in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
- The Audit and Governance Committee, or equivalent, has advised that it should be considered significant for this purpose, or
- The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.

8.0 Conclusion

8.1 The attached AGS identifies the outcome of the review of the effectiveness of Plymouth City Council's governance arrangements, covering internal audit, internal control and risk management systems and also identified key delivery and improvement areas together with details of action being taken to address governance issues related to those areas.

ANNUAL GOVERNANCE STATEMENT 2019/2020

PLYMOUTH CITY COUNCIL

Scope of Responsibility and Purpose of the Governance Framework

Scope

Plymouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 2000 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

This Annual Governance Statement explains how the Council has complied with the Code of Corporate Governance and also how it meets the requirements of Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

Purpose

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at Plymouth City Council for the year ending 31 March 2020 and up to the date of the approval of the Annual Report and Statement of Accounts.

Statement of Assurance and Certification

The Chief Auditor's annual report presented to Audit and Governance Committee on 27 July 2020 endorsed the adequacy and effectiveness of Plymouth City Council's system of internal control for year ending 31 March 2020. Overall we can confirm that the Council has the appropriate systems and processes in place to ensure good governance is maintained.

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

Councillor Tudor Evans (OBE) Leader of Plymouth City Council	Tracey Lee Chief Executive	Andrew Hardingham Service Director for Finance (Section 151 Officer)
Dated:	Dated: 10/09/2020	Dated: 10/09/2020

The Corporate Plan

The Plymouth City Council Corporate Plan 2018-2022 sets out our mission of ‘making Plymouth a fairer city, where everyone does their bit’. It was approved by Council in June 2018.

The Corporate Plan priorities are delivered through specific programmes and projects which are coordinated and resourced through the Plymouth Plan, capital investment, directorate business and delivery plans.

The Corporate Plan Performance Report is updated on a six monthly basis and presented to Cabinet

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The Assurance Framework - The Three Lines of Defence

The Three Lines of Defence Assurance Model is used as the primary means to demonstrate and structure roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance and assurance. The diagram below shows the relationship between these functions:-

First Line of Defence – Management Controls and Internal Control Measures

Line management are responsible for ensuring that a risk and control environment is established as part of day to day operations. Line management should be adequately skilled to create risk definitions and make risk assessments. The risk profile needs to be proactively reviewed, updated and modified for changes to the business environment and emerging risk changes. Active risk management and periodic reporting on risk is crucial to quick identification and response.

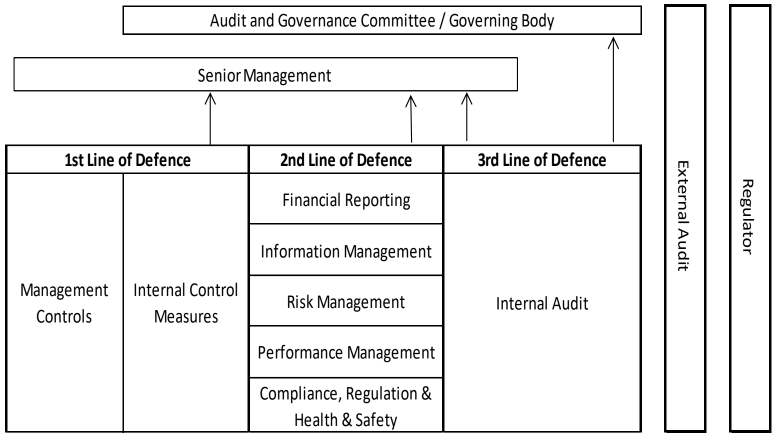
The first line of defence provides management assurance by identifying risks and business improvement actions, implementing controls and reporting on progress.

Second Line of Defence – Oversight Functions

The second line of defence consists of activities covered by several components of internal governance. This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation. These are usually management functions that may have some degree of objectivity, but are not entirely independent from the first line.

Third Line of Defence

Internal audit forms the third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the organisation's senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of the Council's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives.



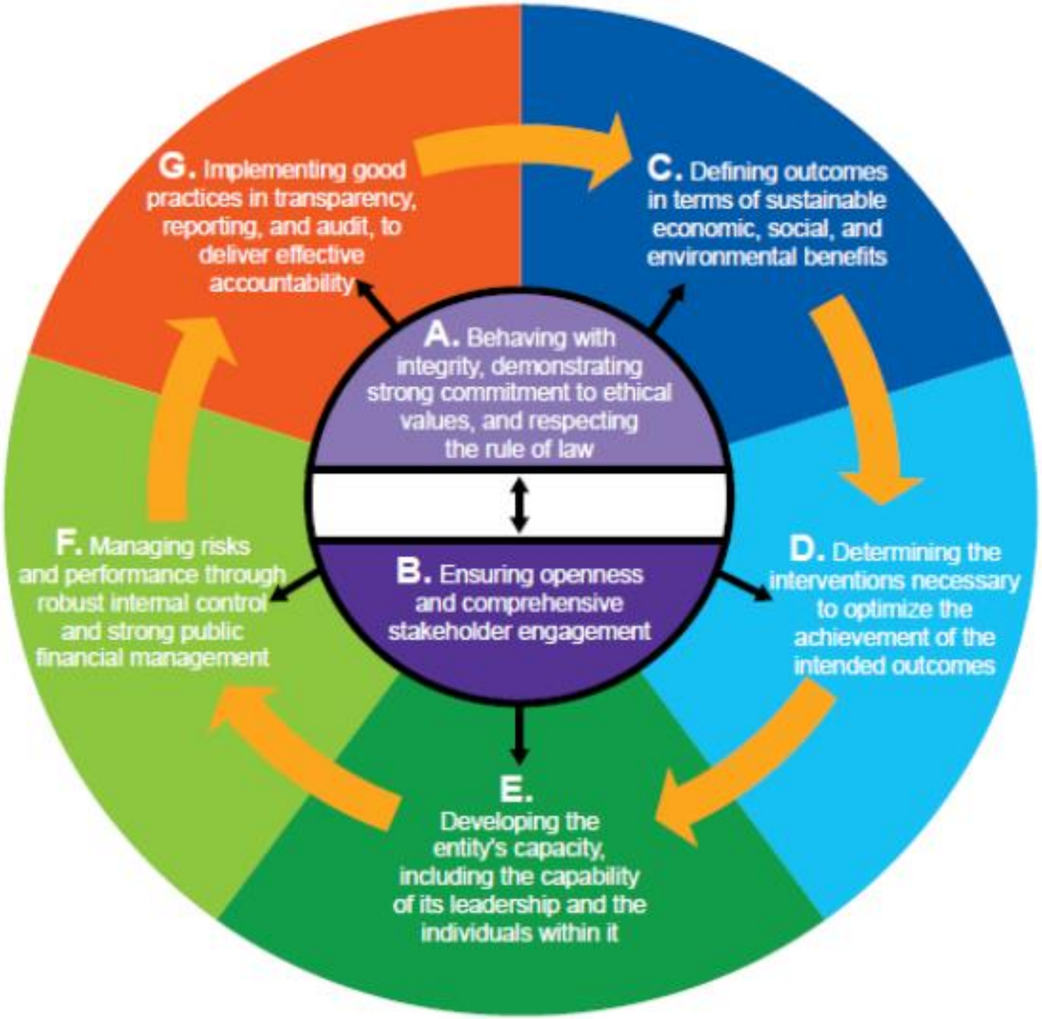
External Auditors and Regulators

External auditors and regulators reside outside the council structure but have an important role in the overall governance and control structure by providing an independent and objective function to assess the whole, or some part of the first, second or third line of defence.

Audit and Governance Committee's Role

All three lines of defence have specific tasks in the internal control governance framework. It is the Audit and Governance Committee's role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes, as well as internal audit activities.

The Governance Framework



The Council's Code of Corporate Governance is consistent with the principles of the CIPFA/SOLACE 2016 Framework Delivering Good Governance in Local Government.

This diagram illustrates how the various principles for good governance in the public sector relate to each other. To achieve good governance the Council should achieve their intended outcomes while acting in the public interest at all times.

As overarching requirements for acting in the public interest, principles A and B apply across all other principles (C - G).

A high-level summary of the Council's local arrangements in place for 2019/20 to comply with each of the principles is set out within the Code.

Details within the Code and The Annual Governance Statement aim to provide assurance that:-

- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- Performance statements are accurate.

Risk Management Framework

Aligning risk to Council Strategy, Business Planning and Performance

Monitor performance against:
>Council priorities
>Internal Control arrangements
>Audit Recommendations

Identification and Prioritisation
>Identify risks to delivery of outcomes
>Evaluate potential likelihood and impact of risk

Mitigation
>Identify mitigation already in place
>Agree additional mitigation actions

Monitoring

Identification of risks and mitigation activity considered by Corporate Management Team quarterly (in line with risk appetite) and presented to Audit and Governance Committee

Risk based Internal Audit planning

Review of Effectiveness

- Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.
- The Council has an established Risk and Opportunity Management Strategy which is reviewed annually. The Strategy was approved by the Audit and Governance Committee on 23 September 2019 and agreed by Cabinet on 16 December 2019. Risks to the achievement of Council objectives are recorded in strategic and operational risk registers and reported to the Audit and Governance Committee on a quarterly basis – agendas can be viewed here.
- The Operational Risk Management Group is aligned to the Three Lines of Defence Assurance Model (page four). Membership consists of risk champions from each department and representatives from internal governance functions who make up the second line of defence.
- In reviewing the current control environment, reports issued by external bodies (audit and inspection) and reports produced by internal audit (Devon Audit Partnership) have been reviewed to ensure that a comprehensive assessment of the current control issues has been made and that all potential areas of significant risk are being addressed within the internal control environment.
- Service Directors and Heads of Service completed an assurance questionnaire reviewing the control environment within their directorates and the results of the questionnaires have been used to inform the assessment of significant governance issues for the Council.

Significant Governance Issues

There is no single definition for what constitutes a significant governance issue. Strategic Directors exercise judgement in deciding whether or not a particular issue is significant enough to be reported on in the Statement, however, the following factors help in exercising that judgement:-

- The issue has the potential to seriously prejudice or prevent achievement of a principal objective;
- The issue may result in a need to seek additional funding to allow it to be resolved;
- The issue has the potential to result in significant diversion of resources from another aspect of the business;
- The issue may lead to a material impact on the accounts;
- The issue, or its impact, may attract significant interest or seriously damage the reputation of the Council;
- The issue may result in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
- The Audit and Governance Committee, or equivalent, has advised that it should be considered significant for this purpose, or
- The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.

Whilst we are satisfied that the Council has the appropriate systems and processes in place to ensure good governance is maintained, our review has identified the following significant governance issues:-

Significant Governance Issue	Service Director	Assurance Statement	Reporting Through
Financial Resources Despite the significant budgetary pressures faced by the Council in 2019/20 and the impact of COVID-19 at the latter part of the financial year, the Council has been able to declare a balanced budget (a very small variance of £5,000). This is a commendable position and provides a sound footing to address the new financial challenges for the new financial year. The Medium Term Financial Plan 2019/2020 to 2021/22 (MTFP) sets out the resource envelope and cost pressures for the next three years including the Capital Strategy.	Service Director for Finance	Due to the impact of COVID-19 a detailed review of council finances are being undertaken with a focus on the current year. This will include the impact of changing resources and demographic, service pressures and new funding proposals. This is being undertaken in conjunction with end to end service reviews arising from the impact of COVID-19. Each Service Director will prioritise commitment to put in place financial plans to deliver a balanced budget in 2020/21. This takes into account any pressures carried forward from the previous year. Emergency Grant has been received and other specific grants however, this is insufficient to cover all costs and lost income. The council are working closely with the	Cabinet and Scrutiny Panels; Corporate Management Team; Senior Leadership Team.

Significant Governance Issue	Service Director	Assurance Statement	Reporting Through
The inability to meet the longer term target budgets given the size of the resource reductions and increasing cost pressures and impact of COVID-19 is being closely monitored. The Councils External Auditors are paying significant attention to the value for money statement in 2019/20 and beyond. Departure from EU single market at the end of 2020 without a trade deal in addition to COVID-19 economic impacts further decreases city economic output.		Local Government Association (LGA) to lobby for additional funds. The MTFP will be refreshed each quarter to reflect Corporate Management Team and Member discussions. Devon Audit Partnership (DAP) have supported services running COVID-19 related grants and schemes ensuring that officers have clear processes to follow to help protect from fraud. Any suspected fraudulent activity is referred to the DAP Counter Fraud Team. A post event review of payments made in respect of Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund is underway.	
UK leaving the European Union Brexit risks identified in our strategic risk register were identified in the context of the United Kingdom (UK) leaving the European Union (EU) without a withdrawal agreement or trade deal. In October 2019 the UK parliament and the EU ratified the withdrawal agreement which included provisions for a transition period to last until 31st December 2020. Although the UK left the European Union in January 2020 the transition period ensures that the UK continues to apply EU rules including those relating to membership of the single market and customs union. The main purpose of the transition period was to allow the UK and the EU to negotiate their future trading relationship. The government has indicated that if these negotiations are not completed by 15th October 2020 the UK will revert to trading under World Trade Organisation rules.	Service Director for Finance	The council has appointed a Brexit Lead Officer who is responsible for ensuring the council has taken all reasonable steps to prepare for our exit from the EU and continue to lobby to ensure Plymouth is fully reimbursed for all costs associated with Brexit. Other responsibilities include maintaining related organisational and citywide risk registers and providing regular briefings to Cabinet and the Council's Corporate Management Team.	Corporate Management Team Senior Leadership Team Cabinet and Scrutiny Committees

Significant Governance Issue	Service Director	Assurance Statement	Reporting Through
The risk implications of a failure to negotiate a trade agreement are broadly similar to those we identified in the ‘no deal’ context, which include: enhanced financial instability should the UK enter a recession post-leaving EU that impacts on local economy, the ability of residents to pay council tax, increases in the number of people eligible for council tax support and negatively impact on businesses affecting business rates.			
Children’s Placement Costs Children’s placement costs are subject to continued volatility due to demand and impact of private provider market conditions.	Service Director for Children, Young People & Families	There are robust budget weekly monitoring arrangements in place overseen by the Service Director. Monthly budget monitoring reports supported by the fortnightly budget containment meetings and quarterly star chambers to drive out the savings. Weekly Placement Review Panel to review/monitor all high cost placements. In house practice solutions to reduce risk and costs. Increase In-house Foster carer numbers and use of preventative Adolescent Support Team initiative. Dedicated manager role to monitor, coordinate and work with the service to manage and reduce in year placement costs and achieve delivery savings plans targets. Dedicated support from Commissioning to work with providers to monitor costs of placements and support Block Contract arrangements with providers to keep costs down.	Education & Children’s Social Care Overview & Scrutiny Committee

Significant Governance Issue	Service Director	Assurance Statement	Reporting Through
Fair Funding for Schools Changes to government funding resulted in the loss of the Education Services Grant (ESG), which was used by councils for school improvement and special needs pupils, and to plan for school places.	Service Director for Education, Participation & Skills	Officers act in accordance with legal rulings – e.g. Supreme Court judgement regarding unauthorised school absence and Government guidance relating to attendance during the COVID-19 pandemic.	Education & Children's Social Care Overview & Scrutiny Committee
On Course South West Contract On Course South West are a not for profit organisation and a member of Social Enterprise UK and promote social purpose alongside existing high quality training offer of English and Maths Functional Skills, Apprenticeships, GCSEs, NVQs and a range of less formal learning opportunities. Failure to secure funding could potentially cause financial issues for the department.	Service Director for Education, Participation & Skills	Contractual arrangements are monitored and tracked against learner engagement. The contract will be retendered 2019 to 2020 and to 2022 as an annualised contract.	Education & Children's Social Care Overview & Scrutiny Committee
Impact on health and wellbeing of workforce from responding to COVID-19 emergency and new ways of working The COVID-19 response required rapid implementation of working at home policies and safe systems of working to enable continued delivery of essential services to our residents and communities. The impact on health and wellbeing of the workforce remains a priority as we move towards the renewal and recovery phases.	Service Director Human Resources & Organisational Development	We have prioritised essential services and designed safe systems of work. Staff Pulse survey. Wellbeing Champions in place. Regular staff communications.	Health, Safety and Wellbeing Programme Board.
Use of Vibration Tools HSE v Plymouth City Council: risk of prosecution under the Control of Vibration at Work Regulations 2005 and the Health and Safety at Work Act 1974 Section 2 following HSE Improvement Notice (IN).	Service Director for Street Services	The HSE IN was lifted in full in April 2019 and we await the final conclusions of the HSE in relation to legal action. The management controls in place have resulted in the exposure to vibration being As Low As Reasonably	Health, Safety and Wellbeing Programme Board;

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Significant Governance Issue	Service Director	Assurance Statement	Reporting Through
Systemic failures in the management of the exposure to vibration dating back to 2005		Practicable (the legal requirement). On the majority of days, and across the majority of workers, exposure to vibration is less than the Exposure Action Value of 100 points. Where this is exceeded, exposure to vibration does not exceed the Internal Limit Value of 300 points (The HSE exposure limit value is 400 points). PCC were contacted by the HSE in June 2020 and invited to make a submission of evidence that we wanted the HSE to take into account when concluding their assessment of the three legal tests for prosecution. PCC took Specialist Legal Advice in support of our submission, which was made in full within the required deadline. PCC concluded that we do not feel it is in the public interest for the HSE to proceed to prosecution, in that the public interest has been served by the remedial action taken towards the individuals concerned, and in relation to the management controls now in place, which consistently achieve the legal requirements.	Street Services Health, Safety and Wellbeing Board and Working Groups

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Grant Thornton
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Audit Progress Report and Sector Update

Plymouth City Council Year ending 31 March 2020

24 November 2020

Contents

Introduction

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This paper provides the Audit and Governance 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 local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

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 Paul or Geraldine.

Progress at 24 November 2020 – Financial Statements Audit

Financial Statements Audit

We began our planning for the 2019/20 audit in January 2020. Our interim work was largely undertaken across March and April.

Our interim fieldwork includes:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues,
- early substantive testing.
- discussions on emerging technical matters.

We issued a detailed audit plan, following the conclusion of planning and interim work in early April and presented this to the 11th May Audit Committee.

