



Oversight and Governance

Chief Executive's Department
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**AUDIT AND GOVERNANCE COMMITTEE
To Follow Pack**

Thursday 29 September 2022
2.00 pm
Warspite Room, Council House

Members:

Councillor Luggar, Chair
Councillor Lowry, Vice Chair
Councillors Evans OBE, Finn and Tofan.
Independent Members: Mr Ian Shipperley and Mrs Annette Benny.

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

For further information on attending Council meetings and how to engage in the democratic process please follow this link - [Get Involved](#)

Tracey Lee
Chief Executive

Audit and Governance Committee

- | | |
|--|------------------------|
| 6. Annual Governance Statement 2021/22: | (Pages 1 - 26) |
| 7. Scrutiny - Risk Management Update: | (Pages 27 - 30) |
| 11. Treasury Management Outturn Report 2021/22: | (Pages 31 - 46) |

Audit and Governance Committee



Date of meeting:	29 September 2022
Title of Report:	Annual Governance Statement (AGS) 2021/22
Lead Member:	Councillor Stoneman
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Ross Jago (Head of Governance, Performance and Risk)
Contact Email:	Ross.jago@plymouth.gov.uk
Your Reference:	AGSRS/2022
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

The purpose of the AGS, copy attached to this report at Appendix A, 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. It is a statutory document required by Accounts and Audit Regulations.

Recommendations and Reasons

The Committee is recommended to 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

Financial Risks:

None

Carbon Footprint (Environmental) Implications:

None

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) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		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) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

Sign off:

Fin	ba.22. 23.23 1	Leg		Mon Off	EJ/38 851/2 1.9.22 /1	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Giles Perritt											
Please confirm the Strategic Director(s) has agreed the report? Yes											
Date agreed: 20/09/2022											
Cabinet Member approval: Cllr Stoneman											
Date approved: 21/09/2022											

ANNUAL GOVERNANCE STATEMENT 2021/2022



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 2022 and up to the date of the approval of the Annual Report and Statement of Accounts.

Statement of Assurance and Certification

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 Richard Bingley
Leader of Plymouth City Council

Dated:

Tracey Lee
Chief Executive

Dated:

Brendan Arnold
Service Director for Finance (Section 151 Officer)

Dated:

The Corporate Plan

The Plymouth City Council Corporate Plan 2021-2025 sets out our mission to ‘build back better and make Plymouth a great place to live’. It was approved by Council in June 2021.

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 quarterly basis and presented to Corporate Management Team, Cabinet and Scrutiny committees.

OUR PLAN

YOUR CITY, YOUR COUNCIL



CITY VISION
Britain's Ocean City

One of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone.

OUR MISSION To build back better and make Plymouth a great place to live, work and visit.

OUR VALUES we are:

<p>DEMOCRATIC</p> <p>Plymouth is a place where people can have their say about what is important to them and where they are empowered to make change happen.</p>	<p>RESPONSIBLE</p> <p>We take responsibility for our actions, we are accountable for their impact on others and the environment and expect others to do the same.</p>	<p>FAIR</p> <p>We will be honest and open in how we act. We will treat everyone with respect, champion fairness and create opportunities.</p>	<p>COLLABORATIVE</p> <p>We will provide strong community leadership, working with residents, communities and businesses to deliver our common ambition.</p>
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OUR PRIORITIES

<p>UNLOCKING THE CITY'S POTENTIAL</p> <ul style="list-style-type: none"> A clean and tidy city A green, sustainable city that cares about the environment Offer a wide range of homes A vibrant economy, developing quality jobs and skills An exciting, cultural and creative place Create a varied, efficient, sustainable transport network 	<p>CARING FOR PEOPLE AND COMMUNITIES</p> <ul style="list-style-type: none"> A friendly welcoming city Reduced health inequalities People feel safe in Plymouth Focus on prevention and early intervention Keep children, young people and adults protected Improved schools where pupils achieve better outcomes
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DELIVERING ON OUR COMMITMENTS BY:

- | | | | | |
|----------------------------------|--|--|---------------------------|--|
| Empowering our people to deliver | Providing a quality service to get the basics right first time | Engaging with and listening to our residents, businesses and communities | Providing value for money | Championing Plymouth regionally and nationally |
|----------------------------------|--|--|---------------------------|--|

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

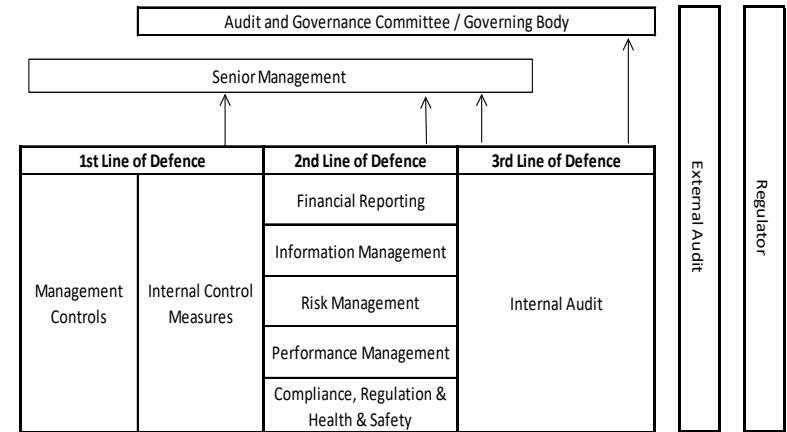
Line management are responsible for ensuring that a risk and control environment is established as part of day to day operations. Line management should be adequately skilled to create risk definitions and make risk assessments. The risk profile needs to be proactively reviewed, updated and modified 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.



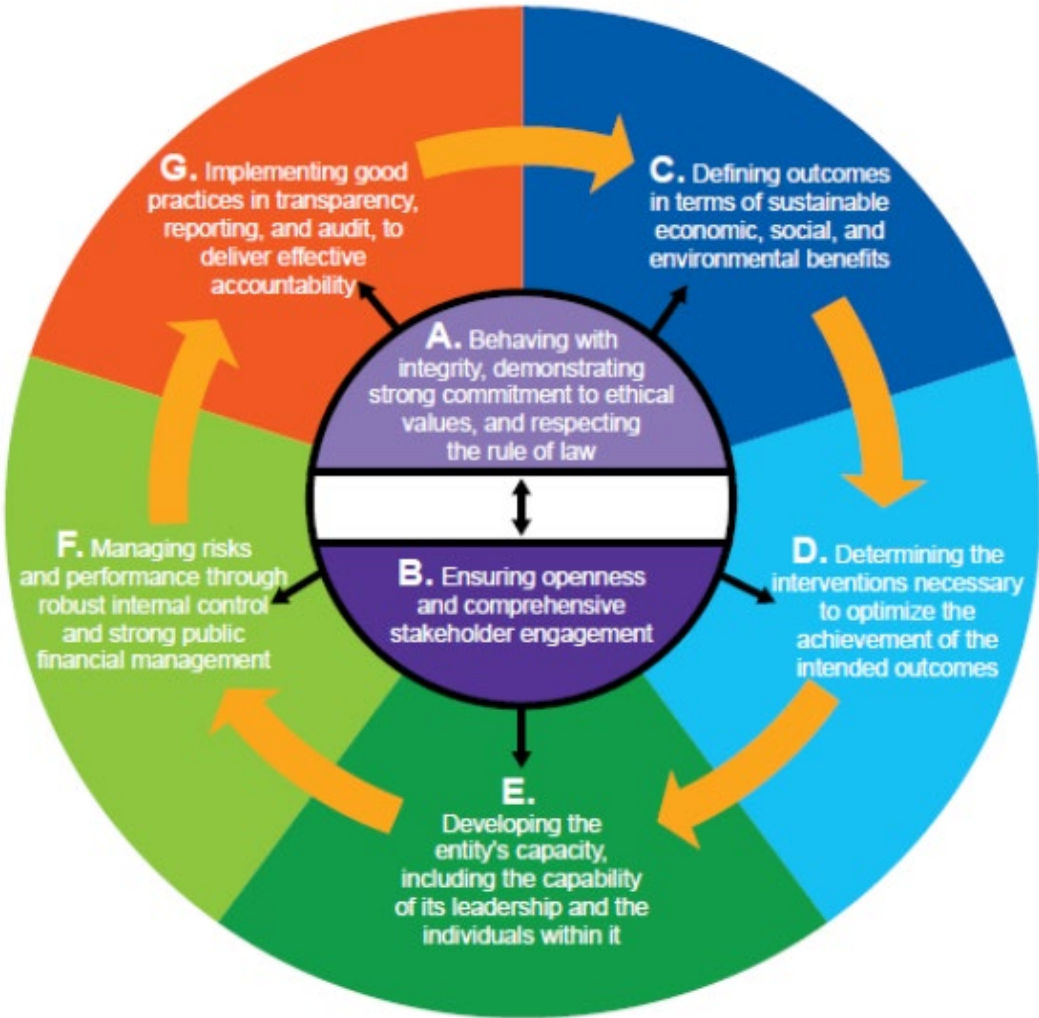
External Auditors and Regulators

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. During the period of this statement the Audit and Governance Committee have updated their Terms of Reference to reflect CIPFA best practice.

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 2021/22 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.

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

- Council's [Constitution](#)
- Committee [Structure](#)
- Corporate [Plan](#)
- Code of Corporate Governance
- Codes of Conduct
- Anti-Fraud, Bribery and Corruption Policy
- Whistle Blowing Policy
- S151 Officer
- Head of paid service
- Monitoring Officer
- Executive arrangements
- Register of Interests/Hospitality

- The Council's organisational values are underpinned by its system of internal control and governance arrangements to ensure compliance with its Code of Corporate Governance.
- The Council's Local Code of Corporate Governance as described in this Governance Statement has been reviewed in line with Cipfa/Solace Delivering Good Governance in Local Government Framework 2016 and the core principles contained in this Framework.
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law is acknowledged as key to the delivery of good governance and underpins the delivery of council priorities and services for the community.
- The standards of conduct and personal behaviour expected of Members and Officers, its partners and the community are defined and communicated through Codes of Conduct and Protocols within the Council's Constitution. Arrangements are in place to ensure that Members and Officers are aware of their responsibilities under these Codes and Protocols. The Monitoring Officer is responsible for ensuring that decisions are made in accordance with the Constitution.
- Elected Members are collectively responsible for the governance of the Council. Decision making and scrutiny of decisions has been separated through the executive arrangements introduced by the Local Government Act 2000.
- Ward-based governance and engagement arrangements for Councillors, multi-agency problem solving arrangements, reliable casework handling and feedback and customer insight to inform decision-making are all elements of our plans, equipping Councillors to do their job. The Councillor's toolkit can be accessed [here](#).
- The Head of Devon Audit Partnership has overall responsibility for the maintenance and operation of the whistleblowing policy. This includes monitoring the policy and maintaining a record of the concerns raised and outcomes, which will be reported to the Audit Committee in an anonymised format.
- Arrangements are in place for Members and Officers to declare gifts and hospitality and to register interest and manage conflicts of interest.

Principle B – Ensuring openness and comprehensive stakeholder engagement

- Thrive [Plymouth](#)
- Administration [Commitments](#)
- Customer complaints
- Committee meetings [webcast](#) and [agendas](#) published
- Open data information available on [website](#)
- [Plymouth City Survey](#)
- Annual Reports
- Partnerships
- Social media pages

- Ensuring openness and comprehensive stakeholder engagement is considered essential in meeting the Council’s corporate ambitions and framework of values and regarded as key to effective service delivery. Communication supports the decision-making process and helps to improve service quality and foster good relationships between staff, Members and stakeholders.
- The Statement of Community Involvement provides consistent standards for involvement in decision making in the city. It sets a minimum standard for engagement and is for everybody who wants to get involved in shaping Plymouth’s future.

Partnerships including; [Safer Plymouth](#), [Safeguarding Adults partnership](#), [Plymouth Safeguarding Children's Partnership](#) continue to review its representation and broadened this to include greater community and voluntary sector representation.

- Thrive Plymouth was launched in 2014 and is our local 10 year programme to address health inequalities in the city. ‘One You’ campaign launched to help adults to assess the lifestyle choices they are making, to consider how those choices might impact on their health now and in the future, and to consider the steps they can take to make their lifestyles healthier. The campaign was supported locally in Plymouth, including a 12 page supplement dedicated to the campaign in the Plymouth Herald, and features through other local media outlets including local BBC television.
- The Council has a system for recording Customer Feedback which enables learning from feedback and complaints to facilitate effective monitoring of information provided by customers to review future service delivery. There is a formal process for corporate complaints as well as for Children’s and Adults Statutory complaints.
- Committee meetings, including Full Council and Cabinet are webcast live and archived as part of our drive to make our decision making more open and transparent.
- As part of our commitment to be accountable and transparent we have put together a range of open data information (Data Plymouth) on the Council’s website.