As a result of the Covid-19 pandemic, the deadline for the submission of the draft financial statements was put back to the 31st August 2020. We received the draft financial statements on 31st August 2020. We commenced our substantive audit work on 7th September 2020. The target deadline for the audit opinion is currently set at 30th November 2020. We will issue our opinion once our audit has been completed.

As reported in our audit plan, the key areas of audit focus and substantive testing will be on the following significant risk areas of the financial statements:

- Valuation of property, plant and equipment (Inc Investment Properties)
- Valuation of the Pension Liability
- Reduction of the net Pension Liability through the use of Miel Ltd.
- Accounting treatment for Government Grants
- Management over-ride of controls through journals testing
- Financial Instruments

We are progressing with our detailed testing on property plant and equipment and investment property valuations, we have requested some additional work be undertaken by the internal valuers in order to further consider potential valuation movements of assets not valued at the end of the year. We continue to work towards understanding the material valuations at year end.

We have started and are making progress in our work regarding the Pension Liability figure within the accounts, we have challenged the review of experience items and are currently awaiting further evidence in this respect from the actuary. We have not identified any issues in this area to date.

Miel - We have sought further clarification from the council regarding the governance arrangements in respect of this transaction. We currently await further evidence of code compliant transactions from the council. We currently await the outcome of our own legal advice regarding this transaction.

Work on governments grants is progressing, we currently await additional evidence regarding completeness. No issues have been identified to date.

We have conducted our review on the journals control environment and processes, we have conducted testing of journals however and await additional evidence for some of these items.

We currently await further response to our technical review, particularly in relation to financial instruments.

We have already reported our progress with regards to the Value for Money conclusion at the September Audit Committee. We are currently arranging further meetings with officers to update our current knowledge on the medium term financial challenges and response to Covid.

The council has disclosed an interest swap post balance sheet event, we are obliged to review this transaction in accordance with accounting regulations, and legal advice - this work is ongoing.

Covid-19 update

Impact on working arrangements

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home.
- Grant Thornton have continued to review Central Government guidelines and start to reopen come offices across the country.
- At present, your audit team are currently working remotely and will do for the foreseeable future. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- There may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of Covid-19.

Impact on accounts and audit opinions

There are a number of key issues which your finance team will have had to consider as part of the year-end closedown and accounts production:

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations. At present, the Council have disclosed a material uncertainty relating to the year end balances for Property Plant and Equipment. We will include specific narrative within out Audit Report drawing attention to the material uncertainties disclosed.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- Disclosure of impact in narrative report.
- Disclosure of critical judgements and material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

All of these items continue to be factored into our detailed testing of associated balances within the financial statements.

Changes to reporting requirements

- The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31st August 2020.
- For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Progress at 24 November 2020

Significant risk	Planned approach	Progress
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.	We will: • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach; • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes have been made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; and • engaged the use of auditor experts for all asset valuations, including the Tamar Bridge We are: • ensuring to obtain sufficient audit evidence through remote technology; • evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as assets; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Significant risk	Planned approach	Progress
Fraud in revenue and expenditure recognition Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in all areas. The exception to this is in relation to the accounting treatment in government grants due to issues arising in 2018/19 and 2017/18	We have not identified any changes to our assessment reported in the audit plan. Work on accounting treatment on government grants is still ongoing and we are working closely with management to obtain all the evidence required.
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the authority which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk and unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We have: • evaluated the design effectiveness of management controls over journals; and • analysed the journals listing and determine the criteria for selecting high risk and unusual journals. • analysing and selecting those journals that will require further testing. We are in the process of: • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risk	Planned approach	Progress

Valuation of land and buildings Including investment properties
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of the estimate to changes in key assumptions.
 	
Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
 	
We identified the valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.
	We will:
	• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• evaluate the competence, capabilities and objectivity of the valuation expert;
	• discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out;
	• engage our own valuer expert, Wilks Head and Eve, to provide commentary on:
	  • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
	  • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
	• evaluate the assumptions made by the management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
		We have and continue to:
		• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
		• evaluate the competence, capabilities and objectivity of the valuation expert;
		• written to the relevant valuers to confirm the basis on which the valuation was carried out; and
		• engaged our own valuer expert, Wilks Head and Eve, and our own internal valuer for the Tamar Bridge valuation, to provide commentary on:
		  • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
		  • the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
		• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
		• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
		• test revaluations made during the year to see if they had been input correctly into the Council's asset register.
		• we continue to review the valuation of assets not valued in year, and those valued at the start of the year. This is a prime focus of our PPE valuation testing as in previous years.

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Significant risk	Planned approach	Progress
Reduction of the net pension fund liability through the use of Miel Ltd As noted on the previous page, the Authority's pension fund net liability represents a significant estimate in the financial statements. The Authority has used a separate vehicle (Miel Ltd) to pay a £73m off of its Pension Fund liability amount. This transaction took place in early October 2019. This type of transaction is both material and unusual and has therefore been assessed as a Financial Statements significant risk.	We will: • review the Council's response to the series of recommendations that we have made in our Audit Findings Reports throughout 2018/19, in particular to - • assess the due diligence undertaken by the Authority • review the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate • assess the arrangements the Authority has in place to assess whether it considers the transaction to reduce the pension fund net liability to be financially sound. • review the Authority's proposed accounting treatment to ensure it is compliant with CIPFA's Code and the relevant accounting standards.	We have - reviewed the responses to our series of recommendations made in our 2018/19 Audit Findings Report including due diligence undertaken, legality reviews and advice and the arrangements put in place to establish the financial viability of the Transaction. - requested further details of the Council's accounting treatment and transactions within the accounts so that we can technically review the entries in relation to all appropriate accounting standards and CIPFA's Code. We continue to seek further advice from our legal representation teams.
Group Accounts	We will: • review the controls and processes that the Council will put in place to prepare Group Accounts • Review the Council's processes for consolidation of subsidiary accounts and the arrangements in place for the review of the validity of the financial information and data • Review the accounting treatment • Undertake a detailed risk assessment in accordance with auditing standards to establish an audit approach and strategy for seeking assurance of any other auditors work • Where appropriate, liaise directly with any subsidiary auditors and review working papers • Provide an audit opinion on the Group financial statements.	We have now received the Council's group assessment which has concluded that, on the basis of materiality, group accounts are not required. We have reviewed the Council's Assessment which has now been produced as at September 2020. We do not consider that a group account would be appropriate, however the pension liability of some subsidiaries still needs to be concluded.

Significant risk	Planned approach	Progress
Financial Instrument Disclosure notes Accounting standards and the CIPFA Code require detailed disclosure notes to be published in the accounts regarding financial instruments held by the Council. These financial instruments can be in the form of loans and borrowings as well as assets and investments. Arriving at the fair value of financial instruments is usually complex and requires specialist support as part of the valuation process for these items. In 2018/19 the Council's draft financial statements did not include the required detail or disclosures relating to all financial instruments held by the Council. Further detailed work had to be performed by the Council and its advisers to ensure that the financial instrument notes were in accordance with regulation and guidance. As this is a complex area and requires specialist support and advice, it is susceptible to possible error.	We will: • review the Council's processes implemented to establish the correct valuations of all material financial instruments held. • Test disclosures for financial instruments back to the figures within the main financial statements • Test the disclosures in accordance with the CIPFA Code and accounting and auditing guidance • Review the work of the Council's experts in this area.	We are in the process of: - undertaking a detailed technical review of the Financial Instruments disclosures - obtaining detailed evidence and accounting treatment support for the CCLA investment vehicle We will test material disclosures in accordance with accounting standards and CIPFA Code guidance. We continue to discuss the accounting treatment of financial instrument disclosure notes with the council.

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Other risks identified

Other audit areas

In addition to our work on the significant risks, work is also in progress in the following areas, some of these are subject to Grant Thornton UK LLP review:

- PPE additions – Ongoing
- Cash
- Expenditure (including welfare expenditure)
- Employee benefits
- Debtors and bad debt provision
- Creditors
- Leases
- Reserves
- Financial instruments, investments and borrowings
- PFI liabilities
- Provisions
- Financial statements disclosures
- Pooled budgets
- Related parties

Other areas

Certification of claims and returns

Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The planning of the certification work for the 2019/20 claim is underway. The Council have undertaken the initial testing and we will review a sample of cases to verify accuracy.
The DwP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit and Governance Committee in our Certification Letter in March 2021.

Meetings

We meet with Finance Officers every week and have been undertaking these meetings throughout the closedown process. We meet regularly with the Chief Operating Officer of the Council.

Audit Fees

Our Audit Fee for the 201920 audit was confirmed by the Audit Committee.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Director of Finance, including any proposed variations to our fee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter		
• Confirming audit fee for 2019/20.	April 2020	Complete
• Advise of additional fee for 2019/20	April 2020	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	April 2020	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	May 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit Committee.	November 2020	To be agreed.
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	To be agreed
Annual Audit Letter This letter communicates the key issues arising from our work.	January 2021	Not yet due

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Sector update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit and governance committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

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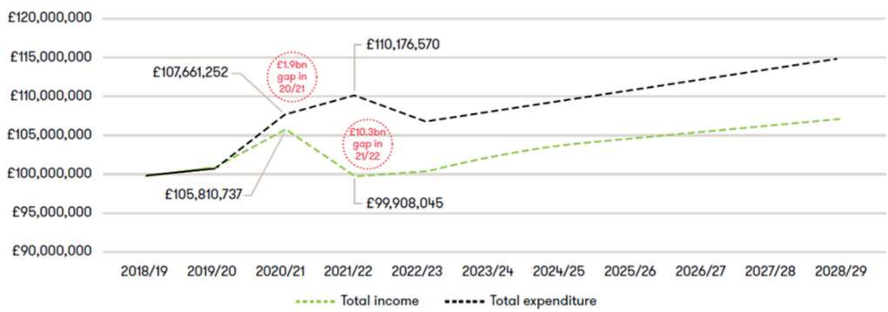
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside Covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales, fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

Covid-19 and Local Government

Public services have been at the forefront of the emergency response to the Coronavirus (Covid-19) including local government. Very few local government services have not been impacted by the Covid-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to Covid-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

Covid-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of Covid-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by Covid-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

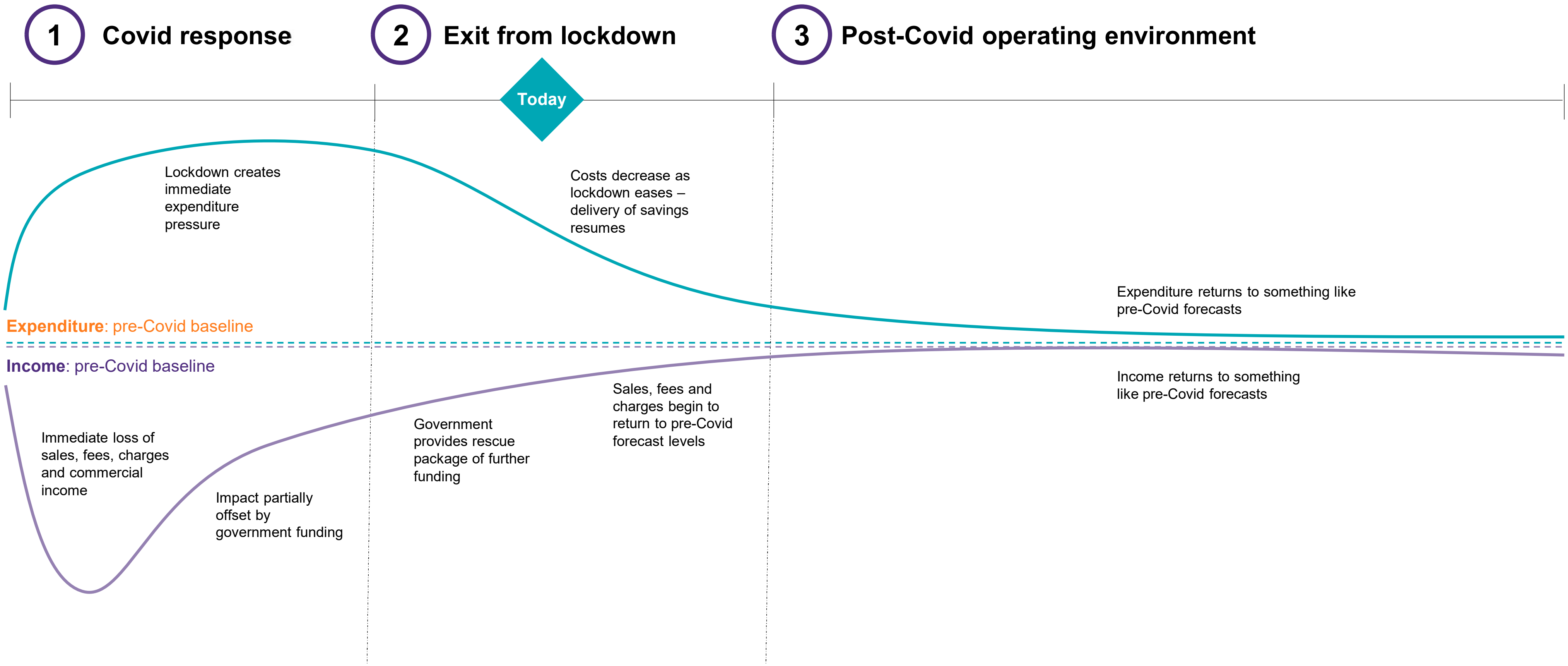
This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of Covid-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of Covid-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from Covid-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of Covid-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from Covid-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

Example scenarios

Scenario 1 – swift return to normality



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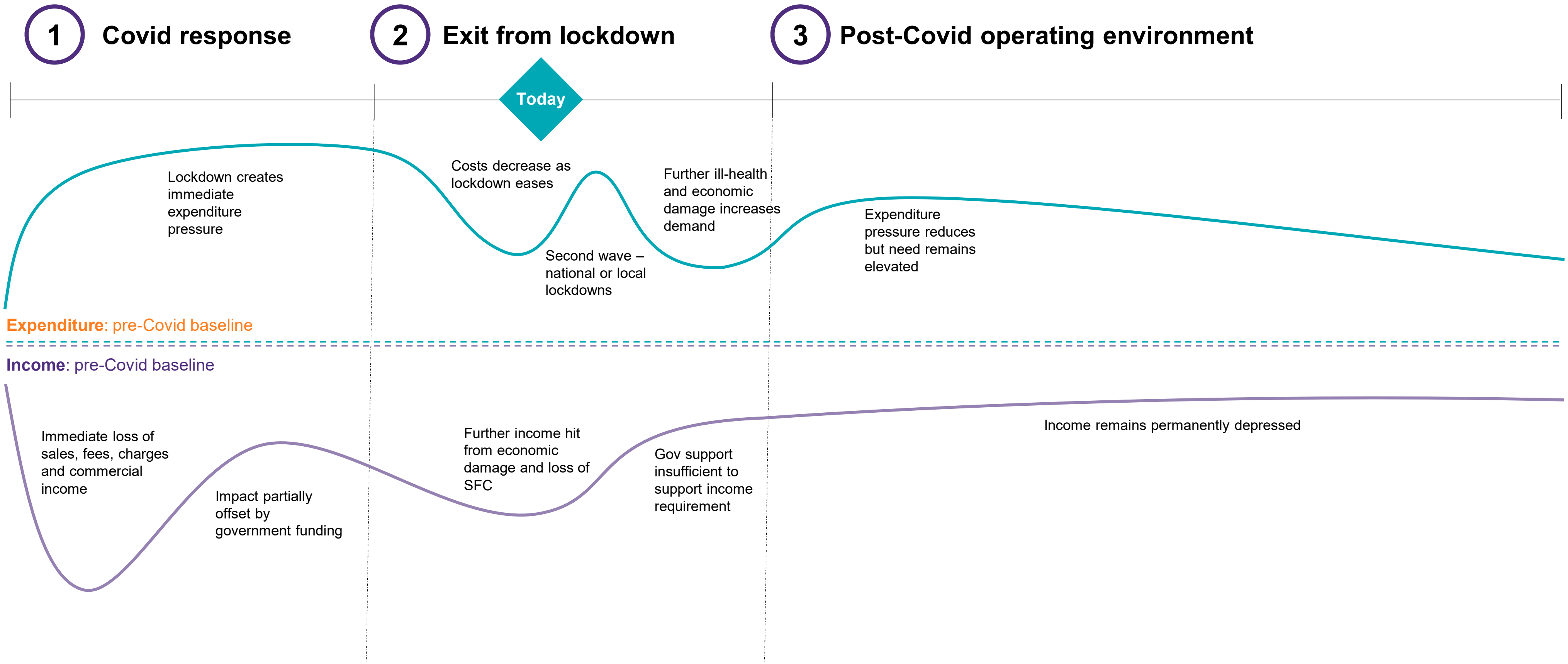
Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



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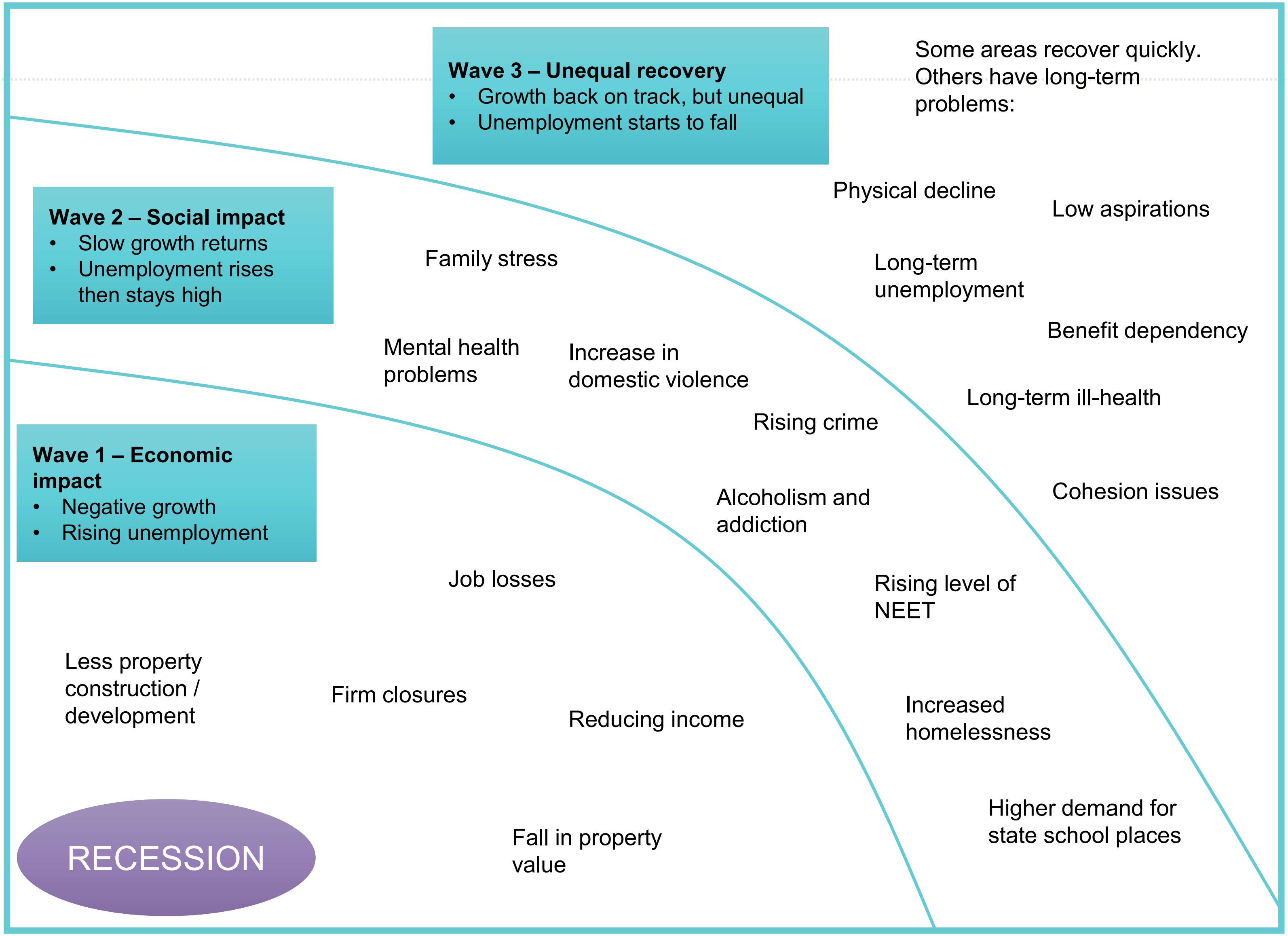
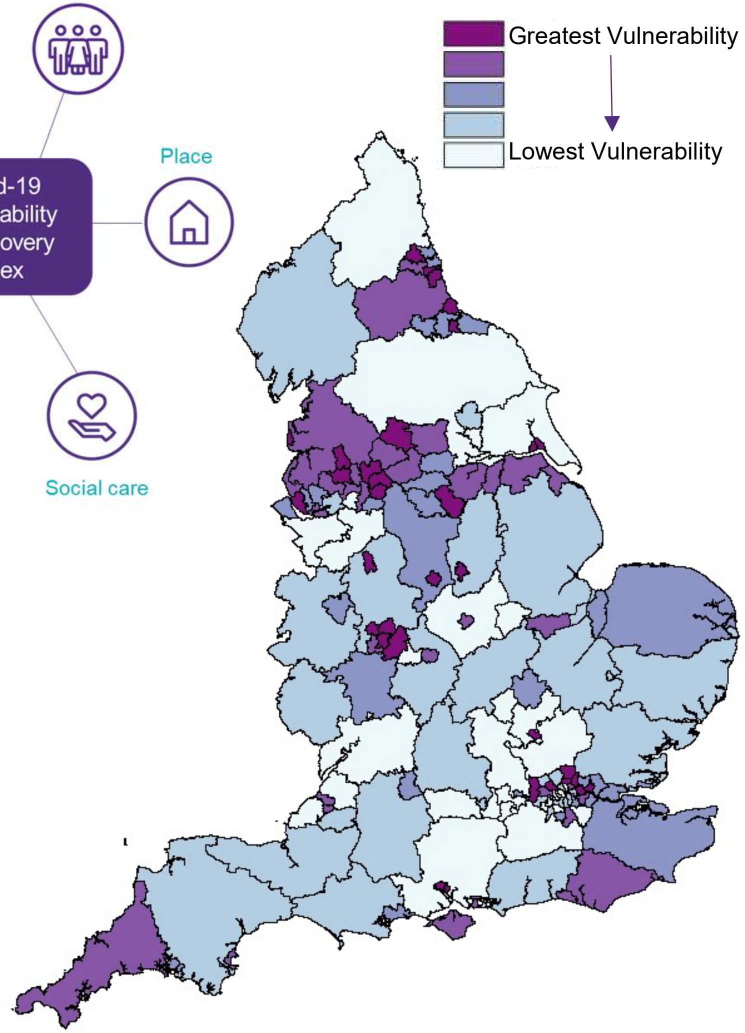
Can we learn from previous recessions?



Source: Audit Commission

Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



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Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	• Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services	• Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	• 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period	• 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	• Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system	• Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	• Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery	• Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	• Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck	• Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	• Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability	• Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances.
- Design rapid interventions - implement, test and evaluate.
- Learning from the response to lock in the good stuff – reflection on operations, services and the system.
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul.
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability.
- Contingency plans for structural disruption.
- Re-evaluate infrastructure pipeline.

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal.
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces.
- Continued system leadership, pushing for positive reform and resilience.

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and to existing government priorities such as levelling up, whilst future proofing against Covid-related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development.	Recovery plan implementation.
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release.
Planning for standing up closed services.	Place-based leadership – working with other public services, private and third sector to redefine place.
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising.	Redefining front-line services, council as match-maker, convener and incentivisor as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability.	More long-term and strategic partnerships and funding models for third sector.
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line.	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs.
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions.	Review and update Local Plan.
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments.
Renewed strategic financial planning and focus on financial management.	Emergency planning reviews and learning.
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning.
Government monitoring regime on additional funding for councils and Covid funding administered by councils.	Increase in outcomes based procurement and focus on social value.
Business cases for new investments or for Government.	Significant investment in digital capabilities – channel shift, remote working, etc.
HR capacity and welfare, building health and safety checks.	

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf

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Guide for Audit and Risk Committees on Financial Reporting and Management during Covid-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that "aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19."

The NAO report notes "Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for."

The NAO comment "This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

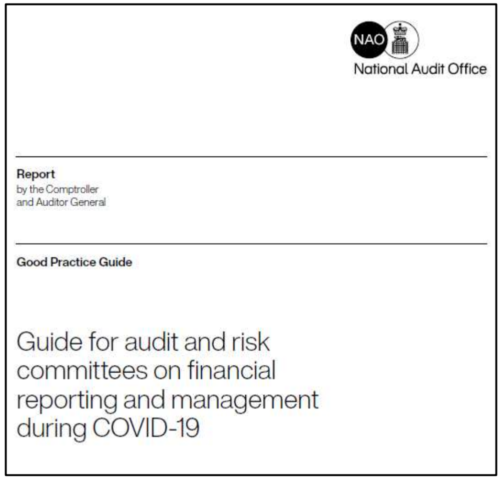
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period."

The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/


NAO
National Audit Office

Report
by the Comptroller
and Auditor General

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

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Redmond Review – Outcome of the Review

The independent review led by Sir Tony Redmond was published on 8th September 2020. The review sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019. The detailed outcome of the review has now been published. The review has made a series of recommendations which will impact upon Auditors and Local Authority's alike.

The Key Findings are summarised below:

- The establishment of a new regulator - the Office of Local Audit and Regulation. This will replace the FRC and PSAA

- Scope to increase fees - The current fee structure for local audit is to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements

- A move back to a September deadline - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

- The Accounts to be simplified - CIPFA/LASAAC will be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts

- There is a recognition of the role of authorities in improving governance and reporting.

-

- The development of audited and reconciled accounts summaries to accompany the financial statements.

As the reviews by Redmond, John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

You can read the detailed report and recommendations using the link below:

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

Grant Thornton UK LLP welcome the report and our views can be found in the attached link below:

https://twitter.com/public_finance_/status/1304412166016163844?s=12

The NAO consultation on a new Code of Audit Practice (the “Code”) has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/

Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – "Building for renewal: kickstarting the C19 housing recovery".

Paul asked "So how do we address "the housing crisis" in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response.   Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

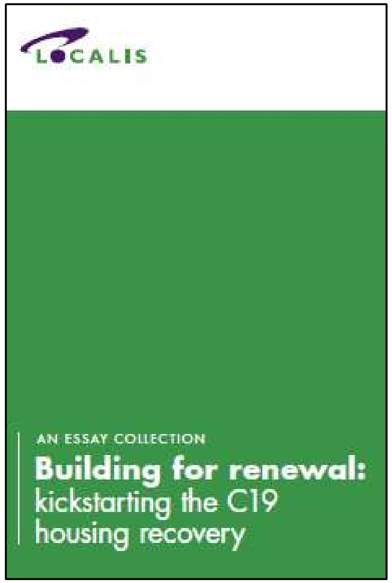
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded "Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need."



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

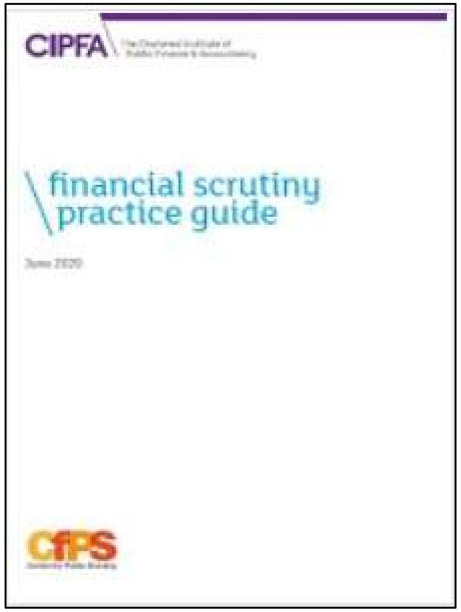
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny ‘events’ in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities’ formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA’s thinking on scrutiny’s role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA’s website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

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Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report "draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams".

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that "PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme".

The full report can be obtained from the PSAA website:

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Grant Thornton

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Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	30 November 2020
Title of Report:	**Treasury Management Strategy 2021/22**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	Chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report sets out the Treasury Management Strategy for 2021/22 and includes the Annual Investment Strategy, the Non-Treasury Management Investment Strategy and the Minimum Revenue Provision Statement.

These reports are required by The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.

Recommendations and Reasons

1. The Audit Committee recommends the Treasury Management Strategy 2021/22 (incorporating the authorised limits, operational boundaries and prudential indicators) to the Council for approval.

   This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected

It is a statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the CIPFA Code of Practice for Treasury Management.

Relevance to the Corporate Plan and/or the Plymouth Plan

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for the Medium Term Financial Plan and Resource Implications:
Treasury Management affects the Council's budget in terms of borrowing costs and investment returns. The Treasury Management Strategy sets the authorised limits and operational boundaries within which investment and borrowing decisions are taken and risks managed. Effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Carbon Footprint (Environmental) Implications:
No direct implications

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*
A robust Treasury Management Strategy is key to ensuring a successful delivery of our Medium Term Financial Strategy and ensuring the Council can achieve its objectives to be a Pioneering, Growing Caring and Confident City.

Appendices
**Add rows as required to box below*

Ref.	**Title of Appendix**	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A								
B								

Background papers:
**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are <u>unpublished</u> works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

Fin	PL.20.21.155	Leg	35673/AC/19/11/20	Mon Off	35673/AC/19/11/20	HR		Assets		Strat Proc	
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 09/11/2020											
Cabinet Member approval: Cllr Mark Lowry approved by email Date approved: 17/11/2020											

TREASURY MANAGEMENT STRATEGY 2021/22

How Plymouth will invest to grow and meet future Infrastructure needs

Foreword

Councillor Mark Lowry
Cabinet Member for Finance

"This Strategy demonstrates the network of controls that are in place to ensure our investments are secure.

It also demonstrates our commitment to sound management and control of the Council's cash and investments.

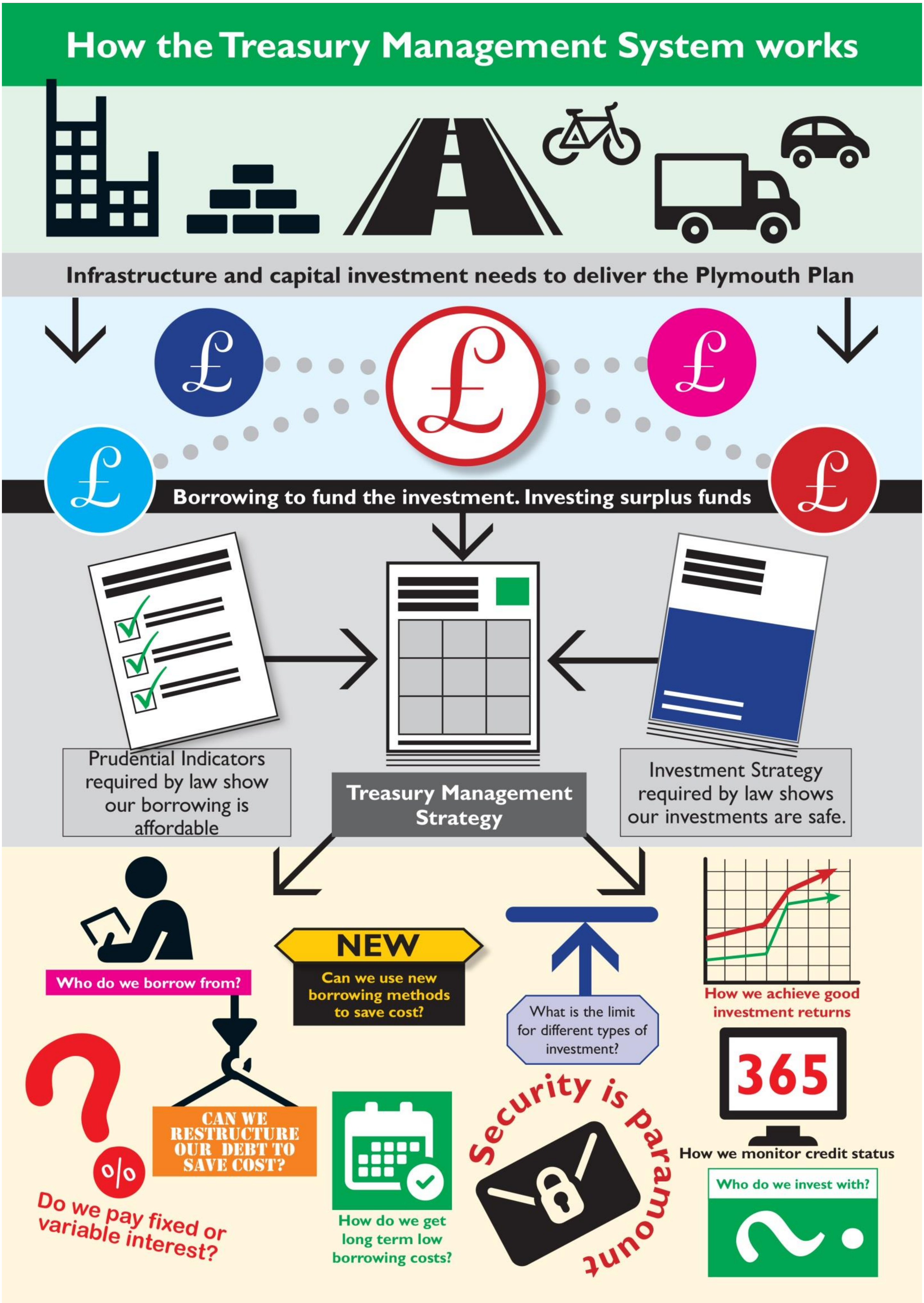
It also shows how the Council's ambitious capital programme will be funded and offers much greater openness and transparency to residents and stakeholders"

Andrew Hardingham
Service Director for Finance

"This Strategy is designed to underpin the Council's ambition to invest in the future of Plymouth. It offers a series of opportunities to manage the Council's finances to maximise returns, reduce risk, diversify investments and minimise the cost of borrowing.

The strategy will keep us within our prescribed limits under the Prudential Code. The Council is seeking at all times to deliver good investment returns that are secure and affordable."

Contents


How the Treasury Management System works
Infrastructure and capital investment needs to deliver the Plymouth Plan
Borrowing to fund the investment. Investing surplus funds
Prudential Indicators required by law show our borrowing is affordable
Treasury Management Strategy
Investment Strategy required by law shows our investments are safe.
Who do we borrow from?
NEW
Can we use new borrowing methods to save cost?
What is the limit for different types of investment?
How we achieve good investment returns
365
How we monitor credit status
Who do we invest with?
CAN WE RESTRUCTURE OUR DEBT TO SAVE COST?
%
Do we pay fixed or variable interest?
How do we get long term low borrowing costs?
Security is paramount

This section explains how we invest and borrow

Introduction

Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the effects of changing interest rates.
The Treasury Management Strategy sets out how Plymouth will invest to grow and meet future Infrastructure needs. It is a companion document to the Medium Term Financial Plan which sets out Plymouth's ambitions and priorities from the Plymouth Plan.
This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code.