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

- The Plymouth [Plan](#)
- Plymouth Plan Annual Report
- Plymouth Plan Annual Report
- [Statement](#) of Accounts
- The Plymouth Local Care Partnership System Plan
- The Plymouth and South West Devon Joint Local [Plan](#)
- Treasury Management and Capital Strategy

- Our Corporate Plan is focused on our vision to be ‘one of Europe’s most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone’. That means everyone working together towards our shared ambition to be a democratic, responsible, fair and collaborative city.
- The Plymouth Plan provides the strategic direction for decision making in the city. It brings together all statutory and non-statutory plans forming a holistic strategy for people and place.
- The Council uses its blue print operating model to develop more appropriate outcomes for people and more effective service delivery, standardising, simplifying and sharing wherever possible, through the Plymouth Family or wider partnerships.
- The Plymouth Local Care Partnership System Plan sets out ambitious plans to improve health and care services for people across Devon in a way that is clinically and financially sustainable.
- The Plymouth and South West Devon Joint Local Plan looks at the big issues, including where to build homes, where roads should go and how to ensure economic growth and prosperity for Plymouth residents and those living in the towns and villages of West Devon and the South Hams. We carried out a major consultation asking people where land should be set aside for homes and work and what should be protected as green space. The Joint Local Plan was submitted to the Planning Inspectorate for examination on 31 July 2017.
- Thousands of hectares of green space will enjoy protection from development through the Joint Local Plan in response to community voices which have strongly influenced what appears in the final version of the Plan.

Principle D – Determining the interventions necessary to optimize the achievement of the intended outcomes

- Medium Term Financial [Strategy](#)
- Business Planning
- [Cabinet](#)
- Overview and Scrutiny [Committees](#)
- Performance and Accountability Framework
- Corporate Plan Performance [Reports](#)
- Key Performance Indicators
- Service Standards
- Portfolio Holder meetings
- [Complaints](#) procedure
- Audit [reports](#)

- The Medium Term Financial Strategy (MTFS) sets out how the Council will finance the priorities for the Council, having regard to the Plymouth & South West Devon Joint Local Plan and the Corporate Plan. The MTFS is updated each year, includes a risk assessment of budget options and is agreed by Full Council.
- The system of internal financial control is based upon a framework of regular management information, financial regulations, Contract Standing Orders, administrative procedure and a structure of delegation and accountability.
- The Section 151 officer, as documented in the Constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and maintaining an effective system of internal financial control.
- Cabinet is our main decision making body, made up of the Leader of the Council and a number of Councillors.
- The scrutiny function is delivered through the Overview and Scrutiny Committees. Scrutiny provides an important check and balance within the governance system on the decisions of Cabinet and the Leader and acts as a 'critical friend' to the Cabinet and other decision makers in order to promote better services, policies and decisions.
- The Corporate Fraud Team fulfils the Council's statutory obligation to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.
- Key performance indicators are used to track performance of the Council's priorities as outlined in the Corporate Plan.
- Service Standards have been implemented across the Council to improve the way we listen and respond to our customers.
- Internal Audit partners undertake an annual review of audits to identify key themes, themes that are considered for action by Corporate Management Team. This is considered good practice.

Principle E – Developing the entity’s capacity, including the capability of its leadership and the individuals within it

- Organisational Design
- Smart working
- People Strategy
- Annual staff survey
- Annual Staff ‘Star Awards’
- eLearning
- Councillor Development Programme
- Apprenticeship Programme
- Management Driving Licence eLearning Package
- Staff performance discussions
- Staff Wellbeing and Resilience Survey

- An Organisational Design process is being followed to shape the organisational structure and ensure its alignment to the purpose of the Council and the context in which it operates.
- The Smart Working project is defining opportunities for smarter ways of working for various roles within the Council. This will define the organisations future accommodation and ICT infrastructure needs.
- An organisation wide transformation project has been mobilised to deliver the outcome to ‘create new ways of working’, this project is called ‘The Way We Work’.
- Digital Services is now fully owned and operated from within the Customer and Corporate Directorate and is continuing to improve digital activities for customers and staff through website improvements, digital processes and workflows created and improved reporting mechanisms being used.
- The Commercial Finance team are developing proposals to allow the Council to operate in a more commercial way.
- Opportunities for new income streams are reviewed regularly by all services. Additional income has been generated through the Asset Investment Fund and by generation of new revenue rental streams.
- Our People Strategy is our high level medium term plan for how we will provide a motivated, engaged and skilled workforce focused on meeting the needs of the citizens of Plymouth.
 - Annual staff survey
 - Management Fundamentals Training Programme
 - Annual Staff ‘Star Awards’
 - Induction training carried out for new Members and employees
 - E-Learning utilized
 - Apprenticeship Programme
 - Management Driving Licence (compulsory E-Learning to be completed by all current managers and available for aspiring managers)

Principle F – Managing risks and performance through robust internal control and strong public financial management

- Performance and Accountability Framework
- Corporate Plan performance report
- Corporate Plan performance report
- Departmental Performance Scorecards
- Risk and Opportunity Strategy
- Strategic Risk Register
- Operational Risk Register

- The Council consider and counter risk across a broad range of areas. An approved Risk Management Strategy and Policy and guidance are available for staff on the Council's website together with E-Learning.
- Risks are formally reviewed and monitored quarterly by the Corporate Management Team and reported to the Audit Committee.
- An Operational Risk Management Group with representation from each directorate meet at least quarterly to oversee and review the risk management process and development of the Council's approach to risk.
- Risks to planned outcomes are considered as part of the business planning process.
- Alignment of risk information with performance management has been improved this year with strategic risk updates now being included within operational performance reports, scrutinised monthly by services.
- A Joint Integrated Commissioning Risk Management Framework has been developed with Devon Clinical Commissioning Group (CCG) (now NHS Devon ICS) to support our joint co-operative commissioning approach.
- Information Lead Officer Group direct work streams within the overall governance of information assets and the Management of Information Security Forum ensure there is clear direction and visible management support for security initiatives.
- Risks that threaten the health, safety and wellbeing of employees and other people using Council premises are monitored by the Health, Safety & Wellbeing Steering Group via HSW risk register.