INVESTMENTS – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

- To achieve the best secure investment returns
- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

Market Intelligence

- Bank of England reports
- Market Outlook by the Council's advisers Arlingclose

Statutory and Performance Framework *Rules that guide us*	**Investments** • Sterling only • Can use UK Government, Local Authority or a body of high credit quality • The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher and domiciled in UK
	Counterparties and Limits (see table on page 20)
	Investment Limits – subject to Counterparty table on page 20 • **Unlimited** UK Government • **Unlimited** Money Market Fund • **£25m** any single local authority or government entity • **£25m** secured investment • **£12m** per Bank (unsecured) • **£20m** unrated corporates • **£60m** Strategic Pooled Funds • **£10m** Real estate investment
	Key Council Budget Assumption for 2021/22 • Investments make an average rate of return of 1.5%
Approach *Choices made within the framework*	**Objective** - Security first, Yield second and then Liquidity **Strategy** - to maximise returns, reduce risk and diversify investments **Risk Assessment and credit ratio** - Our advisors monitor credit ratings daily so any new investments will be made using the latest credit information **Other information on security of Investments** - Market intelligence from our advisors may give warnings before credit warning changes e.g. credit default swaps information

BORROWING – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

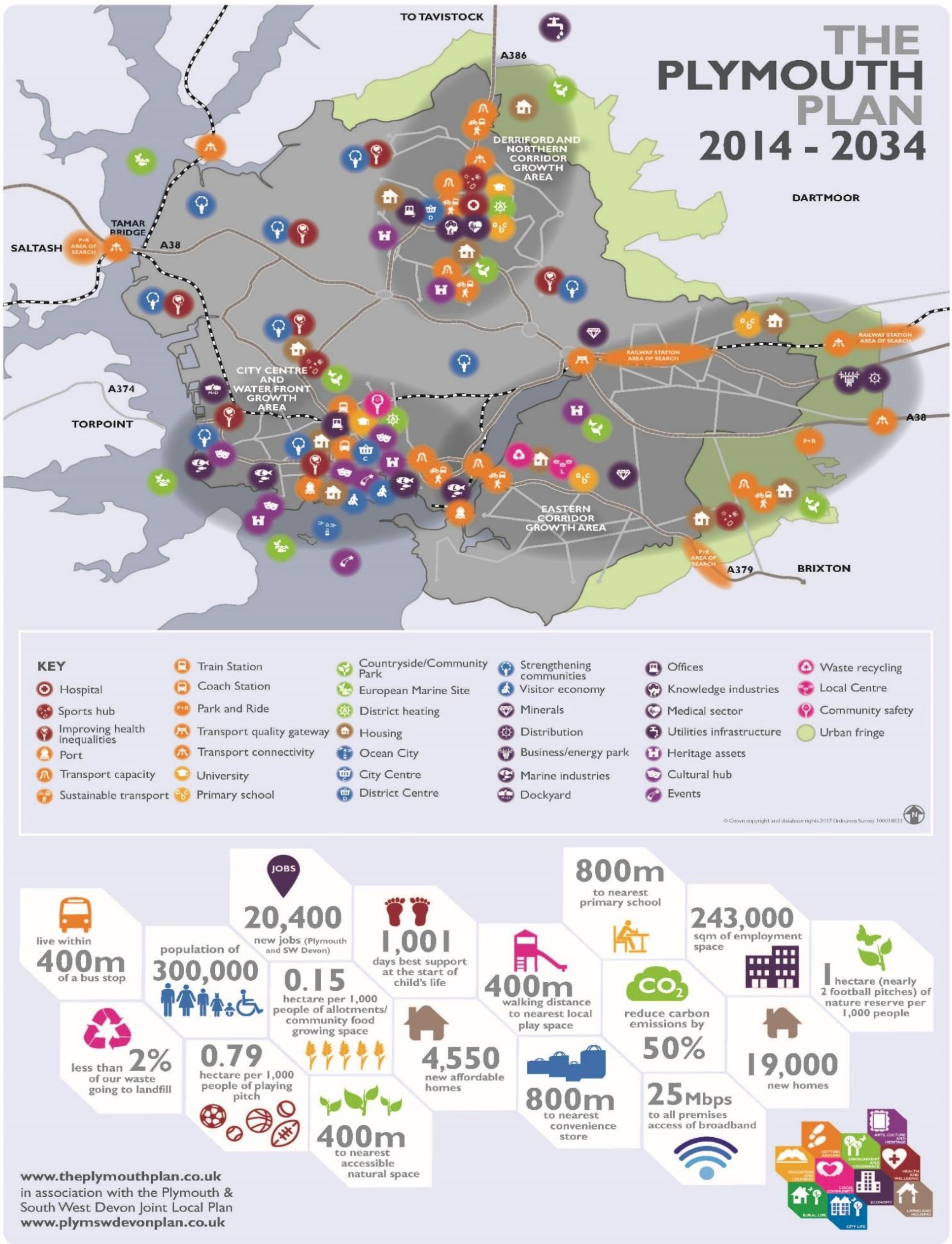
- To achieve the best secure investment returns
- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

Market Intelligence

- Bank of England reports
- Market Outlook by the Council's advisers Arlingclose

Statutory and Performance Framework *Rules that guide us*	**Borrowing** • **£220m** Total Capital Expenditure • **£1053m** Capital Finance Requirement (need to borrow) • **£1061m** Total Debt (loans and private finance initiative) • **£1065m** Operational Boundary (practical ceiling on borrowing) • **£1115m** The Authorised Limit (absolute maximum debt approved) **Prudential Indicators** • **11.1%** Ratio of finance costs to net revenue stream (borrowing costs as a proportion of net revenue budget) • **£12.90** Hypothetical increase in Council Tax affordability. (this is technical measure; the Council has made no future years tax decisions) **Treasury Management Indicators** • **100%** Limit on Fixed Interest Exposure • **95%** Limit on Variable Interest Rate • **0% to 90%** Maturity Structure of Borrowing, exposure in any duration **Minimum Revenue Provision Policy (MRP)** • Annuity Method • 50 year repayment for capitalisation directives • PFI/Leases charged on an annuity method over the life of the asset • No MRP on capital loans or investments • Option for capital receipts to be used towards repaying debt **Key Council Budget Assumption for 2021/22** • New long-term loans will cost an average rate of 2.7%
Approach *Choices made within the framework*	**Objective** - Balance low interest rates with long term certainty **Strategy** – to borrow short term now and lock in long term when appropriate **Sources of Finance** - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back **LOBOs** will be repaid if there is a NPV saving and if there is agreement with the lenders **Municipal Bonds Agency** Council will use where appropriate **Debt Restructuring** A present value calculation based on current rates for the same period of loan may result in a discount or premium. • Council will re-schedule if it reduces cost or risk

Delivering the Plymouth plans explains why we are borrowing and investing



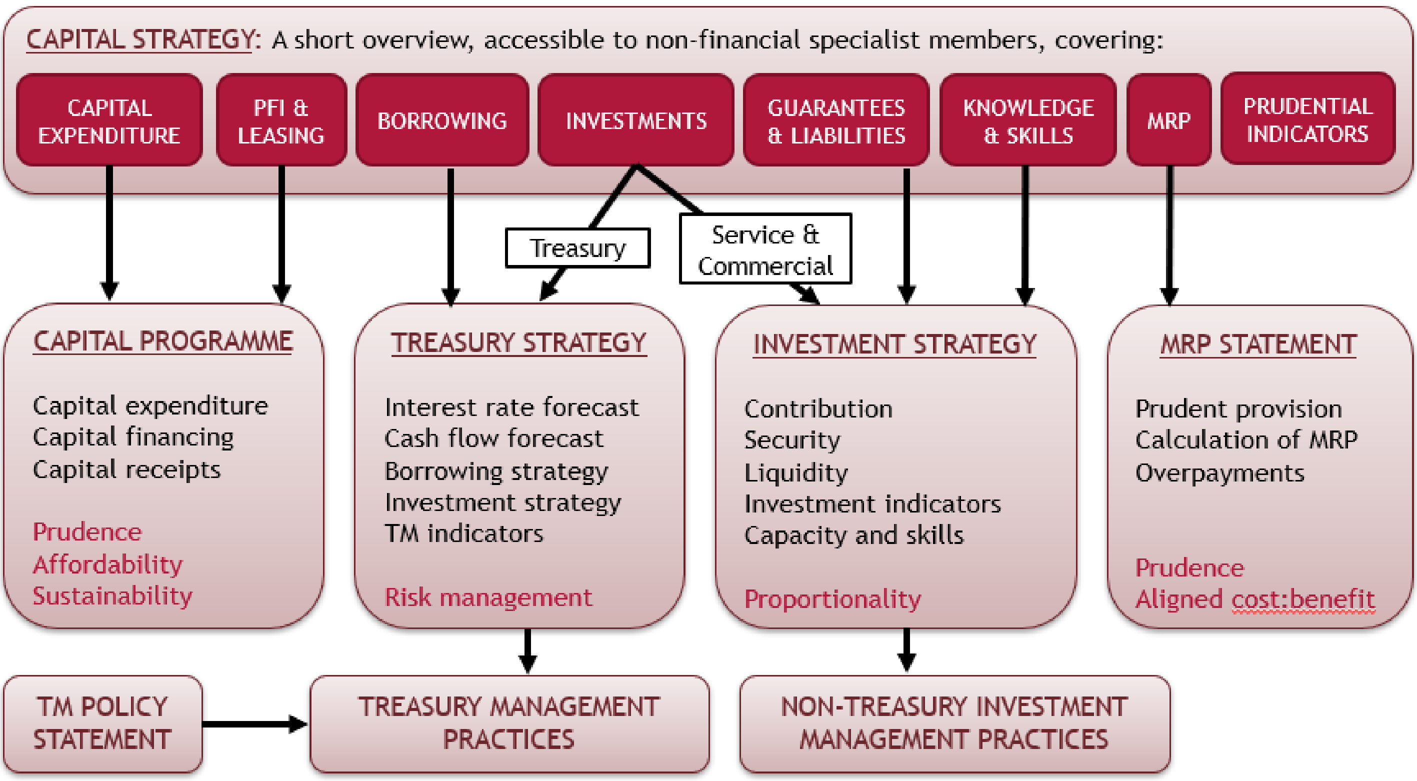
Our Corporate Plan includes themes of infrastructure and investment

Corporate Plan

The Corporate Plan sets out our vision to be 'one of Europe's most vibrant cities' and our priorities are to be 'A Growing City' and 'A Caring Council'.

The diagram below shows how Capital expenditure affects the Treasury Management Strategy

Strategy Reports:



The diagram above shows how the requirements of the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Guidance and The CIPFA Code interact with the Capital and Treasury Management. There is a new Capital Strategy (presented in a separate document) and a new Non-Treasury Management Investment Strategy (shown as service and commercial in the diagram) included in this document.

Specialist advisers Arlingclose support the Council with borrowing and investment advice. This is Arlingclose's expert assessment of the economy in the coming months and years.

Economic update from Treasury Management advisors Arlingclose as at November 2020

The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

This is Arlingclose's expert view on future interest rates.

Credit Outlook

After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

This is Arlingclose's view of the risks of bank failures in the period ahead.

Interest Rate Forecast

The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

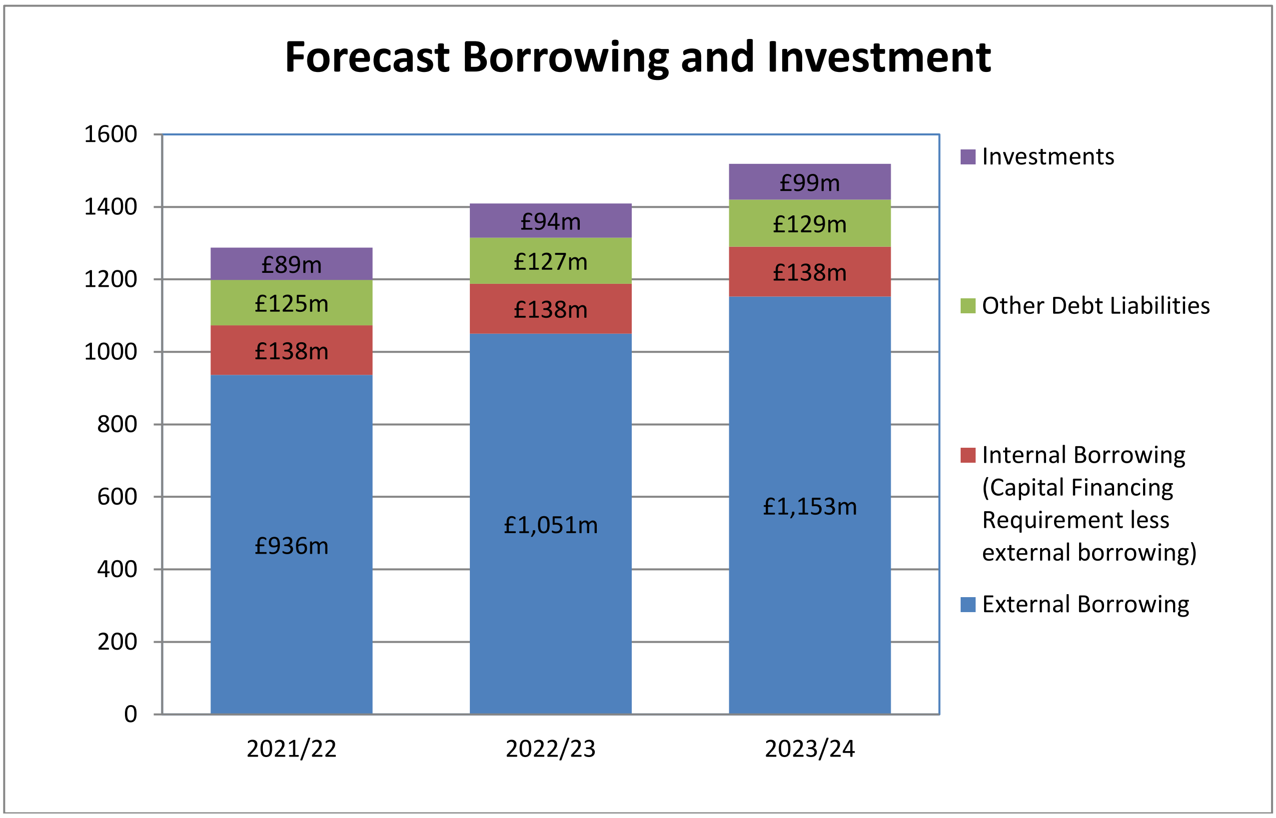
A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 1.49%, and that new long-term loans will be borrowed at an average rate of 2.8% - and short term borrowing rates at 0.75%.

Part 2 – Technical Detail for Analysis

Borrowing

This is how much debt and investments we expect to have in the next three years



These are borrowing limits we are required to set by law. They are affordable levels and needed to fund our capital programme.

Maximum Total Debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement. Usable reserves and working capital are the underlying resources available for investment. The current strategy is not to borrow to the full underlying need. Some internal resources are used instead of external borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* sets a maximum for total debt. This is the maximum the CFR is expected to reach at any time during the next three years.

The Council held £603 million of loans in as at 31 March 2020. This was an increase of £138 million on the previous year. The increase in loans is because of funding previous years' capital programmes.

The Council expects to hold borrowing up to £850m in 2021/22. The total borrowing must not exceed the authorised limit set by the Council of £890 million.

We seek low interest rates, but it is good to be as sure as possible what our interest costs will be in future years.

Objectives of Borrowing Decisions

- To strike an appropriately low risk balance between securing low interest and certainty of costs.
- Flexibility to renegotiate loans should the Council's long-term plans change.

It is much cheaper to borrow for a short period now. Before long term rates rise we intend to lock into fixed rate loans.

Borrowing Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources and to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

Short term borrowing is the cheapest option but leaves the Council exposed to refinancing risk, which can be divided into interest rate risk (the risk that rates will rise) and availability risk (the risk that no-one will lend to the Council).

Long-term fixed rate loans remove the interest rate risk by fixing the rate for the term of the loan. These are have been popular among local authorities but are relatively expensive.

The Council is looking to continue rolling short-term borrowing and has taken an interest rate swap to reduce its interest rate risk. This combines the main benefit of short-term borrowing (the low margin) with the main benefit of the long-term fixed rate borrowing (the fixed rate).

Financial derivative transactions will only be arranged with any organisation that meets the approved investment criteria, using the credit ratings applicable to derivative obligations. Financial derivative will only be made with entities whose lowest published derivative counterparty rating or equivalent is no lower than A-. However, derivative decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

The government increased PWLB rates by 1% in October 2019 making it now a relatively expensive options. A HM Treasury consultation on lowering PWLB rates concluded in July 2020 but the government has yet to publish its response. In the meantime, the Council will continue to borrow short term but if it decides to take long-term loans, it will also look at other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

We are always looking at options to replace existing loans with cheaper alternatives.

The Council will take the option to repay LOBO loans if there is a NPV saving and if there is agreement with the lenders.

The Council will reschedule or repay loans where this is expected to lead to an overall cost saving or a reduction in risk.

The Council will only borrow from approved sources.

These are the lenders we are able to use.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Devon Local Government Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Any other counterparty that are approved by the Council's TM advisors
- A Plymouth City Council bond or similar instruments

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised some of its long-term borrowing from the PWLB and through

These agreements were entered into under different market conditions. Where possible we will replace them with lower cost loans.

Lender's Option Borrower's Option (LOBOs)

The Council holds £64m of LOBO loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment but there remains an element of refinancing risk.

The Council will take the option to repay LOBO loans if there is a NPV saving and if there is agreement with the lenders.

This allows the flexibility to borrow from the Municipal Bonds Agency

Municipal Bond Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. In 2020 the agency issued its first bonds to the capital markets for individual local authorities. By issuing a single name bond, albeit using the MBA's infrastructure, the bond is again "solely, unconditionally and irrevocably guaranteed by the authority. This eliminates many of the problems associated with aggregating funding across authorities, with no need to compromise on funding structure, timing, and no requirement to guarantee the debt of other issuers.

Short-term and Variable Rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

If we can, we will replace existing loans with cheaper new loans.

Debt Rescheduling

Some lenders allow the Council to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Prudential Indicators 2021/22

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

Estimates of Capital Expenditure

The Council's planned capital expenditure and financing may be summarised as follows.

This is how we will fund the investment needed to deliver the Plymouth Plan

Capital Expenditure and Financing	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	196.180	156.976	155.084	127.856
Total Expenditure	196.180	156.976	155.084	127.856
Capital Receipts	1.661	4.493	4.030	2.151
Grants and Contributions	31.303	72.317	39.366	26.383
Reserves	-	-	-	-
Revenue	0.261	0.996	0.091	1.500
Borrowing	162.955	73.170	109.597	100.000
Leasing and PFI	-	-	-	-
Total Financing	**196.180**	**156.976**	**155.084**	**158.500**

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

This is the total past and planned capital expenditure we need to finance.

Capital Financing Requirement	31 Mar 20 Actual £m	31 Mar 21 Estimate £m	31 Mar 22 Estimate £m	31 Mar 23 Estimate £m
General Fund	740.983	897.959	1053.043	1180.899
Total CFR	**740.983**	**897.959**	**1053.043**	**1180.899**

The Council has an increasing CFR and is forecast to rise by £283m over the next two years for the capital programme and therefore will require additional borrowing.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

This is how much we expect to borrow over the three years

Debt	31 Mar 21 Estimate £m	31 Mar 22 Estimate £m	31 Mar 23 Estimate £m
Borrowing	741.531	936.128	1038.450
PFI liabilities & Finance Leases	123.000	125.000	127.000
Total Debt	**864.531**	**1061.128**	**1165.450**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely, (i.e. prudent, but not worst case) scenario for external debt.

This is the flexibility we need to cope with our changing borrowing position from day to day.

Operational Boundary	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	740.000	935.000	1035.000
Other long-term liabilities	125.000	130.000	135.000
Total Debt	**865.000**	**1065.000**	**1170.000**

Authorised Limit for External Debt

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

This is the absolute maximum of debt approved by the City Council

Authorised Limit	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	775.000	980.000	1050.000
Other long-term liabilities	130.000	135.000	140.000
Total Debt	**905.000**	**1115.000**	**1190.000**

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

This measure demonstrates that our proposed borrowing is affordable.

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual	2020/21 Estimate	2021/22 Estimate
General Fund	9.0%	10.8%	11.1%

Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

This is a technical measure prescribed by CIPFA to demonstrate affordability. The Council has not made any decisions on council tax levels in future years.

Incremental Impact of Capital Investment Decisions	2019/20 Actual	2020/21 Estimate	2021/22 Estimate
General Fund - increase in annual band D Council Tax	£10.80	£11.10	£12.90

Adoption of the CIPFA Treasury Management Code

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 edition* in April 2002. It fully complies with the Codes recommendations.

Treasury Management Investment Strategy

This explains the types of Investments under the CIPFA and MHCLG rules including non-Treasury Management Investments

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

**This sets out how we invest any surplus funds.
Security of the funds is paramount**

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA. The balance of treasury investments is expected to fluctuate between £65m and £100m during the 2020/21 financial year.

Objectives

Both the CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher or if unrated an assessment will be made from the financial information available.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

These are the limits we use for making individual investments. They are based on advice from Arlingclose.

Investment Limits

The Council's revenue reserves available to cover investment losses were £60 million on 31 March 2020. No more than 60% of available reserves will be put at risk in the case of a single organisation (other than the UK Government). When considering investment limits in the chart below you must also refer to the credit ratings of the individual organisations (see table above) to make the final assessment.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Treasury Investment Counterparty Limits

Sector	Time Limit	Counterparty Limit	Sector limit
The UK Government	50 Years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£8m	Unlimited
Building Societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£10m
Money Market Funds *	n/a	£12m	Unlimited
Strategic pooled funds	n/a	£25m	£60m
Real estate investments trusts	n/a	£5m	£10m
Loans and investments to unrated corporates	n/a	£5m	£20ml
Other investments, unrated investments in equity, quasi-equity, debt or otherwise	n/a	£5m	£20m

This table must be read in conjunction with the notes below:

Liquidity Management

The Council uses a cash flow forecasting spreadsheet to determine the amount of cash required on a day to day basis to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

This is the rate we expect to pay on new borrowing, and how much we expect to earn on investments.

Council Budget Assumptions for 2021/22

- Investments will make an average rate of 1.5%
- New long-term loans will cost an average rate of 2.7%

Negative Interest Rates

The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

Given the increased risk and very low returns from short-term unsecured bank investments, the Council aims to diversify further into more secure and higher yielding asset classes during 2020/21. The Council holds £50m as a longer-term investment (CCLA Property Fund, CCLA Diversified Fund, Schroder's Income Maximiser and Fidelity Enhanced Income Fund) and these give a higher return than the short term investments. The purpose of having medium to long-term investments is to generate income that supports the revenue budget and the provision of local services.

The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and in short-term money market funds. The Council will continue to look for investment opportunities that give a good return whilst being a secure investment.

Business models:

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in counterparty table above, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating

Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £10m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision.

Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational Bank Accounts

The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than AAA- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances should be kept below £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made

- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

This is how we measure our performance.

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A

This is how we ensure that we have cash available to meet unexpected payments.

Liquidity:

The Council does not keep large amounts of cash in call accounts so that it reduces the cost of carrying excess cash. To mitigate the liquidity risk of not having cash available to meet unexpected payments the Council has access to borrow additional, same day, cash from other local authorities.

This is a technical measure to limit how much we can be affected by changing interest rates.

Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2021/22	2022/23	2023/24
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	95%	95%	95%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Our loans fall due for repayment at various dates. We expect to have mainly fixed rate debt for longer loans. This avoids the risk of extra interest costs.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	90%	10%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	95%	5%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2021/22	2022/23	2023/24
Limit on principal invested beyond one year	£10m	£10m	£10m

Non-Treasury Management Investments

Introduction

The non-treasury management investment strategy was a new report introduced in 2019/20, following the requirements of statutory guidance issued by the government (MHCLG) in January 2018, and focuses on the second and third of the following investment categories.

The Council invests its money for three broad purposes:

1. T**reasury Management Investments** – to invest surplus cash from reserves and as a result of its day-to-day activities, for example when income is received in advance of expenditure;
2. **Service Investments -** to support local public services by lending to or buying shares in other organisations; and
3. **Commercial Investments -** to earn investment income (where this is the main purpose).

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with the CIPFA guidance.

The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in the preceding sections of this document.

Service Investments

Loans

The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities or housing associations etc. to support local public services and stimulate local economic growth. For example the Council has given a loan to Plymouth Community Energy to support the construction of the solar energy farm at Ernesettle.

The council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by the Section 151 Officer and the Leader. All loans will be subject to close, regular monitoring.

Loans are treated as capital expenditure for accounting treatment.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by:

1. reviewing the financial statements of the organisation and reviewing the organisation's business plans and future projections and future cash flows;
2. assessing what security is available to secure the loan and if necessary carry out a professional valuation of any property;
3. using external advisors to provide professional information such as due diligence requirements;
4. the loan agreements are reviewed by our legal team to ensure that they are legally compliant and includes any safeguards for the Council;
5. if an organisation has a credit rating we will carry out a credit check to assist;
6. State Aid rules are taken into account before a loan can be considered.

Shares

The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding shares by reviewing the history of the organisation; its financial statements and its share values. The Council will also look at business plans, future cash flows and any other market information that may affect the organisation.

Liquidity: The Council covers its liquidity for working capital and cash flow by holding cash in its Money Market Fund and being able to borrow short term loans from other local authorities.

Commercial Investments: Property

The MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

Contribution: The Council invests in local and regional, commercial and residential property with the intention of making a profit, after paying the borrowing costs that will be spent on local public services.

Property held for investment purposes

Asset Investment Fund	Actual Prior to March 2020	Estimate 2020/21	Forecast 2021/22
Commercial Property	£216.411m	£30.000m	£30,000m
Net Income	£3.527m	£0.600m	£0.600m
Net Return	2.2%	2.0%	2.0%

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

Where the fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council will take mitigating actions to protect the capital invested. These actions include enhancing or refurbishing the assets and reviewing the rents agreements.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by carrying out the evaluation process described below. The risk of not achieving the desired profit or borrowing costs increasing or the having vacant premises is partially covered by a void reserve. Annual payments are deducted from the rental income each year to add to the void reserve.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council makes an internal charge (service borrowing) to cover the capital repayments from the rental income.

The Council also makes alternative arrangement to cover their short term cash requirements.

Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 4: Proportionality of Investments

	2019/20 Actual
Gross expenditure on provision of services	£537.631
Gross Investment income	£3.527
Proportion	0.66%

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has chosen not to follow this guidance and has previously borrowed for this purpose because it wants to generate income to support its local economy and its statutory duties. This is a common practice by local authorities since the Localism Act of 2011.

Investment Evaluation Process

The Council's due diligence assessment processes are consistent and robust evaluation process and is set out below:

1. Proposed investment opportunities are reported by suitably qualified and experienced in-house MRICS (Member of the Royal Institute of Chartered Surveyors) professionals.

2. This assessment provides analysis of a set of key criteria against which every prospective purchase is evaluated. The presentation of information highlights fundamental matters such as tenant covenant strength, lease length and location, in a transparent and consistent format, to support clear scrutiny and decisions.

3. The assessment provides a basis for scoring and weighting risk, to support the analysis of potential acquisitions and qualify overall suitability for inclusion in the portfolio.

4. The score threshold is not an absolute, but helps guide decisions.

5. To ensure arms-length objectivity, external agents provide professional market analysis, data and advice, in the context of the Property Investment Strategy, to support the evaluation and internal reporting process.

6. Since tenant default is a significant threat to the performance of the property investment financial checks are made on the proposed tenants. This is augmented by additional internal assessment of tenants' covenant and likely future performance.

7. With all the additional information a detailed model is produced. The model is tailored for each prospective investment, by including items such as future demand, yield, cash flows; rental movement, optimal holding periods for the property and data to support profitability modelling.

8. If a decision is made to proceed, in-house surveyors lead negotiations, via the introducing/retained external agents, who are professional property firms.

   - A valuation, in accordance with the RICS Red Book, Professional Valuation Standards, issued by RICS as part of their commitment to promoting and support high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.

   - A Building Survey report, as part of the proposed purchase for investment purpose, including preparation of a Site Environmental Assessment and preparation of a Reinstatement Cost Assessment for insurance purposes.

9. The above is reviewed by the Asset Portfolio Manager as an experienced in-house MRICS (Member of the Royal Institute of Chartered Surveyors) professional, with support from the internal multi-disciplinary property teams, for final decision by the Head of Land and Property on whether to proceed.

10. Head of Land and Property Projects receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process.

Property Investment Governance

Clear, robust and transparent governance is critical to the strategy, meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective arms-length external advice where appropriate. It is also important to ensure any decision process retains fluidity, so officers are empowered to respond promptly and competitively, to investment opportunities in the market and avoid missing opportunities through delay.

The Council to acquire or dispose of land is vested in the Head of Land and Property and where the land is purchased through the Asset Investment Fund a proposal is presented to the City Capital Investment Board (CCIB) a recommended for authorisation by the relevant Leader, Legal and the Section 151 Officer.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director of Finance is a qualified accountant with over 20 years' experience.

The Council employs staff with professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc. and pays for junior staff to study towards relevant qualifications.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Head of Land and Property and the property team receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process.

How investments are funded:

Asset Investment Fund commercial property purchases are funded by borrowing. The borrowing is not directly taken out against each property but is managed through our Treasury Management function.

The rental income generated from the purchasing of commercial property is used to repay the borrowing before the net income is used in the supporting of services.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council.

Annual Minimum Revenue Provision Statement 2020/21

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision (the MHCLG Guidance) updated in 2018.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

Minimum Revenue Position Policy

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP.

For assets acquired after 31 March 2008 MRP will be determined by charging the expenditure over the expected useful life of the asset, to a maximum of 50 years, on an annuity basis, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is funded from revenue with an option that part or all of the payment could be funded from capital receipts to repay debt.

MRP will commence in the financial year following the asset coming into use or after purchase.

Expenditure funded by borrowing where the project is being built and is not complete at 31st March 2018 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

For capital expenditure incurred before 1st April 2008, for supported capital expenditure incurred on or before that date, MRP will be charged on an annuity basis over 50 years, incorporating an "Adjustment A" in accordance to the guidance.

Investment properties will be charged MRP for properties that have reduced in value at the year-end valuation. For investment properties that have increased in value at the year-end valuation these will have nil MRP charge in that year. The investment properties are required to have life cycle maintenance and therefore are assumed to increase in value over time. This will extend the life of the assets and therefore it would not be appropriate to charge MRP.

All investment properties that are sold by the Council will use the capital receipts to repay the outstanding loan finance for that property before any balance of capital receipts is available for other capital projects.

External Loans

For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Capitalisation Directions - For capitalisation directions on expenditure incurred after 1 April 2008 MRP will be made using the annuity method over 50 years.

PFI/Leases - For assets acquired by leases or the Private Finance Initiative, the Council has changed its policy with effect from 01/04/2021 that MRP is charged over the life of the assets on an annuity basis. This is in line with the Council's MRP policy for all other assets as described above.

Other Items

There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

Policy on use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit for the purpose of making new investments.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before

Investment Training

The needs of the Council's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Markets in Financial Instruments Directive

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Other options considered

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be less than one year, although the Council is not required to link particular loans with particular items of expenditure.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic and Interest Rate Forecast November 2020

Underlying assumptions

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.
- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.
- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

Appendix B - Existing Investment and Debt Portfolio Position

	31 Oct 2020 Actual Portfolio £m	31 Oct 2020 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	44.3	5.76
Short Term Borrowing	416.5	0.50
LOBO Loans	64.0	4.34
Long Term Borrowing	18.0	4.37
Total External Borrowing	**542.8**	**1.51**
Other Long Term Liabilities:		
PFI, Finance Leases and other liabilities	102.0	n/a
Other loans	16.6	n/a
Total Gross External Debt	**661.4**	
Investments:		
Managed in-house		
Short-term Money Market Funds	6.7	0.08
Other Short Term investments	3.6	0.40
Managed externally		
CCLA Pooled Funds	25.0	2.50
Other Pooled Funds	30.0	1.78
Total Investments	**65.3**	1.77
Net Debt	**596.1**	

Treasury Management Strategy 2021-22

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Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	30 November 2020
Title of Report:	**Capital Financing Strategy 2021/22**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	Chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report sets out the Capital Financing Strategy for 2021/22 and is a requirement of The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.

Recommendations and Reasons

1. The Audit Committee recommends the Capital Financing Strategy 2021/22 to the Council for approval.

   This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected

It is a statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the CIPFA Code of Practice for Treasury Management.

Relevance to the Corporate Plan and/or the Plymouth Plan

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for the Medium Term Financial Plan and Resource Implications:

The cost of capital affects the Treasury Management Strategy and the Council's budget in terms of borrowing costs and investment returns. The Capital Strategy provides an overarching policy framework for the Council's capital programme and planning, and will form part of a suite strategies which provide a holistic view of the Councils financial planning framework. With this in mind this

document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.
The Capital Financing Strategy covers the capital programme; capital budget; governance; capital financing; affordability and risk management.

Carbon Footprint (Environmental) Implications:
Click here to enter text.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*
A robust Treasury Management Strategy is key to ensuring a successful delivery of our Medium Term Financial Strategy and ensuring the Council can achieve its objectives to be a Pioneering, Growing Caring and Confident City.

Appendices
**Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	2	3	4	5	6	7
A								
B								

Background papers:
**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	2	3	4	5	6	7

Sign off:

Fin	PL.20.21.156	Leg	35674/AC/19/11/20	Mon Off	35674/AC/19/11/20	HR		Assets		Strat Proc	
Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 11/11/2020											
Cabinet Member approval: by Cllr Mark Lowry by email Date approved: 17/11/2020											

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CAPITAL FINANCING STRATEGY 2021/22

INTRODUCTION AND CONTEXT

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas. It is a requirement of the amendments implemented in the 2017/18 Treasury Management Code of Practice Guidance that all Local Authority's will need to produce a Capital Strategy each year.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

The strategy will provide an overarching policy framework for the Council's capital programme and planning, and will form part of a suite of strategies which provide a holistic view of the Council's financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

CAPITAL FRAMEWORK

The Council approved the Plymouth Plan in 2015 which sets out the strategic direction for the city.

The Plan identifies specific strategic outcomes for the Council and its partners for the medium and longer-term; these outcomes align to those set in the Plymouth and South West Devon Joint Local Plan.

Performance is measured towards the delivery of the agreed outcomes and reported against on an annual basis.

In February 2020 the Council approved a budget which contained an uplift to the revenue budget of £1.771m to meet the increased costs associated with borrowing requirements to fund the capital programme. The current MTFP contains proposals to further increase this sum by £1.485m in 2021/22, £1.648m in 2022/23 and £1.199m in 2023/24. The MTFP sets out a summary of schemes that the Council wishes to support and an indicative level of Council financial support which will assist in the delivery of those schemes which all deliver towards the city's outcomes.

GOVERNANCE

The Financial Regulations detail how capital projects are approved and added into the capital programme.

All new schemes must be fully financed and receive relevant approval by Section 151Officer; up to £0.200m, or by the Leader when above this threshold.

Each scheme will need to detail:

- the aim of the project and any other ways of achieving it
- effects on staffing
- legal, contractual and prudential borrowing code implications

- if the Council is acting through an agent or partnership, legal advice must be sought on whether it has the power to act this way
- if it is a key decision, any comments made during consultation and the Council's response
- the estimated amount and timing of any capital and revenue spending.

All proposed new schemes will need to demonstrate how they meet the requirements of the City by presenting a Business Case for approval and detail which of the City's outcomes are being achieved and how the scheme will address this need.

Due diligence is carried out on all new proposals to determine whether the scheme is deemed suitable. Financial and capital planning reviews are carried out prior to any Business Case being presented to the City Council Investment Board to provide members with the confidence that the schemes meet the expected requirements in line with the strategic direction of the city.

Once accepted, all new schemes, which will require both finance and legal sign-offs, are published in the Executive Decision along with the Leaders decision.

CAPITAL BUDGET

The Capital Budget is the collective term which defines two key elements; the Capital Programme as approved by the Leader or S151 Officer and Future Income Assumptions which refer to the funding available for future projects yet to be approved.

The Capital Programme is the list of schemes which have a confirmed financing source and have been approved for capital investment by the Leader following consideration of a robust, evidence-based business case.

"Income Assumptions" is the term used to refer to funding that the Council expects to receive or allocate to finance schemes which have not yet been approved. Income Assumptions consist of both ringfence and unringfenced resources.

Ringfenced resources are essentially those that can only be applied to a specific purpose and include specific grants and S106 contributions etc. Unringfenced resources can be applied to any project and include unringfenced grants and corporate borrowing etc.

CAPITAL PROGRAMME

Once approved, schemes are added to the capital programme for delivery.