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

- The Devon Audit Partnership Internal Audit Plan
- External Audit
- The Audit and Governance Committee
- Overview and Scrutiny Committees

Internal and External Audit

The Devon Audit Partnership (DAP) has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon Councils. DAPs Internal Audit Plan is based on the high risks reported within risk registers and is presented to and approved by the Audit Committee in March. The plan is published on the Council's website with the Audit Committee agenda. The Council's arrangements for providing economy, efficiency and effectiveness are reviewed by the external auditors on an annual basis. Their Annual Report provides a summary of the activity undertaken during the year. They also review the Annual Governance Statement.

Audit and Governance Committee

An effective Audit Committee is in place whose purpose is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process. The Committee has two independent members and a vacancy for one other.

The Audit Committee monitor and review the Council's corporate governance arrangements, financial reporting, internal control system, risk management system and internal and external audit functions. In line with good practice, Audit Committees should assess their effectiveness annually.

Overview and Scrutiny Committees

The scrutiny function is delivered through the Overview and Scrutiny Committees, and is another way to monitor audit reviews and associated recommendations. The Overview and Scrutiny Committees for 2021/2022 were;

Brexit, Infrastructure and Legislative Change

Education and Children's Social Care

Health and Adult Social Care

Performance, Finance and Customer

Scrutiny Management Board

Key Governance and Delivery Areas

Strategic oversight of actions to address the Council's governance challenges in 2021/22

Governance Issue	Lead Officer	Assurance Statement	Reporting Through
<p>External Auditor Review As the Council's external auditors, Grant Thornton have a responsibility to satisfy themselves that 'the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources' [Local Audit and Responsibility Act 2014]. In delivering this responsibility, Grant Thornton identified two transactions that the Council undertook in October 2019 and April 2020 where the governance arrangements were deemed appropriate for review.</p> <p>The transactions identified were the reduction of the Council's pension deficit via the special purpose company transaction, a decision made in October 2019 and an interest rate swap with Santander Bank, a decision made in April 2020.</p> <p>At the highest level, Grant Thornton's findings with respect to the pension deficit transaction are that, whilst some aspects of the governance process did operate appropriately, in overall terms the governance arrangements did not adequately support informed decision making. Grant Thornton do not aim to suggest that innovative and unusual transactions should not be undertaken, but that in these situations governance arrangements should be strengthened.</p>	<p>Service Director for Finance</p>	<p>In the Action Plan contained within the Governance Review, Grant Thornton have made eleven recommendations to the Council to enhance and improve governance arrangements for future transactions of this kind, and which will be of broader benefit to the Council in terms of overall governance of decision making.</p> <p>The Council has implemented all of these recommendations and this has been reported to the Audit and Governance Committee.</p> <p>The Audit and Governance Committee continues to be kept abreast of accounting developments in this area.</p>	<ul style="list-style-type: none"> • Cabinet • Audit and Governance Committee • Corporate Management Team

<p>With respect to the interest rate swap, Grant Thornton’s findings are that the decision to engage in the transaction was an innovative and unusual matter and as such should not have been managed solely as part of everyday treasury management activities.</p> <p>In 2023/23 and continuing at the time of writing the Council is seeking to deliver an accounting solution for the 2019/20 through 2021/22 accounts which will allow the audit process to be concluded in the relevant years of account on an agreed basis within the appropriate parameters</p>			
<p>Audit and Governance Committee</p> <p>Our Audit and Governance Committee is a key component of Plymouth City Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</p>	<p>Monitoring Officer / Head of Governance, Performance and Risk</p>	<p>In January 2022, in light of governance challenges, the Terms of reference of the committee were reviewed.</p> <p>As a result of this review the City Council approved adoption of the CIPFA model terms of reference with the inclusion of the overview of the council’s family of companies (2.11) and the ethical framework (7)</p>	<ul style="list-style-type: none"> • Corporate Management Team • Audit and Governance Committee • City Council
<p>Members Code of Conduct / Members Interests</p> <p>The Council’s members’ code of conduct was identified as a key control document which required updating.</p>	<p>Monitoring Officer / Head of Governance, Performance and Risk</p>	<p>Following informal sessions of the Constitution and Civic sub-committee the Council adopted the Local Government Association’s model code of conduct and guidance on interests with minor additions.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Audit and Governance Committee • City Council
<p>Constitutional Amendments</p>	<p>Monitoring Officer / Head of Governance,</p>	<p>Amendments agreed by council gave effect to the following –</p>	<ul style="list-style-type: none"> • Corporate Management Team

<p>In undertaking a delegated responsibility of reviewing the constitution the Monitoring officer made several recommendations for improvement to the Council.</p>	<p>Performance and Risk</p>	<ul style="list-style-type: none"> • Updated Proper Officer functions which better reflect officers’ responsibilities and a proposed delegation to the Chief Executive to determine any further Proper Officer allocations where necessary. • An update to the order of business at an ordinary Council Meeting which will enable Council to note any changes to political groups’ appointments to committees provided they do not impact upon proportionality. • An update to the responsibility for functions. New wording has been added to allow the Monitoring Officer to make in-year changes to appointments in agreement with the relevant leader and whip provided that they do not affect political proportionality. • An update to Part D, Overview and Scrutiny Committees to reflect: <ul style="list-style-type: none"> ○ a change the name of the Brexit Infrastructure and Legislative Change Overview scrutiny committee to the “Infrastructure and Growth Overview and Scrutiny Committee” ○ Changes to allow the largest opposition party to hold the position of Chair on three of the four Committees • The removal of the Terms of Reference for: <ul style="list-style-type: none"> ○ Devon and Cornwall and Isles of Scilly Police and Crime Panel as this is not a committee of the Council. ○ Mount Edgcumbe Joint Committee as it is a committee of the executive and not the Council • Clarification of Article 5 – Lord Mayor. In law the Lord Mayor and Deputy Lord Mayor cannot be a 	<ul style="list-style-type: none"> • Audit and Governance Committee • City Council
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		member of the executive (cabinet). This amendment will ensure this is reflected in the articles of the constitution.	
<p>Internal Audit</p> <p>Plymouth City Council asked its internal auditor Devon Audit Partnership to undertake a review of audits undertaken in 2021/22. <u>The Internal Audit Annual Report</u>, provides Assurance Opinion and Extract Executive Summaries for 2021/22.</p>	Corporate Management Team	Based on work performed during 2021/22 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.	<ul style="list-style-type: none"> • Cabinet • Audit and Governance Committee • Corporate Management Team
<p>Finances</p> <p>Despite a challenging year in 2021/22, the Council delivered a nil variance on a gross expenditure budget of £516m for business as usual activities. Given the character of the financial year in question and the continued impact of covid, this is a notable achievement.</p> <p>Plymouth received Government grants to support expenditure incurred and income lost through the Pandemic. £17m of £21.9m Covid grant funding has been allocated in 2021/22. This results in a carry forward of £4.8m for the 2022/23 financial year. In 2022/23 The Council has faced the prospect – along with the Local Government sector in general – of additional costs relating to the Pandemic, rapidly rising energy and material costs and increasing demand and costs for social care services. These pressures have resulted in an outturn forecast at Period 4 of £14.8m (gross) and £8.7m net of urgent saving responses which have been adopted for implementation. Further</p>	Service Director for Finance	<p>The Council has an embedded and robust process for compiling its annual budget and – as in previous years – it is expected that this will enable proposals to be brought forward and agreed to offset the expected shortfall.</p> <p>The Council has deployed available Government grants provided to offset the additional costs of the Pandemic.</p> <p>In the current year the Council is reaching for a strong response to manage the forecast overspend in 2022/23 to zero by year end and progress is being closely monitored by the Corporate Management Team and Cabinet.</p>	<ul style="list-style-type: none"> • City Council • Cabinet • Performance and Finance Overview and Scrutiny Committee • Corporate Management Team