The table below details the Capital Programme as reported to Cabinet in November 2020, including, amongst others, the following schemes:

- Derriford Transport Scheme
- Forder Valley Link Road
- Northern and Eastern Corridor Improvements
- The Box
- Plymouth Railway Station Regeneration
- Oceansgate
- Asset Investment Fund
- Bereavement Infrastructure
- Schools Basic Need

Any adverse variance to approved schemes are required to seek further approval, with identified funding, to enable authorisation for increased expenditure providing details of the variance.

Capital Programme by Directorate

Directorate	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
People	6.837	1.882	7.009	3.025	0.000	**18.753**
Place	130.998	112.341	78.848	10.705	2.676	**335.568**
Customer and Corporate Services	7.932	30.618	0.000	0.000	0.000	**38.550**
Public Health	5.209	7.804	0.000	0.000	0.000	**13.013**
Total	**150.976**	**152.645**	**85.857**	**13.730**	**2.676**	**405.884**

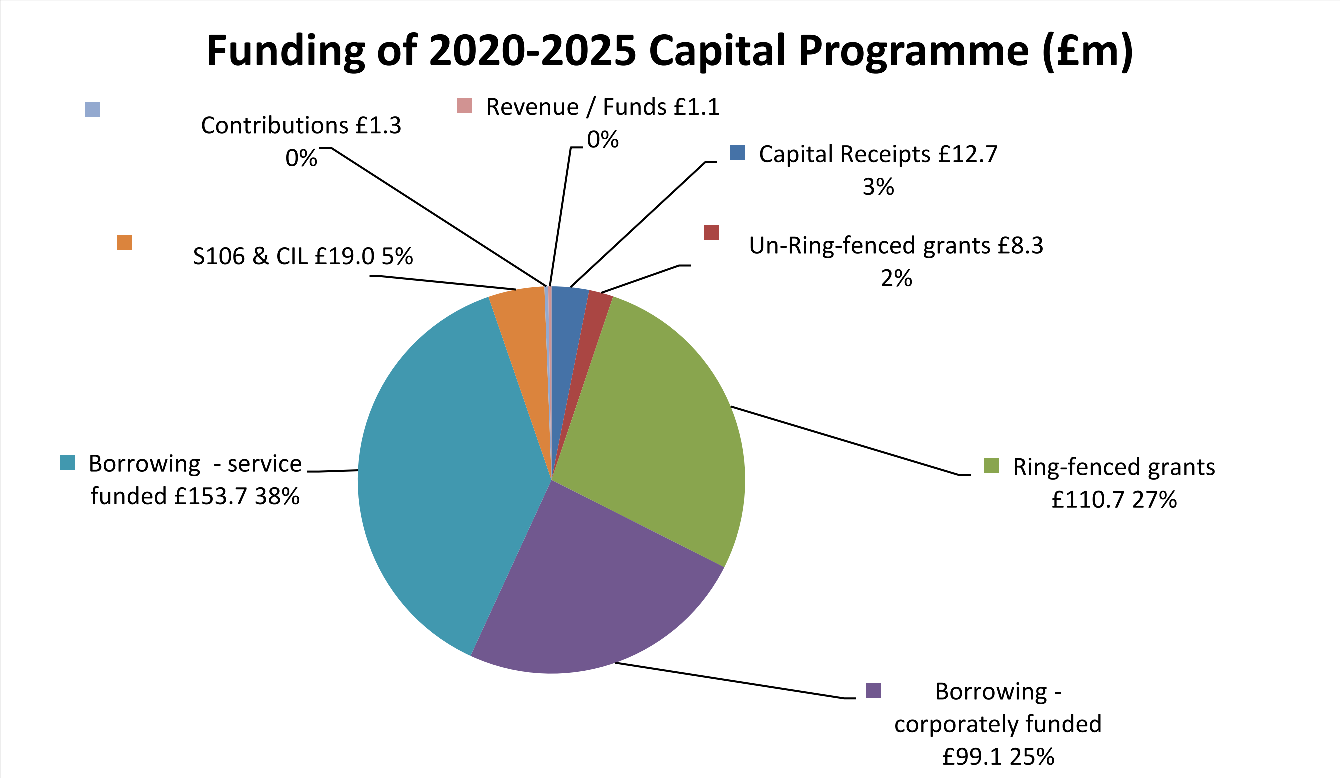
CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is defined as money spent on assets, such as property or vehicles, which will provide a service benefit for more than one year. In local government, this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 (land and buildings) and £5,000 (vehicles, plant or equipment) are not capitalised and are charged to revenue in year.

Capital expenditure is financed by a range of sources which may either be ringfenced or unringfenced. The source of financing is always identified and approved at the time of capital project approval. The capital programme is currently financed by:

- Capital Receipts;
- Grants and contributions;
- S106 and Community Infrastructure Levy (CIL);
- Revenue Contribution to Capital Outlay (RCCO);
- Borrowing – both funded corporately, or where schemes deliver a saving, this is offset against the project and repaid by service.

The Council has approved medium-term capital expenditure of £405.884m as summarised below by funding source.



ASSET INVESTMENT FUND (AIF)

The Asset Investment Fund's strategic objectives are to deliver regeneration, economic and employment growth in Plymouth and the Functional Economic Area (Local Economic Partnerships; Cornwall and the Isles of Scilly and Heart of the South West). The council will manage its commercial property portfolio seeking to maintain a ration of no more than 20% of its holdings within the wider area and minimum of 80% being within the city council boundaries.

This will enable the Council to invest in direct developments and forward funding opportunities to promote regeneration and economic growth in Plymouth and the Functional Economic Area.

A robust and well-defined investment strategy is used to manage risk and a key pillar of this is establishing a diversified portfolio with regards to property sector (retail, office, industrial etc.), tenant type and income-expiry profile. Diversification is considered best practice by fund managers to help to minimise portfolio risk and avoid portfolio return volatility (due to different correlations of investment types with exogenous factors). A diversified income-expiry profile will ensure that the funds income return is robust across a number of scenarios.

All investment decisions will be fully accountable and follow a sequence of internal reporting and sign-offs. In addition, verification of purchase prices by external suitably qualified RICS Approved Valuers is obtained prior to any investment.

In terms of on-going governance arrangements, the AIF is managed in accordance with the existing quality assurance framework of the Council's existing commercial property portfolio. In addition, the team undertake regular analysis at both a portfolio and property-level to benchmark AIF performance and manage risk. Bespoke industry-accepted property fund management software is used to assist in this monitoring. To improve transparency and disclosure, a monthly fund managers' report is produced and an AIF Management Group of key stakeholders meet quarterly to review the investments and the performance.

The Asset Investment Fund has approved investment of £238 million in commercial property including direct development and forward funding commercial property schemes to deliver:

- Stimulation of economic and employment growth and regeneration in the City.
- Long-term income generation (via rental revenues) to support the wider financial position of the Council.

The Asset Investment Fund has a well-defined investment strategy to manage risk. A key pillar of this is establishing a diversified portfolio with regards to property sector (retail, office and industrial), tenant type and income-expiry profile. The investment approach is also to primarily target secure investments, which generate a net initial yield in excess of 5% per annum (before debt servicing). The Fund supports the affordability of the revenue budget through the generation of long term income realisation.

The adoption of an Asset Investment Framework provides a sound basis and evaluation criteria on which future property investment acquisitions can be assessed and the performance of the existing investments monitored. This will ensure that the Council's commercial estate will provide a secure long term income stream to help front line service delivery and support the economic development of the City.

AFFORDABILITY

The Council considers all finances from a prudent perspective; this includes the assessment of affordability of all capital investments.

At the point of approval of a scheme, both the funding implications and any ongoing revenue implications are evaluated to enable informed decisions to be made regarding investment opportunities.

Project managers responsible for capital schemes requiring in excess of £0.500m will generally be expected to present a cost benefit analysis to support decision making.

The short, medium and longer-term impacts are all assessed taking into account any other wider policy implications which could impact on the decision.

As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing is linked to the Public Works Loan Board (PWLB) interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2021/22.

RISK MANAGEMENT

The Council considers it's appetite to risk to be low. Risks are assessed continually from both an operational and financial perspective.

In carrying out due diligence, potential project risks are identified and relevant mitigation measures documented prior to approval.

All risks are then managed in line with the Council's risk management policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

Subject to careful consideration, the Council may consider investing in a higher risk initiative should there be a significant direct gain to the Council's resources or enable more effective delivery of statutory duties.

KNOWLEDGE AND SKILLS

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director of Finance is a qualified accountant with over 20 years' experience.

The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc.

Where Council staff does not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	30 November 2020
Title of Report:	**Internal Audit Half Year Report 2020/21**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Brenda Davis, Audit Manager
Contact Email:	Brenda.davis@devonaudit.gov.uk
Your Reference:	AUD/BD
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report provides Members of the Audit and Governance Committee with:

- a position statement on the audit work carried out since April 2020;
- the reviews scheduled for quarters 3 and 4;
- those areas which can be delivered as part of next year's audit plan or, are no longer required;
- the Head of Internal Audit's mid-year assurance opinion of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework

Due to impact of Covid-19 it has been necessary for Devon Audit Partnership review our approach to delivery of audit work in these rapidly changing and difficult times. We recognise that tying up key staff who continue to work under immense pressure responding to the challenges brought by the pandemic would not be welcomed and our approach has been to liaise with managers and where possible, use remote access to information and to minimise client disruption.

We also continue to liaise closely with management to identify changes in processes and procedures and new areas of expenditure. This risk-based approach has resulted in changes to the audit plan with new areas being included which in turn necessitates some areas being deferred to next year.

Recommendations and Reasons

The Audit & Governance Committee are required to:

- Review and note the findings within the report,
- Review and note the Head of Audit mid-year assurance opinion, and
- Review and approve the in-year changes to the audit plan.

Alternative options considered and rejected

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2015.

Relevance to the Corporate Plan and/or the Plymouth Plan

The Internal Audit service assists the Council in delivering robust standards of public accountability and probity in the use of public funds and has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

Our work supports delivery of the values and priorities set out in Corporate Plan by ensuring that resources are used wisely, and service areas understand and deliver quality public services which meet customer and community needs and keep people safe.

Implications for the Medium Term Financial Plan and Resource Implications:

Delivery of the audit plan will assist the council in delivering value for money services and help ensure an effective control environment as the Council respond to the ongoing challenges of the Covid-19 pandemic.

Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

Appendices

**Add rows as required to box below*

Ref.	Title of Appendix	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	DAP – Internal Audit Half Year Report 2020/21							

Background papers:

**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are <u>unpublished</u> works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

Fin	pl.20.21.137	Leg	lt/35624/111120	Mon Off	Click here to enter text.	HR	Click here to enter text.	Assets	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 09/11/2020											
Cabinet Member approval: Cllr Lowry by email Date approved: 25/11/2020											

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DAP - Internal Audit Half Year Report 2020-21

Plymouth City Council
Audit & Governance Committee

November 2020

Official

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

CUSTOMER SERVICE EXCELLENCE CSE

Introduction

The Audit and Governance Committee, under its Terms of Reference contained in Plymouth City Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2020/21 was presented and approved by the Audit Committee in July 2020 but Covid-19 has presented considerable operational challenges to the Council which has inevitably introduced some different risks. We have worked with management and "flexed" the plan to incorporate new areas of work and recognising that there is less than six months available to complete the IA annual plan, we have identified and agreed those areas which can be delivered as part of next year's audit plan or, are no longer required. This approach will ensure that the work we deliver has the correct focus to enable us to continue support the Council through these difficult times and provide an annual assurance opinion at the end of 2020/21.

The following report and appendices set out the background to audit service provision; the review of work undertaken in the year to date highlights the areas not included in the original audit plan and details those assignments we propose for deferral until 2021/22 or which are no longer required. The report also provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report supports that opinion.

Expectations of the Audit and Governance Committee from this report
Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- the overall performance and customer satisfaction on audit delivery and;
- review and approve the in-year changes to the audit plan.

In review of the above the Audit Committee are required to:

- consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained at an adequate level to mitigate risks and inform the Executive for governance requirements, and
- review and approve the in-year changes to the audit plan.

Robert Hutchins
Head of Devon Audit Partnership

Opinion Statement

Overall, based on work performed to date during 2020/21 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework

The professional practice of internal audit within the public sector is governed by the Public Sector Internal Audit Standards (PSIAS). Whilst these are now consistent across the public sector, there has been no common practice regarding how best to report the overall results, i.e. the "engagement opinion", of internal audit work at the end of each assignment or the Head of Internal Audit's overall assurance opinion.

The CIPFA Special Interest Group (SIG) for Internal Audit considered this issue and in April 2020 reported that they had identified a range of current reporting practices and opinions in use, and by far the most common practice was four levels of assurance opinion on the engagement. Based on their analysis of existing practice, the CIPFA SIG recommended the use of four standard internal audit assurance opinions which DAP has adopted.

The ratings of:

- Substantial Assurance
- Reasonable Assurance
- Limited Assurance
- No Assurance

replaces the previous High Standard, Good Standard, Improvements Required and Fundamental Weaknesses ratings that we have used when reporting on each audit assignment, and the Full Assurance, Significant Assurance, Limited Assurance, No Assurance previously used for the overall Head of Internal Audit opinion. The work undertaken in the year to date together with knowledge from previous reviews have informed the Head of Internal Audit's Opinion on the internal control framework. Should any significant weaknesses be identified in specific areas, they will need to be considered by the Authority in preparing its Annual Governance Statement later in the year for publication alongside the Statement of Accounts for 2020/21.

Substantial Assurance	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.	**Limited Assurance**	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.	**No Assurance**	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

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Review of Audit Coverage

There are challenges in completing the 2020/21 audit plan in our traditional manner and we have developed different practices to enable us to deliver our assurance. This includes confirmation of key controls, remote testing wherever possible of these controls (so as not to disturb / disrupt operational staff) and using data analytics generated from system data. This approach was discussed and agreed with the S151 officer and the DAP Management Board prior to bringing a report to the July meeting of the Audit and Governance Committee.

Overall, reasonable progress has been made in the first half of the year, including completion of any work carried forward from 2019/20 and real time support provided to service areas where new systems have had to be rapidly put in place to help the citizens of Plymouth, in the administration of grants and adaptations within some services.

In the course of our work we have witnessed how officers of the Council have faced up to the challenges resulting from Covid and worked tirelessly to deliver services and pay grants. Business rates grants is an example where funding in excess of £47m has paid in respect of nearly 4000 accounts and we have found that the administration of the grant scheme was in accordance with scheme guidance, all payments made have been fully reconciled and state aid rules complied with.

Migration of the iTrent HR/Payroll solution to CoreHR has been a critical project for the Council. This Plymouth City Council / Delt project has benefitted from strong governance, ensuring that decision making has been timely, well informed and made by appropriately senior board members. In our opinion the use of 'Extraordinary' Project Board meetings has been well judged and appropriate to circumstances. The Project Manager continues to draw on their considerable experience in orchestrating large projects and programmes and has previously worked closely with the current Project Team which also brings benefits.

However, the financial impact of Covid-19 on the Council (and other Authorities across the Country) due to increased demand for services such as children's social care and homelessness, combined with loss of income from taxation and charges cannot be underestimated and will remain a significant and enduring challenge unless the Government fully fund the shortfall.

The rapid and necessary move to home working for many has the potential to impact the IT controls system in different parts of the business. How this risk is mitigated against will be one of our key considerations when we embark on our Cyber Security work. The risk of reduced control due to a socially distanced workforce is also considered as part of our other reviews.

A table showing the status of planned, unplanned and deferred audits and their associated reported executive summaries is contained at Appendix 1.

Fraud Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise, The National Fraud Initiative (NFI), every two years. For the 2019/20 exercise, DAP have co-ordinated the extract of relevant Council datasets, as defined by the Cabinet Office. Departments have supplied their datasets (listed below) and these were uploaded onto the NFI secure website in October in accordance with the NFI timetable. The subsequent matching reports are due back from the Cabinet Office in February 2021

NFI datasets:

- Council Tax;
- Creditor Payments;
- Housing Benefits;
- Payroll / Pensions;
- Housing Waiting Lists;
- Taxi Licencing *
- Transport Passes (including blue badges and concessionary bus passes).
- Covid 19 Grants (note this data had a different timetable and has yet to be submitted but will be provided by the deadline of 21 January 2021).

*Market trader licences and personal alcohol licences are no longer a part of the mandatory NFI requirements and as such have not been submitted this year. Local Authorities can choose to pay an additional fee to process this data and DAP will be confirming costs and checking interest with relevant officers once the mandatory data has been processed by the Cabinet Office. However, it should be noted that the datasets were removed from the mandatory requirements as nationally they were not found to have yielded significant positive results since their inclusion in NFI. The results in Plymouth are consistent with the national picture with no fraud or error having been identified relating to these datasets during the last NFI exercise in 2017/18.

Irregularities – DAP have provided management with a range of advice and support on courses of action or improvements to controls.

Active Counter Fraud Investigation – The Plymouth City Council Corporate Fraud Team transferred to the Devon Audit Partnership (DAP) in May 2018 and is now known as the Counter Fraud Services Team within DAP. The team continue to offer a full and comprehensive investigation service to Plymouth, whilst offering a commercialised service to other DAP partners in order to provide Plymouth City Council with a return on its investment.

The Counter Fraud Team Manager has prepared a separate report summarising work undertaken in the year to date.