mitigations are planned and sought with the intention of driving the year end variance to zero by 31 March 2023.			
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Governance considerations for 2022/23 onwards

Overall we can confirm that the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst we are satisfied that these work well, reviews have identified the following governance issues and key delivery areas for consideration in 2022/23. These are presented alongside an assurance statement on how we will manage the issues raised.

Key Delivery Area	Lead Officer	Actions underway	Reporting Through
<p>Ensure effective Governance of the Medium Term Financial Plan and Capital Strategy.</p>	Service Director for Finance	<p>The Council maintains a medium term financial plan on a rolling basis and this continues to indicate budget shortfall in 2023/24 with additional shortfalls in years following.</p> <p>A detailed programme of work is underway to identify means of bridging this gap and to share this with Cabinet and stakeholders in line with the usual process for budget preparation, consultation and engagement each happens each Autumn within the Council. The prospect of attaining balance is attainable but not without decisions that will result in reductions in service, the potential cessation or deferral of some services and some reduction in planned headcount.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Budget Scrutiny • Cabinet • Council

<p>Ensure effective governance of the next phase of health and social care integration.</p> <p>Integrated care systems (ICSs) are partnerships of health and care organisations that come together to plan and deliver joined up services and to improve the health of people who live and work in their area. ICSs became statutory on the 1 July 2022. Changes to the governance structures will need to be reflected in relevant and aligned council governance structures.</p>	<p>Director of Public Health / Director for People / Head of Governance, Performance and Risk.</p>	<p>A review of the Health and Wellbeing Board Terms of reference and Membership is underway to ensure efficient and clear governance processes.</p> <p>Local Care Partnership established. Governance arrangements (Executive and Delivery) in place and local delivery plan developed with monitoring arrangements established.</p>	<ul style="list-style-type: none"> • Cabinet • Health and Adult Social Care Overview and Scrutiny Committee • Health and Wellbeing Board • Local Care Partnership
<p>Ensure effective governance of Adult Social Care Reform</p> <p>An extensive set of adult social care reforms are being implemented by Government which will have a significant impact on the operation of core statutory services.</p> <p>A local programme of change has been developed in response with key drivers including–</p> <ul style="list-style-type: none"> • Recovering from the impact of Covid 	<p>Director for People</p>	<p>A governance structure has been developed to support the change programme and clear lines of accountability established to the change board.</p> <p>A programme outcomes framework and programme KPIs have been established for ongoing monitoring.</p>	<ul style="list-style-type: none"> • Corporate Management Team / Change Board • Cabinet • Health and Adult Social Care Overview and Scrutiny Committee • Health and Wellbeing Board • Local Care Partnership

<ul style="list-style-type: none"> • Respond to the market and workforce changes that are creating skill gaps in care • Respond to new demands and supplier issues to adapt to a new operating model • Respond to Legislative change • Respond to political direction on the future of health and social care 			
<p>Ensure effective governance of Future Shape of the Council</p> <p>Ensure effective governance of the coordination of, and interdependencies between the change programmes which will deliver the next steps to reshape how Plymouth City Council operates, including using new technologies, ways of working and new delivery models.</p>	<p>Director for Customer and Corporate Services</p>	<p>A governance structure is in place to manage change programmes. Further work will be conducted over the course of 2022/23 to ensure that governance of change is tightly aligned to business as usual functions of the council in areas such as risk.</p>	<ul style="list-style-type: none"> • Change Board • Cabinet • One Council Board
<p>Ensure effective governance of Equality and Diversity</p> <p>Governance of the coordination of delivery of our commitments on equality, diversity and inclusion in relation to Plymouth's citizens, and</p>	<p>Chief Executive</p>	<p>An equalities working group has been established since 2021. As a committee of the Cabinet, the group will continue to strengthen and broaden the leadership arrangements for the delivery of the Council's equalities objectives.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Equalities Working Group • Cabinet • Performance Finance and Customer Focus Overview and Scrutiny Committee

<p>to our workforce. This includes delivery of both the People Strategy and relevant actions plans.</p>		<p>Next steps for 2022/23 include;</p> <ul style="list-style-type: none"> ▪ Prepare to become a Disability Confident Leader in 2023 ▪ Deliver the Equality Action Plan ▪ Promote the guaranteed interview scheme as part of the launch of the updated Recruitment and Selection Policy ▪ Roll out the Equalities Training to all levels in the organisation 	<ul style="list-style-type: none"> • Council
<p>Ensure effective governance of National and International Demands</p> <p>Governance of the response to national and international demands, including emergency responses. This includes responding effectively to Government-led programmes of support, for example the energy rebate, and support schemes for Afghan and Ukrainian migrants.</p>	<p>Director for People</p>	<p>In response to the cost of living crisis a working group has been established to focus on actions required to assist residents during the cost of living crisis. An inequality and vulnerability report has been developed to assist the group.</p>	<ul style="list-style-type: none"> • Cost of Living Working Group • Corporate Management Team • Cabinet
<p>Ensure effective governance of Plymouth and South Devon Freeport</p>	<p>Director for Place</p>	<p>The Plymouth and South Devon Freeport Company has been established as a Company Limited</p>	<ul style="list-style-type: none"> • The Plymouth and South Devon Freeport Company

<p>Ensure effective governance of the Plymouth and South Devon Freeport to ensure it –</p> <ul style="list-style-type: none"> • Creates a public and private sector partnership between national and local government, industry, the Port of Plymouth and major local landowners such as Langage Energy Park Ltd. • Builds on Plymouth’s world class Manufacturing, Marine and Defence innovation assets to support further innovation and research; • Attracts new investment and provide supply chain opportunities across the South West Region; • Embeds commitment to tackle climate change and Marine decarbonisation; • Galvanise efforts to upskill the local workforce ensuring it benefits as many people as possible. 		<p>by Guarantee with Plymouth City Council, Devon County Council and South Hams District Council as its founding members.</p> <p>The council has agreed to documents relating to the establishment of the Company. Such documents include, but are not limited to the Members Agreement, the Freeport landowner agreements, including those relating to Oceansgate and the South Yard Tax site, as may be required in pursuance of the Freeport Objectives and to discharge our obligations as the accountable body.</p> <p>The monitoring officer and Head of Legal Services, has been authorised to sign the agreements as approved on behalf of the Council in the Council’s scheme of delegation and will therefore be the authorised signatory.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Cabinet
<p>Ensure effective governance of Climate Emergency</p> <p>Governance of the coordination of delivery of our commitments as</p>	<p>Director for Place</p>	<p>Arrangements for ongoing reporting to Council, Cabinet and Scrutiny are in place.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Cabinet

<p>part of our climate emergency declaration.</p>		<p>Regular reports are being made on the detailed actions contained in the Climate Emergency Action Plans (CEAP) and the Corporate Carbon Reduction Plans (CCRP).</p>	<ul style="list-style-type: none"> • Growth and Infrastructure Overview and Scrutiny Committee • Council
<p>Ensure effective governance of Family of Companies</p> <p>Plymouth City Council has over many years brought into existence a suite of companies which deliver various services to the Council and partners such as schools.</p> <p>Each company was set up for reasons that were appropriate the time and using formation and governance principles that were preferred at that point.</p> <p>Governance arrangements may be inefficient, costly and no longer fit for purpose.</p>	<p>Director for Customer and Corporate Services</p>	<p>A review of DELT is already been progressed and actions taken. The remaining family of companies will be reviewed in the remaining part of 2023 and into 2024.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Audit and Governance Committee • Cabinet • Council
<p>Further Constitutional Amendments</p> <p>A further review of the operation of the constitution is planned for 2022/23 and will likely include changes to the structure of scrutiny and arrangement for dealing with complaints under the members' code of conduct.</p>	<p>Monitoring Officer</p>	<p>A review of arrangement for complaints under the code of conduct is underway.</p> <p>An external review of the scrutiny structure at Plymouth City Council is currently underway.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Audit and Governance Committee • Council

<p>Updated Standards Arrangements and IP appointments</p>	<p>Monitoring Officer</p>	<p>The Council needs to undertake the appointment of at least one Independent Person for Standards matters. In addition the current arrangements are under review for dealing with complaints as a result of a review following the changes to the Code of Conduct</p>	<ul style="list-style-type: none"> • Audit & Governance • Council
<p>Local Government Association Peer Review</p> <p>Responding to the recommendations from the LGA Peer Review, including developing a stronger corporate asset management approach/strategy, building in a stronger focus on delivering social value alongside the Growth Dividend and seeking to facilitate and maximise community capacity.</p> <p>This will involve early planning to address challenges including financial risks (for example inflation and Adult Social Care reforms), uncertainty about our future resources with the one-year Finance Settlement, potential delays to the proposed funding reforms, and restraints on the capital programme including increased borrowing costs.</p>	<p>Chief Executive</p>	<p>The full content of the Peer Review has been published along with an action plan.</p> <p>The action plan is reviewed regularly by the Corporate Management Team with required reporting to the Cabinet and Council when necessary to comply with recommendations.</p>	<ul style="list-style-type: none"> • Corporate Management Team • Cabinet • Council

Audit and Governance Committee



Date of meeting:	29 September 2022
Title of Report:	Risk Management at Overview and Scrutiny
Lead Member:	Councillor Mark Shayer (Deputy Leader and Cabinet Member for Finance and Economy)
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Ross Jago
Contact Email:	Ross.Jago@plymouth.gov.uk
Your Reference:	AG2/RMScr/2022
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report provides an update on work undertaken at Overview and Scrutiny Panels in respect of risk.

Each of the Council's 4 Overview and Scrutiny Committees have been provided a report outlining risks relevant to their work. An integrated Risk and Performance report is being developed for future meetings.

On the 7 September 2022, the Health and Adult Social Care Scrutiny Committee considered risk as part of its agenda. As a result of the risk review the committee will focus on the Adult Social Care Reform at a future meeting to include the mitigations against the lack of adult social care workforce and fragility of the care market. This review will include the "Fair Cost of Care" and charging reforms.

Due to the period of mourning the remaining Scrutiny Committees have been rescheduled into October. Each committee has been provided with a similar report and a further update report can be prepared for the Audit and Governance Committee should it be required.

Recommendations and Reasons

The Audit and Governance Committee is recommended to note the update report.

Reason: The report was requested by the Committee.

Alternative options considered and rejected

There are not alternatives to this report as it was requested by the Committee.

Relevance to the Corporate Plan and/or the Plymouth Plan

Sign off:

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Originating Senior Leadership Team member: Giles Perritt, Assistant Chief Executive

Please confirm the Strategic Director(s) has agreed the report? Yes
Date agreed: 15/07/2022

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Audit and Governance Committee



Date of meeting:	29 September 2022
Title of Report:	Annual Report on Treasury Management Activities for 2021/22
Lead Member:	Councillor Mark Shayer (Deputy Leader)
Lead Strategic Director:	Brendan Arnold (Service Director for Finance)
Author:	Wendy Eldridge Interim Finance Business Partner (Capital & Treasury Management)
Contact Email:	Wendy.eldridge@plymouth.gov.uk
Your Reference:	Finance/WE
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2021/22 including the final position on the statutory Prudential Indicators.