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Appendix I - Assurance Opinion and Extract Executive Summaries – up to 30 October 2020

Risk Assessment Key

ANA - Audit Needs Assessment risk level

Client Request - no risk assessment information available

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
Customer and Corporate / Finance		
Core Assurance – Key Financial System		
Payroll (iTrent System) Payroll (CoreHR) ANA – High *Time was only allowed for CoreHR payroll system in the original plan* and not iTrent	Status: In Progress	Work has commenced on the final audit of the iTrent Payroll system to provide assurance on the control environment for the period April to October. A separate review of the new CoreHR system which has gone live in November will be carried out in quarter 4 to provide assurance for the remainder of the year.
CoreHR System Implementation ANA – High *Not included in original plan*	Reasonable Assurance Status: Final	Internal Audit have monitored Delt's CoreHR project during the past year. Issues identified within the CoreHR solution have either been resolved or workaround processes evolved to ensure accurate payment and administering of statutory and non-statutory deductions. Governance has been of a high standard and the project has significantly benefitted from the highly experienced project team. Effective workaround procedures have been built into 'Pay Cycle' processes for initial live operation following testing and refinement during the five parallel run testing that has been undertaken. Review of the process and content of the parallel run testing confirmed that anomalies have been identified and used to inform live operation process and remediation as appropriate. The third-party hosting of the Councils data introduces additional risks, with 'Cyber' threats of particular relevance. Following the conducting of Penetration Testing to identify potential data security vulnerabilities by an accredited testing company the limited issues identified have been remedied by Delt.
Business Rates (NNDR) ANA - Low	Status: In Progress	Work has commenced on the annual review of the system for the billing and collection of Business Rates.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
The following reviews are scheduled to start across quarters 3 and 4. • Civica Financials: ❖ Creditors ANA - High ❖ Main Accounting ANA - High ❖ Debtors ANA – Medium ❖ Material Systems – System Admin ANA - High • Academy Revs & Bens: ❖ Housing Benefits ANA - High ❖ Council Tax ANA - Medium • Treasury Management ANA – Medium		
There is no start date for the implementation of the new Civica Icon Income Management module, therefore time will be allowed in the 2021/22 audit plan for this work.		
Core Assurance - Other		
Payment Modernisation Board *Not included in original plan*	Status: Ongoing	The Council has set up a Payment Modernisation Board and it has been requested that there is DAP representation on the Board. The first meeting was in October.
Health & Safety Follow-Up (Street Services) *Not included in original plan*	Improvements Required Status: Draft	All improvement works requested in our December 2019 internal audit report, have been addressed. We have undertaken some follow-up work that concentrated on key areas such as the use of the HAV VECS calculator and the establishment of electronic personnel files which contain health surveillance information on Hand Arm Vibration. Changes in staff and the Covid-19 pandemic lockdown have impacted progress in developing the effectiveness of the administrative procedures. There is a time limited action plan in place to respond to the recommendations, overseen by the Service Director in Street Services. The HSW Annual Report for 2019-20 provides further detail.
Health & Safety Follow-Up (Bereavement Service & Mt Edgecumbe Country Park) *Not included in original plan*	Improvements Required Status: Draft	All improvement works requested in our December 2019 internal audit report, have been addressed. Plans are in place to undertake follow up audits within the Mount Edgecumbe Country Park to review any further progress made.
Housing Benefit Overpayments – Potential Impact on Recovery Following Migration to Universal Credits	Value Added Status: Final	At the end of May 2020, the Council had circa 1500 cases where overpayments were being recovered direct from ongoing Housing Benefits (HB). Most of these cases relate to working age customers, and therefore likely that the majority will in due course migrate to Universal Credits (UC). As subsidy payments have been received from the DWP in respect of these

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		overpayments, following migration to UC the historic debt will remain with the Council. Recovering by way of attachment to a UC claim is seen as a last resort once other recovery methods have been exhausted, The Revenues & Benefits department advise that the continued use and prioritisation of the HB Debt Recovery Service remains the most effective way of targeting recovery as and when benefit claimants move into employment.
Purchasing Cards	Status: In Progress	Work is nearing completion on our review of the use of Council Purchasing Cards which included a survey of purchasing card users and approvers to identify the effectiveness of the control framework and gain insight into the knowledge and understanding of card users.
Information Asset Management Client Request	Added Value Status: Final	A review of a limited number of the Council's key business solutions identified that there are opportunities to further evolve and develop them to optimise their potential value as opposed to introducing new business solutions. In addition, the Office 365 suite provides document management and storage opportunities that could improve information management and facilitate an exit from the existing corporate arrangement (S:Drive). To maximise the benefit that can be obtained from the Councils information assets, reporting and data analytics should be employed, with the corporate wide use of the Office 365 PowerBI solution the most logical approach.
Real Time Ad-Hoc Support Provided in Relation to Covid-19 *Not included in original plan*	Status: Complete	Applications for cash grants for businesses in receipt of small business rates relief or for retail, hospitality and leisure businesses with a rateable value of £51,000 or less were run through the government 'Spotlight tool' which performs automated due diligence checks. Any rejections were referred to DAP to perform further manual checks, including contacting the ratepayer, to determine if the application should be rejected or if there has been an error and it should be paid.
Business Rates Grant Post Event Review *Not included in original plan*	Status: In Progress	In response to COVID 19 the Government provided a financial support package for small businesses and businesses in the retail, hospitality and leisure sectors. This support took the form of two grant funding schemes which were funded by Central Government but administered and paid by Local Authorities. In Plymouth, the Council identified 3949 NNDR accounts who appeared eligible for support. Of the accounts identified, grant funding in excess of £47m was paid in respect of 3715 accounts.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		Assurance can be provided that the administration of the grant scheme within Plymouth was done so in accordance with scheme guidance, all payments made have been fully reconciled, state aid rules have been complied with and any identified instances of error or suspected fraud subject to appropriate recovery action and / or referral to the DAP Counter Fraud Team. To provide further assurance that the scheme has not been adversely impacted by fraud the DAP Counter Fraud Team have undertaken a risk assessment, based on local knowledge and experience, of grant recipients and are continuing to work through a sample of grants to confirm eligibility.
Schools Financial Value Standards (SFVS)	Status: Complete	Assurance was reported in the September 2020 Progress Report; please refer to that report for details.

The following reviews are scheduled across quarter 3 and 4.

- Cyber Security ANA – High
- Declarations of Interest ANA – Medium
- Client Financial Services F/Up ANA – High
- Recruitment ANA - High
- Acting Up Duties ANA – Medium

It has been agreed with management that the following reviews will be deferred until 2021/22.

- Finance Service ANA – Medium
- Collection Fund ANA – Medium

The review of Procurement is no longer required as it was linked with the possibility of the service transferring to Delt which has not happened, neither is there any longer a need for us to undertake work around Governance Arrangements (Statutory Officer).

Executive Office

Core Assurance - Other

Electoral Services ANA High	Status: In Progress	Work is being carried out by DAP to compliment a review of aspects of the electoral registration process which the Council has commissioned from the Association of Electoral Administrators (AEA). With the increasing use of electronic data, DAP will specifically validate the effectiveness of the protocols in place to administer electoral registration data as well as compliance with existing Quality Assurance (QA) processes. Broad assurance will also be

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		provided in terms of the actions taken by the Council to improve protocols to ensure the accuracy and integrity of the its electoral register.
It has been agreed with management within the Executive Office to defer the following reviews to 2021/22. • Minute Books ANA Low, Client Request • Gifts & Hospitality F/Up to the 2019/20 review ANA Medium		
People		
Core Assurance – Key Financial System		
The final report from the original review was not finalised until March 2020 and the follow-up to this report will be carried out early in 2021/22. • CareFirst - Children Independent Placements F/Up ANA – Medium		
Core Assurance - Other		
OLM Eclipse System Implementation *Not included in original plan*	Status: Ongoing	CareFirst 6 is the case management, payment and charging system used by Children's and Adult Social Care teams for more than 20 years. The next-generation replacement for CareFirst is OLM Eclipse and the Project Manager, Strategic Co-operative Commissioning has requested real-time support and challenge for this highly sensitive and critical project from DAP's Senior IT Auditor on both the Social Care IT Project Board together and at the pending 'Discovery' workshops
Infection Control Fund for ASC *Not included in original plan*	Value Added Status: Final	Care Home Providers who were recipients of Infection Control funding were required to complete and submit a return to Plymouth City Council detailing how their allocation of the grant had been spent. Based on out examination of the first tranche of returns we can provide assurance that the majority of spend linked to broader infection control measures. The detailed findings from our work has been considered by officers as they communicated with Providers regarding the second tranche of funding.
Children's Short Break Contracts ANA – Medium, Client Request	Status: Final	Assurance was reported in the September 2020 Progress Report; please refer to that report for details.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
FullyCATERed Ltd (Accounting Arrangements) Client Request	Value Added Status: Final	Assurance was reported in the September 2020 Progress Report; please refer to that report for details.
Finance & Assurance Review Group (FARG) ANA – High Client Request	Status: Ongoing	The purpose of FARG is to provide oversight, scrutiny and assurance of the integrated fund and internal audit continue to have a seat on FARG providing real time.
Real Time Ad-Hoc Support Provided in Relation to Covid-19 *Not included in original plan*	Value Added Status: Complete	We worked with Co-Operative Commissioning to develop procedures for staff working across the community assisting people with shopping or accessing cash to ensure that officers had a clear, proportionate but robust process to follow.
Grant Certification Statutory	Regulatory Requirement	Grants certified without amendment: • IBCF Disabled Facilities Capital Grant 31/3710

The following reviews are scheduled across quarters 3 and 4.

- Alliance Contract ANA – Medium, Client Request
- Children's Additional Spend ANA – Low, Client Request

It has been agreed with the Head of SEND that the following review will be carried out early in 2021/22.

- Special Educational Needs & Disability (SEND) Contracts ANA – Medium, Client Request

Due to the increase in demand for services provided by Community Connections (CC) as a result of Covid, the loss of a key member of staff and delays in the delivery of the new IT solutions, we have agreed to defer the following reviews to 2021/22.

- Anti-Social Behaviour Tools ANA – Medium, Client Request
- Community Connections - New Business Solutions

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
Office of the Director of Public Health		
It was agreed with ODPH to include a small "pot of days" in the plan but as a result of Covid19, work for the service has changed and the Director has advised that the service have not been able to identify any areas that would be useful this year.		
Place		
Street Lighting ANA - Medium	Status: In Progress	We have commenced work on this review to evaluate and report on the adequacy of systems, controls, processes and procedures used to manage the Council's street lighting infrastructure.
Garage Follow-Up ANA – Medium, Client Request	Status: In Progress	The Council's Fleet & Garage service was transferred to Plymouth Highways in May 2017 and subsequently restructured to provide separate management responsibility for the Fleet and Garage elements of the service. In 2019/20 we carried out a review of the governance and administrative arrangements within the Garage Service and we have just commenced a follow-up review to measure the progress in implementing the recommendations from that report.
Capital Programme Governance ANA – High Client Request	Substantial Assurance Status: Draft	Assurance was reported in the September 2020 Progress Report; please refer to that report for details.
Empty Homes Scheme ANA – Medium Client Request	Reasonable Assurance Status: Draft	Overall, the administration, operational and management arrangements to support empty homes back into use are of a good standard. A comprehensive financial assistance policy, which is reviewed on an annual basis, is in place and used effectively by Housing Delivery Officers to support suitable empty homes being brought back into use. Homeowners must meet the eligibility criteria set out, complete an application and provide a range of documentary evidence to support their application which is then subject to due diligence checks and formal approval by the Service Director for Strategic Planning and Infrastructure prior to a loan being made. At the end of 2019/20 a total of 244 empty homes has been brought back into use.
New Business Solutions - Tech Forge (Cloud) ANA – Medium Client Request	Status: Ongoing	DAP have monitored and provided ongoing support to the implementation project migrating the Tech Forge (TF) Facility database to a TF Cloud asset management system.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		Phase 1 of the project, including the property register and compliance modules, successfully went live on Monday 12 October 2020. Phase 2 remains ongoing, focussing on capital accounting and system interfaces and is due to go live in early 2021.
Real Time Ad-Hoc Support Provided in Relation to Covid-19 *Not included in original plan*	Status: Complete	Social distancing, coupled with many shops declining cash, has presented a real problem for Plymouth Credit Union (PCU) and some of its members. DAP worked with officers setting up a cashless card system and in drawing up an Operational Agreement and Service User Agreement.
Grant Certification Statutory	Regulatory Requirement	Grants certified without amendment: • LGF (GD33) Oceansgate • LGF (GD18) Northern Corridor • LGF (GD19) Eastern Corridor • LGF (GD20) Charles Cross and Exeter Street • Innovate UK - Clean Streets EV Infrastructure Toolkit (31831)

It has been agreed with senior management within Place that the following reviews will be deferred until 2020/21

- Trade Waste ANA – High, Client Request
- Street Services – Stores, Stock & Fuel Control ANA – Medium, Client Request
- Commercial Properties - Rent Roll ANA – High, Client Request

Appendix 2 - Audit Standards and Customer Delivery

Conformance with Public Sector Internal Audit Standards (PSIAS)

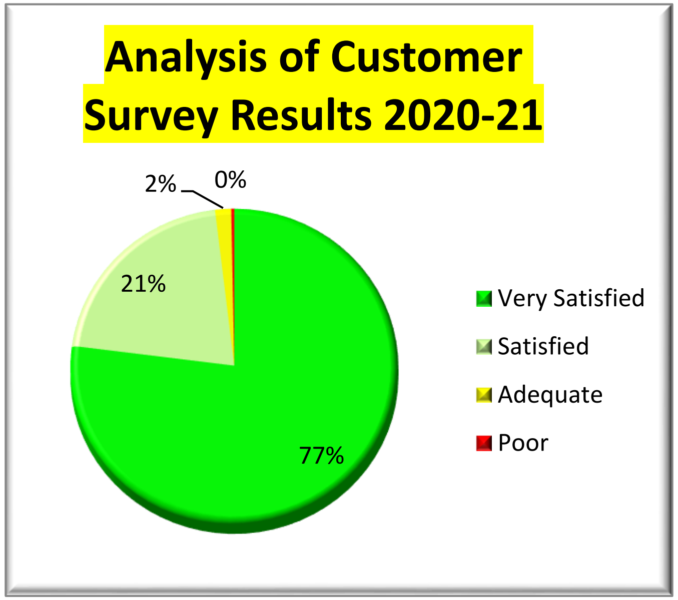
Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. Our internal audit charter was approved by senior management and the Audit Committee in July 2020. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

Quality Assessment – through external assessment December 2016 "DAP is considered to be operating in conformance with the standards" External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

Improvement Programme – DAP maintains a rolling development plan of improvements to the Service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated, and a status report provided to the Management Board.

Customer Service Excellence

DAP maintains accreditation by G4S Assessment Services of the CSE standard during the year. We continue to issue client survey forms with our final reports and the results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see appendix 4. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.



Appendix 3 - Definitions

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	"A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited."
Reasonable Assurance	"There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited."
Limited Assurance	"Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited."
No Assurance.	"Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited."

Confidentiality under the Government Security Classifications

Marking	Definition
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Official: Sensitive	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	30 November 2020
Title of Report:	**Counter Fraud Services Half Yearly Report**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Ken Johnson
Contact Email:	Ken.johnson@plymouth.gov.uk
Your Reference:	HY/CFST/20
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report summarises the work carried out during the first 6 months of 2020/21 by the Counter Fraud Services Team in order to counter fraudulent threats to the Council's budget and reputation.

Recommendations and Reasons

The Audit Committee is recommended to note the Half Yearly Report.

Alternative options considered and rejected

Effective counter fraud processes are an essential element of internal control and as such are an important element of good corporate governance. For this reason alternative options are not applicable.

Relevance to the Corporate Plan and/or the Plymouth Plan

Maintaining sound systems of internal control and protecting the public purse ensures that those who legitimately need the support and services of the Council get them and this therefore supports the achievement of corporate and service objectives.

Implications for the Medium Term Financial Plan and Resource Implications:

None arising specifically from this report.

Carbon Footprint (Environmental) Implications:

Efficient and correct use of Council resources can only positively affect its Carbon Footprint, however no direct impact can be proven from this report.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

The Counter Fraud Services Team specifically support the council's overall governance arrangements

Appendices

**Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Counter Fraud Services Half Yearly Report							

Background papers:

**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

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Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 05/11/2020											
Cabinet Member approval: *Approved by email* Date approved: 25/11/2019											

devonauditpartnership
Counter Fraud Services

Counter Fraud Services

Half Year Report 2020 - 2021

Plymouth City Council Audit & Governance Committee

Date November 2020

CUSTOMER SERVICE EXCELLENCE

Support, Assurance & Innovation

1. Introduction

1.1 Counter Fraud work has continued throughout the current year and the Counter Fraud Team along with the rest of the wider Devon Audit Partnership (DAP) Team have supported Plymouth City Council in enabling and supporting Council business at these unprecedented times to ensure that services are provided to those with genuine entitlement.

1.2 It has been reported that there has been a general upturn in fraudulent activity during the COVID 19 (C19) crisis. Many frauds which are often referred to as Scams have adopted a C19 camouflage in order to play on people fears and lack of knowledge. Fraud activity had already significantly increased in the years prior to C19, therefore an accurate picture of the direct effects of the current crisis on fraud statistics will remain unclear for some time.

1.3 Fraud is by definition a crime and should not be tolerated. Any fraud against Plymouth City Council is a fraud against the public purse and therefore we will continue to acknowledge the threat from fraud, build processes and policies that will prevent fraud and pursue those who would commit fraud to ensure that the public retain confidence in the Council. Collaboration across the public sector will continue and strengthen under the current working arrangements through DAP and its partners.

1.4 The following report is a half year summary of the counter fraud work undertaken in support of Plymouth City Council.

2. Fraud Prevention and Detection

2.1 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise, The National Fraud Initiative (NFI), every two years. The data submission for the latest 2020/21 exercise is underway and DAP are co-ordinating the extracts of relevant Council datasets, as defined by the Cabinet Office. Departments have or are in the process of supplying their datasets (listed below) and these are being or will be uploaded onto the NFI secure website by December in accordance with the NFI timetable. The subsequent matching reports will be returned and actioned through the relevant Departments at the start of 2021.

2.2 PCC, datasets being matched against the NFI

- Council Tax,
- Creditor Payments,
- Housing Benefits, ,
- Payroll / Pensions.
- Housing Waiting Lists,
- Licencing (including taxi licences and personal alcohol licences)
- Market Traders, and
- Transport Passes (including blue badges and concessionary bus passes)
- Covid 19 Grants

2.3 Statistical analysis from the latest NFI Report released in July 2020 shows that significant savings continue to be achieved and that the average fraud value per case has risen from £2,727.64 to £2,944.23 an average increase of 7.94%.

2.4 The overall savings linked to the NFI exercise are recognised as significant and an important step in organisations minimising the losses to their business and the public purse.