This report:

- a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2021/22;
- c) provides an update on the risk inherent in the portfolio and outlines actions taken by the Council during the year to minimise risk;
- d) gives details of the outturn position on Treasury Management transactions in 2021/22;
- e) confirms compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year.

Recommendations and Reasons

1. To note the Treasury Management Annual Report 2021/22
2. Recommend the Treasury Management Annual Report 2021/22 to Full Council for approval

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

Alternative options considered and rejected

None - it is requirement to report to Council on the treasury management activities for the year.

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:

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Financial Risks

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

Carbon Footprint (Environmental) Implications:

In 2021/22 the Council invested £5m into the Public Sector Social Impact Fund to invest in carbon reduction projects.

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.*

Appendices

**Add rows as required to box below*

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

Background papers:

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)						
	<i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7
Treasury Management Strategy report to Council 22 February 2021							

Sign off:

Fin	pl.22.23. 223	Leg	EJ/ 38851/ 20.9.22 /3	Mon Off		HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Brendan Arnold											
Please confirm the Strategic Director(s) has agreed the report? Date agreed: 27 September 2022											
Cabinet Member approval: Date approved: 26/9/2022											

Annual Report on Treasury Management Activities for 2021/22

Introduction

1. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
2. The approval of this report has been delegated to the Governance and Audit Committee to approve.
3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2021.

Treasury Management Position

4. On 31st March 2022, the Authority had net borrowing of £554m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table I below.

Table I: Balance Sheet Summary

	31/03/21 Actual £m	2021/22 Movement £m	31/03/22 Actual £m
General Fund CFR	807	26	833
Less: Other debt liabilities *	-119	6	-113
Borrowing CFR	688	32	720
Less: Usable reserves	-115	-9	-124
Less: Working capital	-39	-3	-42
Net borrowing	534	20	554

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.

5. The Council has increasing CFR due to the capital programme and increasing borrowing requirement to £833m. The Authority pursued its strategy of keeping

borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Borrowing and Investment Activity

6. At 31st March 2022, the Council held £554m of loans, (a decrease of £46m on 31/03/2021 see table 2) as part of its strategy for funding previous years' capital programmes. See table 2 below.
7. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing at start of year. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
8. The Council's main objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In accordance with this £190m short term borrowing was replaced with long term borrowing for up to 50 years through PWLB, at rates ranging between 1.37% to 2% to mitigate against interest rate risk.

The treasury management position at 31st March 2022 and the change during the year is shown in table 2 and table 3 below.

Table 2: Borrowing Activity

	Balance on 01/04/2021 £m	Movement £m	Balance on 31/03/2022 £m	Avg Rate %
Public Works Loan Board	44	187	231	2.29%
Banks - LOBOs	66	-1	65	4.34%
Other Loans	27	3	30	
Short Term Borrowing	463	-235	228	0.12%
TOTAL BORROWING	600	-46	554	
Other Long Term Liabilities	125	-1	124	-
TOTAL EXTERNAL DEBT	725	-47	678	-
Less Total Investments (see table 3)	-97	-4	-101	
Net Borrowing	628	-51	577	

9. The Council has £228m of short term borrowing which it borrows from other local authorities at a very low rates on 3-12 month terms. The Council has an Interest Rates Risk (the risk that interest rates may go up). If interest rates increase by 1% it would cost the Council £2.280m additional interest on its revenue budget.
10. To Hedge against this risk the Council took out an Interest Rate Swap in April 2020 for £75m at a fixed rates of 0.56% for 20 years using the SONIA (Sterling OverNight Index Average). The Sterling Overnight Interest Rate (SONIA) averaged 0.39% over the quarter therefore the hedge arrangement had no draw down in 2021/22.
11. The Council continues to hold £64m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.
12. Although not classified as borrowing, the Council has other capital finance from Private Finance Initiatives and Finance Leases etc. and as at 31st March 2022 this amounted to £124m. PFI and finance leases are other ways of financing capital however this is quite often more expensive and is paid over a number of years. The Council's current PFI debt will be repaid by 2040.
13. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury 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 of receiving unsuitably low investment income.
14. At 31 March 2022 the Council held £101m of cash and investments (see table 3) which was an increase of £4m on 2020/21.

Table 3: Investment Activity in 2021/22

Investments	Balance on 01/04/2021 £m	Movement £m	Balance on 30/03/2022 £m	Avg Rate/Yield (%)
Short term Investments (Banks and call accounts)	12	5	17	0.01%
Covered Bonds and Loans	0	0	0	-
Money Market Funds	30	-7	23	0.01%
Other Pooled Funds	55	6	61	2.5%
TOTAL INVESTMENTS	97	4	101	

15. Investment activity included pooled investments with a value of £60.895m (nominal value £55.000m) so had recovered much of the losses sustained through the financial crash and are likely to continue to grow slowly as the economy continues to recover. In addition to the capital value of investment increasing by £6m, externally managed Pooled Funds (bond, equity, multi-asset and property) with the CCLA, Schroder and Fidelity and has generated a total return for the year of £1.976m. Investment income has been used to support services in year.
16. It should be noted that the capital value of the Council's Pooled Investment will fluctuate dependent on market conditions. Any unrealised capital losses will not have an impact on the revenue budget or General Fund. The capital value would only be realised if the funds were sold. The Pooled investments have no defined maturity date, but are available for withdrawal after a notice period. The Council continues to review regularly its investment in these funds together with advice from its Treasury Management advisors.

Treasury Management Outturn 2021/22

17. The Treasury Management budget is held as a separate budget under the Finance Department of the Council's General Fund. Whilst interest costs are less than the budget there are a number of factors that contribute to the final position. Whilst the Council not only borrows to finance capital expenditure, it also has to maintain a daily net cash surplus position.
18. The Council's Treasury Management Outturn for the year had a £0.490m underspend which has helped the Council balance the budget for 2021/22, see detail in table 4 below. The main savings have come from a dramatic fall in interest rates following the Covid pandemic and the worldwide financial crash. There was also a combination of low interest rates on short term borrowing which averaged 0.12% during 2021/22 offset by transferring debt to PWLB. Provision was made in 2021/22 to fund any financial adjustments required to 2019/20 accounts as a result of external audit which is still ongoing.
19. The Treasury Management Outturn does not include the returns from the Council's investments in the purchasing commercial assets, as this is included in the Place revenue outturn and referred to in Other Non-Treasury Holdings and Activity section below.
20. The continuing impact from the pandemic both on workforce adhering to Covid working restrictions and supply chain issues from Ukrainian conflict slowed the Council's capital programme, therefore reduced the amount of new borrowing that it had expected to take out, and therefore made further savings from loan repayments (Minimum Revenue Provision).

Table 4. Treasury Management Outturn Position 2021/22

	2021/22 Budget	2021/22 Outturn	Year End Variance
	£m	£m	£m
Interest Payable	10.260		
LOBO and other long term loans		4.075	
PWLB (Public Works Loan Board)		3.526	
Temporary loans		0.704	
Other Interest and charges		0.092	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)	(14.944)	(16.030)	
Total Interest Payable	(4.684)	(7.633)	(2.949)
Interest Receivable	(2.021)		
Pool Funds		(1.976)	
Money Market Fund		(0.031)	
Other Interest		(0.338)	
Total Interest Receivable	(2.021)	(2.345)	(0.324)
Other Payments	0.296	0.305	
Debt Management	0.500	0.257	
Transfer to Reserves	0.000	3.345	
Amortised Premiums	0.650	0.544	
Total Other Charges	1.446	4.451	3.005
Minimum Revenue Provision	17.115	16.893	(0.222)
TOTAL	11.856	11.366	(0.490)

21. Money Market Funds (MMF): Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees.

Returns have increased as a result of Bank of England increases and MMF investment has been used short-term as the Council converted short term borrowing to PWLB long term fixed arrangements.

22. The costs of borrowing to finance 'invest to save' capital schemes is charged to departments. The figures above include the borrowing implications of decisions to utilise the Property Regeneration Fund, previously known as Asset Investment Fund to acquire assets to earn a revenue return which is accounted for in directorate's budgets.

23. Minimum Revenue Provision (MRP) is a charge to the revenue budget that is made each year for monies to repay the Council's borrowing.
Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP for the cost of their unfinanced capital expenditure.
24. The Council uses the annuity method to calculate its MRP and spreads the cost of the borrowing over the economic life of the assets and this takes into account the time value of money.

External Context affecting 2021/22 Treasury Management activities

25. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.
26. The Bank of England (BoE) held Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that. Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.
27. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.
28. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations.
29. Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the

period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

30. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed. The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

31. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
32. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. Plymouth applied the principles of the Prudential Code which took immediate effect.
33. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
34. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Other Non-Treasury Holdings and Activity

35. The Council held £200m of direct property investment under its Property Regeneration Fund. These non-treasury investments generated £2.492m of investment income for the Council after taking account of direct costs, representing a net revenue return of 1.3% after allowing for payment to a void reserve and payment to a lifecycle maintenance reserve. The gross return is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

Prudential Indicators 2021/22

36. The Local Government Act 2003 requires the Council to have regard to CIPFA'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.

37. This report compares the approved indicators with the outturn position for 2021/22. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

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

The Section 151 Officer confirms compliance with its Prudential Indicators for 2021/22, which were set in the Treasury Management Strategy 2021/22.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure;
- Estimates of Capital Financing Requirement;
- Gross Debt and the Capital Financing Requirement;
- Operation Boundary for External Debt;
- Authorised Limit for External Debt;
- Ratio of Financing Costs to Net Revenue Stream ;
- Incremental Impact of Capital Investment Decisions.

38. 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 Limit	2021/22 Actual	Complied
Upper limit on fixed interest rate exposure	100%	57%	✓
Upper limit on variable interest rate exposure	95%	43%	✓

Fixed rate borrowings are those where the rate of interest is fixed for the whole financial year or more. Instruments that mature during the financial year are classed as variable rate.

39. **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 all borrowing were:

	Upper Limit	Lower Limit	31.03.2022 Actual	Complied
Under 12 months	90%	10%	43%	✓
12 months and within 24 months	25%	0%	0%	✓
24 months and within 5 years	25%	0%	0%	✓
5 years and within 10 years	25%	0%	5%	✓
10 years and above	95%	5%	52%	✓

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.

40. **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 total principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Limit on principal invested beyond year	£10m	£10m	£10m
Actual	£0m	£0m	£0m
Complied	✓	✓	✓

41. **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.

	Target	Actual	Complied
Portfolio average credit rating	A	AA	✓

42. **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.

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

Capital Financing Requirement	31.03.2022 Actual £m
General Fund	833
Total CFR	833

The CFR increased by £26m to £833m (2021 £807m) from capital expenditure financed by debt outweighs resources put aside for debt repayment. The increase in CFR shows that the Council is increasing its borrowing to pay for capital expenditure in the city.

44. 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.

45. The Council's actual debt at 31 March 2022 was as follows:

	31.03.22 Estimate £m	31.03.22 Actual £m	Difference £m
Borrowing	600	554	-46
PFI liabilities & other Finance leases	125	124	-16
Total Debt	725	725	3

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below.

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

Operational Boundary	31.03.22 Boundary £m	31.03.22 Actual Debt £m	Complied
Borrowing	935	554	✓
Other long-term liabilities	130	124	✓
Total Debt	1065	678	✓

47 **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.

Authorised Limit	31.03.22 Boundary £m	31.03.22 Actual Debt £m	Complied
Borrowing	980	554	✓
Other long-term liabilities	135	124	✓
Total Debt	1115	678	✓

Other

48. IFRS 16: CIPFA/LASAAC confirmed in April 2022 that there will be a deferral of the implementation of IFRS 16 Leases to 1 April 2024, however early adoption is permitted for 1 April 2022.

Investment Training

49. Officers have undergone the following training during the year all of which have been online and provided by Arlingclose.

Outlook for the remainder of 2022/23

50. Inflationary pressures in the UK and Europe have intensified significantly with UK CPI inflation is expected to rise further and peak at just over 13% in 2022 Q 4 overwhelmingly reflecting the sharp increase in gas prices since May. Larger wage settlements are feeding into inflation. Domestic inflationary pressures are projected to remain strong in the near term before dissipating.

51. Arlingclose expects Bank Rate to rise by 50 basis points at the next MPC meeting in September 2022 and a further 25 basis points at both subsequent MPC meetings in November and December 2022. Therefore see Bank Rate peaking at 2.75%. The projected rise to 3.25% in December 2022 will require a further 1.5% of Bank Rate hikes, suggesting 0.5% at each of the next three meetings.

Recommendations

1. To note the Treasury Management Annual Report 2021/22
2. Recommend the Treasury Management Annual Report 2021/22 to Full Council for approval

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