"I am therefore delighted to report that the National Fraud Initiative, the Cabinet Office's data matching service, has enabled participating organisations to prevent and detect £245 million fraud and error in the period 1st April 2018 to 4th April 2020. This brings cumulative outcomes for NFI participants to £1.93 billion."
(*Lord Agnew, Minister of State at the Cabinet Office and Her Majesty's Treasury*)

2.5 Irregularities – DAP have provided management with a range of advice and support on courses of action and or improvements to controls on relevant internal matters. Audit and Counter Fraud disciplines are now working closer than ever to provide as high a level of service as possible.

2.6 The statistics for the current year show that there are consistent savings to be made by countering fraud. There have been 235 allegations of fraud made so far this year resulting in 13 recommended prosecutions and 21 recommendations for Cautions and other forms of sanction. Along with various compliance visits a total savings figure of £377,146.22 has been realised at time of writing this half yearly report. The team continue to investigate 145 fraud allegations.

Case reviews are available on **Appendix A**

3. Areas of current fraud investigations

3.1 As part of its ongoing commitment to countering fraud in Plymouth, the Counter Fraud Services Team continues to undertake investigations in the following areas:

- Internal cases
- COVID 19 Grant Fraud
- Council Tax Support / Single Person Discount
- Blue Badge misuse
- Social Housing Fraud (involving our partner Registered Social Landlords)
- Client Financial Fraud (Special guardianship)
- Insurance fraud
- Bus pass misuse
- Parking Permit selling
- Disable Facilities Grants

3.2 The Counter Fraud Services Team will continue to work closely with all PCC departments to ensure that fraud risks are minimised and wherever possible, those found committing offences are dealt with robustly and in line with PCC's Anti-Fraud, Bribery and Corruption Policy and its linked Strategy and Response Plan.

4. General COVID19 related fraud

4.1 As previously mentioned fraudsters are taking advantage of the current pandemic in order to play on people's fears and lack of knowledge and or understanding. The Counter Fraud Services Team have utilised the National Anti-Fraud Network (NAFN) to regularly update and assist Plymouth City Council to ensure that it and its customers are kept up to date with the detected and suspected fraud threats. The following are examples of fraud and attempted frauds that have been uncovered nationally -

- Victim alleged to have breached stay home regulations scam, fraudulent text messages from .GOV.UK issuing fines for leaving home.
- Free school meals scam, fraudulent messages to parents entitled to free school meals requesting bank details. Messages received via email and text.

- Fraudsters purporting to be from a research group that mimic the Centre for Disease Control and Prevention (CDC) and World Health Organisation (WHO). They claim to provide the victim with a list of active infections in their area but to access this information the victim needs to either: click on a link which redirects them to a credential-stealing page; or make a donation of support in the form of a payment into a Bitcoin account.
- Fraudsters providing articles about the virus outbreak with a link to a fake company website where victims are encouraged to click to subscribe to a daily newsletter for further updates.
- Lender Loan Fraud – there are already media reports circulating about parents concerned that they may not be able to feed their children if they are not at school and those who will be made redundant or self-employed receiving a much reduced income with potentially the same or increased living costs. This may mean people look to quick loans to see them through.

4.2 Where people feel that they are at risk, medically or financially, the same methods are used in an attempt to appeal to individuals need for security and stability -

- Fraudsters sending investment scheme and trading advice encouraging people to take advantage of the coronavirus downturn encouraging victim to divulge details and or click on fraudulent links.
- Fraudsters purporting to be from HMRC offering a tax refund and directing victims to a fake website to harvest their personal and financial details. The emails often display the HMRC logo making it look reasonably genuine and convincing. We have also had reports of people receiving similar text messages.
- Since lockdown eased, fake websites have offered cheap holidays abroad and at home with links that steal personal data and or encourage payment when no product is available.
- Holiday rental homes scam, where there is no rental home available.

4.3 As the crisis deepened, we became more settled in our new reality and many wanted to help others less fortunate as well as those who are on the front line during the pandemic, fraudsters took advantage of individuals good nature in the following ways.

- Scam emails purporting to be from the Government asking for donations to the NHS.
- Emails, texts, letters and telephone calls purporting to be from legitimate charities requesting financial support.
- Scam emails requesting details of individuals to sign up to volunteering schemes in the local area.

4.4 Plymouth City Council should also be aware of the following expected and emerging frauds both for their business their constituents and customers, we continue to work closely with the Trading Standards Team to ensure that's all threats are highlighted so that awareness remains high.

- Online Shopping and Auction Fraud – more people at home socially distancing increases the number of people online shopping through necessity but also the fact they have more time on their hands to browse the internet.
- Computer Software Service Fraud – more people working from home will increase demand on IT systems causing slower responses and making some scripts seem more believable.
- Mandate Fraud – with more people working at home, it may be easier for fraudsters to impersonate senior decision makers, with seemingly valid reasons why they cannot be contacted, and request a change in direct debit or standing order payments.
- Investment Fraud including Pension Liberation Fraud – fraudsters could take the opportunity to create bogus investments in commodities in high demand, for example

oxygen, and if people are worried that they might not have enough money to see them through this financially uncertain time, they may be more prepared to invest.

5. Specific C19 Grant Fraud

5.1 In response to the pandemic the Government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors. This support took the form of grant funding schemes, including the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. There has also been a Discretionary Business Grants Fund developed separately by LA's.

5.2 Business Grants have proven a high value target for fraudsters. This has prompted a national wide response from HM Government and since the implementation of the schemes many organisations have come forward offering support, especially in the data matching and analysis area in an attempt to provide tools to LA's so that they in turn are able provide full 'Assurance' that the £20 billion spent nationally in support for businesses that –

- Only genuine claims are processed and or have been paid and
- Where claims have been identified as incorrect, false or spurious, that they have been highlighted for follow up action and or redress.

5.3 All Local Authorities will be affected by fraud in this area whether they have direct responsibility for the dispersal of funds, or not, as it is all funding from the 'Public Purse' and eventually this will affect all areas of public life in the UK.

5.4 With such large amounts of money available, it is unsurprising that opportunistic as well as organised fraudsters have taken advantage of the urgency and confusion caused by the C19 global pandemic, in order to line their own unscrupulous pockets. Below are some known successful and attempted frauds in this area of Council Business.

- Scam one: Someone emails the council pretending to be the liable party on a business rates account. They ask to be reminded what their account number is because they don't have access to the paperwork. They then use this account number to apply for a Covid-19 business grant.

- Scam two: Someone emails the council saying they moved to a new business premises in the area before March 2020. Often they use a tactic to add pressure, e.g claiming they tried to contact the council months ago, but their application form was lost. They don't have to actually pay the business rates because they've been suspended. They can access a Covid-19 business grant with the account information provided (up to £25k).

- Business owners, whose business liquidated prior to 11/03/20, attempt to claim and fail to notify that the business has folded prior to qualification. This may take the form of the owner maintaining that there is a new business taking over from the old one.

5.5 All involved LA's have a Single Point of Contact (SPOC) who is responsible for fraud reporting at the national level. Any frauds that cross LA borders or are considered related to organised crime must be reported in real time. The SPOC for Plymouth City Council is the Counter Fraud Services Manager at DAP.

5.6 National Fraud Initiative Response (NFI) A recent consultation document issued by the Cabinet Office (CO) made it clear that it is the Government's intention to ensure that Grant Payments made during the C19 crisis are included in this year's data submission for the NFI. This data will need to be submitted by Dec 2020.

5.7 The resultant matches/mismatches will have to be investigated, justified or corrected. Where fraud is identified it may be necessary for LA's to use the full weight of the law in order to be able to recover fraudulent debt. This may / will undoubtedly uncover more sophisticated frauds that cross LA borders.

5.8 The Counter Fraud Services Team are currently assisting Plymouth City Council in providing Assurance to the Department for Business, Energy & Industrial Strategy in the form of a monthly Assurance Report. A separate 'Assurance Strategy' is supported by the effective work that the relevant Departments are doing along with input from both Audit and Counter Fraud sections within DAP.

5.9 The Counter Fraud Services Manager will continue to act for PCC in C19 Grant Fraud related matters until resolution of all suspected or alleged frauds in this area. There are currently 9 separate investigations into this area of business with a Grant Value of £105k. The nationally detected figure for fraud in this area is so far £8 Million and increasing as more and more frauds are detected.

6. Statistical evidence

6.1The problem of fraud is an ever growing one, which is constantly changing and evolving. Research shows that detected or reported examples of fraud do not represent the total cost of fraud, as much remains undetected and or hidden. Investing in the appropriate strategies means that organisations can continue to increase their resilience to fraud as this is recognised as one of the most effective ways to reduce the risk of fraud.

6.2 Various organisations have seen an upturn in the reporting of fraudulent activity. Whilst this is to be expected, the full extent of fraud activity will not be known for some time and the total of losses are unknown. At this time it is difficult to say whether there is more fraud activity due to C19 or whether reporting has increased and fraud has just taken on a C19 cover, whereas prior it hid in many different guises. Below are some headlines from counter fraud teams across the country.

6.3 We know from previous experience that reported fraud is the tip of the iceberg and that most goes undetected and or unreported as it is a hidden crime.

Action Fraud
- Animal lovers looking for pets in lockdown defrauded of nearly £300,000 in two months - Tuesday, 5 May, 2020
- Cyber experts shine light on online scams as British public flag over 160,000 suspect emails - Thursday, 7 May, 2020
- 260 reports of coronavirus-related TV Licensing emails so far this month - Wednesday, 27 May, 2020
- A total of £11,316,266 has been reported lost by 2,866 victims of coronavirus-related scams.
- Action Fraud have received 13,820 reports of coronavirus-related phishing emails. 12 June, 2020
- Over £16 million lost to online shopping fraud during lockdown - Friday, 19 June, 2020

Her Majesties Revenues and Customs (HMRC)
- More than 10,000 COVID related phishing scams are being investigated by Her Majesty's Revenue & Custom (HMRC)

- In May alone more than 5,000 scams were reported to HMRC by the public. A rise of 337% if compared to March figures, when lockdown began. During the month, HMRC asked internet service providers to remove 292 scam websites to help combat the issue.

GOV.UK

- Fraudsters are exploiting the spread of coronavirus (COVID-19) in order to carry out fraud and cybercrime. Police have reported an increase in coronavirus related scams.
- We are issuing an alert to help charities minimise the risk of becoming a victim of such frauds and cyber-attacks. All charities, but especially those providing services and supporting local communities during the coronavirus crisis, could be targeted by fraudsters.

7. Where can PCC customers get advice?

7.1 Detailed counter fraud advice is available online, including from these trusted sites. **Only use trusted sites and or those displaying that they are secure**. (site address starts with "https" or displays a padlock image next to the site address)

- Scamsmart,
- ActionFraud,
- CIFAS,
- TakeFive,
- Citizens Advice,
- Trading Standards
- National Cyber Security Centre.
- Fraud Advisory Panel

8. Conclusion

8.1 The DAP Counter Fraud Services Team can state that Plymouth City Council remains highly committed to its moral and legal duties to the public and that it effectively acts in line with its own 'Plan, Mission, Value and Priorities' where countering fraud is concerned.

8.2 Plymouth City Council has made provable Accumulated savings over the past 5 years in cashable and non-cashable savings of £6,196,659. 96 by countering fraud in all areas of its business.

8.3 Local authorities continue to face a significant and unprecedented fraud challenges. Official figures are dated, however the argument for protecting the public purse remains an ongoing priority. The National Fraud Authority (2013) estimated local authorities face the threat of £2.1bn fraud a year. In fact, the Annual Fraud Indicator, produced by Crowe Clark Whitehill, estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.
It is therefore crucial to commend Plymouth City Council for the continued support and commitment that it shows in protecting the public purse year on year, especially during these extremely difficult times when every penny of public funding counts more than ever.

8.4 A full contact list for DAP Counter Fraud Services is available on **Appendix B**

Appendix A

COUNTER FRAUD SERVICES TEAM CASE STUDIES

Social Housing Fraudster Fined in Plymouth for unlawful sublet.

The Counter Fraud Services Team at Devon Audit Partnership are proud to report that in collaboration with Plymouth City Council (Legal Team) and Plymouth Community Homes staff, that another illegal sublet has ended and the perpetrator has been prosecuted, enabling another family home to be let out to those with a genuine entitlement who were waiting patiently on the housing list.

A woman living in Cornwall has pled guilty to an illegal sublet of her Plymouth Social Housing property for 5 years in court this week after admitting an offence contrary to the Prevention of Social Housing Fraud Act 2013 S2(1)

She left her Plymouth house in March 2014 to live with her partner in Cornwall who she later married and failed to inform her Social Landlord that she was moving out and that she would be allowing her grown up children (who were not entitled to succession) to live there and pay the rent and utility bills, under her name.

In an attempt to hide the fact that she was acting illegally she continued to use her previous married name when dealing with authorities in Plymouth, but used her new married name when dealing with authorities in Cornwall.
She later allowed her daughter to pretend to be her in an attempt to obtain a mutual exchange so that she could obtain another social housing property by deception in the Plymouth area.

She was sentenced to a fine of £600, with a Victim surcharge of £60 and costs of £450 meaning she will have to repay £1,110.
Despite the evidence to the contrary the defendant maintained that she didn't know she was doing anything wrong, however the Magistrate stated "You also went to great lengths to disguise your behaviour" when passing sentence.

Social housing fraud is a blight on society at a time when social housing is at a premium. The monetary cost for this type of fraud is estimated to cost the public purse around £900 million annually, however the human cost for those in genuine need of a home is unmeasurable.

Katrina Robinson MBE, Solicitor and Chair of the Tenancy Fraud Forum stated that –

"*This is a fantastic result from the Devon Audit Partnership and clearly shows that they are resilient and determined to stop tenancy fraud in its tracks. It's quite clear that the tenant was fully aware that what she was doing was wrong and that her children had no need for a social home with the support and significantly reduced rent that comes with that.*

This sends out a clear message that tenancy fraud is not a victimless crime and the property will now be allocated to a family who need the security of a social home. If you are committing tenancy fraud in Devon, then you will be investigated and risk a prison sentence and a large fine."

devon audit partnership

Plymouth woman admits 56 Fraud Act Offences to get a Social Housing property.

Just two weeks after our last success the Counter Fraud Services Team at Devon Audit Partnership are proud to report that in collaboration with Plymouth City Council (Community Connections and Legal Teams) and Plymouth Community Homes staff, that a Plymouth woman has been convicted of lying in an attempt to obtain a Social Housing property ahead of those with a genuine entitlement waiting patiently on the housing list.

The Plymouth woman who repeatedly lied about owning a property while trying to get social housing has been given an 18 month community order at Plymouth magistrates.

The 49 year old was also ordered to perform 20 rehabilitation activity days, seek mental health treatment as well as pay £450 costs and £85 victim surcharge.

Plymouth magistrates heard Wright applied to Devon Home Choice for a social housing property in September 2017 and gave an address history back to 2011 with no reference to a property in Kirkstall Close - which she jointly owned with an ex-partner.

The following month she presented as homeless and filled in forms which stated that she did not own a property or had an interest in one. In January 2018 she put in another Devon Home Choice application with an updated address as she had moved in with her parents. Again, she gave an address history dating back to 2011 but did not include the property she owned.

In total she placed bids on 43 properties before being offered a property from Plymouth Community Homes. Each time she bid she had to confirm her details were correct and that she understood it was an offence to use incorrect information.
In May 2018, she completed a pre-tenancy assessment with PCH, but a credit search showed up an active mortgage and the offer of a property was suspended.

Over the following weeks, she repeatedly denied she had a property or a mortgage. She even got in touch with her local councillor to complain her application had been suspended.
In June 2018 her case was passed on to the Counter Fraud Services Team at Devon Audit Partnership (DAP) to investigate. She continued to deny owning a property or having a mortgage until she was shown her own mortgage account information and the land registry details. At that stage she confirmed that she must still own the property, but as she split from her ex-husband, had assumed her details had been taken off the property.

She was, however, also shown her bank account information which showed her making payments towards the mortgage and receiving payments from tenants living in the property.

She still claimed no knowledge of some of the bank accounts and argued with investigators that she only had one account and may have forgotten to close another. It was only when investigators pointed out that cash point withdrawals were being made she finally confessed that she owned the property, had arranged for it to be rented out, was paying the mortgage and receiving rent for the property.

In mitigation, she said her relationship with her ex-husband had badly broken down and she no longer wanted to live at the property they owned. She also had a very poor credit history so private renting was not possible as she would not pass a credit check. She also suffered from mental health issues.

Plymouth City Council Cabinet member for Housing and Cooperative Development Councillor Chris Penberthy said: "We have a waiting list of around 10,000 households looking for somewhere to call home. If you already own a property, you must declare it. There may be compelling reasons why you can no longer use that property, but to just repeatedly lie time after time, is just not on."

"This is fraud. This is lying to gain an unfair advantage over others who are in need. We ask people to be honest when they fill in forms for a reason."

DAP will continue to act for Local Authorities across Devon and support the Devon Tenancy Fraud Forum where required in order to ensure that those in genuine need are not cheated by this type of selfish criminal behaviour.

Appendix B

Devon Counter Fraud Services Contacts

Name	Position	Telephone	Email
Ken Johnson	Counter Fraud Services Manager	01752 307625	Ken.johnson@plymouth.gcsx.gov.uk

Pete Burgoyne	**Fraud Investigator**	**01752 305977**	**Peter.burgoyne@plymouth.gcsx.gov.uk**
Paul Clayton	**Fraud Investigator**	**01752 305249**	**Paul.clayton@plymouth.gcsx.gov.uk**
Dina Williams	**Fraud Investigator**	**01752 307619**	**Dina.williams@plymouth.gcsx.gov.uk**
Ashley Varley	**Fraud Investigator**	**01752 304182**	**Ashley.varley@plymouth.gcsx.gov.uk**
Sue Roach	**Intelligence Officer**	**01752 307618**	**Susan.roach@plymouth.gcsx.gov.uk**
Rob Rogers	**Compliance Officer**	**01752 398556**	**Robert.rogers@plymouth.gov.uk**
Fraud referral email address			**Corporatefraud@plymouth.gov.uk**
Tenancy Fraud referral email address			**socialhousingfraud@plymouth.gov.uk**
Fraud Telephone referrals		**01752 304450**	