



**Oversight and Governance**

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**AUDIT AND GOVERNANCE COMMITTEE**

Monday 28 November 2022  
2.00 pm  
Warspite Room, Council House

**Members:**

Councillor Lugger, Chair  
Councillor Lowry, Vice Chair  
Councillors Evans OBE, Finn and Tofan.

Independent Members: Mrs Annette Benny and Mr Ian Shipperley.

Members are invited to attend the above meeting to consider the items of business overleaf.

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**

### **Agenda**

#### **1. Apologies**

To receive apologies for non-attendance submitted by Committee Members.

#### **2. Declarations of Interest**

Members will be asked to make any declarations of interest in respect of items on this Agenda.

#### **3. Minutes (Pages 1 - 12)**

To confirm the minutes of the meetings held on 5 September 2022, and 29 September 2022.

#### **4. Chair's Urgent Business**

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

#### **5. External Audit - Auditor's 20/21 and 21/22 Annual Report: (Pages 13 - 52)**

#### **6. External Auditor - Audit Plan 2020/21: (Pages 53 - 80)**

#### **7. Internal Audit Half Year Report: (Pages 81 - 100)**

#### **8. Risk Management Strategy - To Follow:**

#### **9. Risk Management Monitoring Report (to include scrutiny update on risk management) - To Follow:**

#### **10. Treasury Management Strategy: (Pages 101 - 138)**

#### **11. Capital Finance Strategy: (Pages 139 - 148)**

#### **12. Counter Fraud Services Half Year Report: (Pages 149 - 168)**

#### **13. Tracking Decisions: (Pages 169 - 172)**

#### **14. Work Programme: (Pages 173 - 178)**

#### **15. Exempt Business**

To consider passing a resolution under Section 100A(4) of the Local Government Act

1972 to exclude the press and public from the meeting for the following item(s) of business on the grounds that it (they) involve the likely disclosure of exempt information as defined in paragraph(s) 1,2 and 7 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000

## **PART II (PRIVATE MEETING)**

### **AGENDA**

### **MEMBERS OF THE PUBLIC TO NOTE**

that under the law, the Committee is entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

#### **16. Information Governance Report 2021/22:**

**(Pages 179 - 190)**

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## **Audit and Governance Committee**

**Monday 5 September 2022**

### **PRESENT:**

Councillor Luggar, in the Chair.  
Councillor Lowry, Vice Chair.  
Councillors Evans OBE, Finn and Tofan.

Independent Members: Mr Ian Shipperley (joined virtually) and Mrs Annette Benny.

Also in attendance: Giles Perritt (Assistant Chief Executive), Ross Jago (Head of Performance, Governance and Risk), Emma Jackman (Monitoring Officer) and Helen Rickman (Democratic Advisor).

The meeting started at 2.00 pm and finished at 3.05 pm.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

### 17. **Declarations of Interest**

There were no declarations of interest made by Members in accordance with the code of conduct.

### 18. **Chair's Urgent Business**

There were no items of Chair's Urgent Business.

### 19. **Public Consultation Regarding the Council's Electoral Cycle**

Giles Perritt (Assistant Chief Executive) presented the Public Consultation Regarding the Council's Electoral Cycle report.

It was highlighted that –

- (a) the purpose of the report was to seek the Committee's endorsement of a public consultation using powers available under Section 116 of the Local Government Act 2003; the consultation would engage with stakeholders across the city on the issue of moving from the current electoral cycle of elections 'by thirds', to whole council elections;
- (b) the recommendations contained within the report were purely regarding the public consultation as opposed to any decision as to if the current third system should be retained or changed; the Council would not be bound by the result of the consultation as it was advisory in nature;

- (c) in order to add context, the Boundary Commission for England informed the Council they were to undertake an electoral review; this was a statutory process ending with an all-out election. Ordinarily reviews would be undertaken every five years however the Council's last review was undertaken in 2000;
- (d) Plymouth City Council currently operated with an elections by thirds approach; for Councils to retain this system the number of Councillors in a ward must be divisible by three – the Council currently had three wards with only two Councillors therefore this did not meet requirements. If the Council was to opt for an all-out election approach then two Member wards could be retained;
- (e) an additional proposal in the report, as a result of the discussion on this matter at the previous meeting, was that the Council would recommend an electoral review would result in elections in 2026, during a fallow year.

In response to questions it was reported that –

- (f) it was difficult to estimate the impact of inflation and the finances surrounding this subject, however it was highlighted that if local elections coincided with a general election or a Police and Crime Commissioner election then the cost to the council for undertaking a local election was reduced by 50% as the Government took financial responsibility for those elections;
- (g) the Council was not bound by the consultation results; the consultation was directed at Plymouth residents as well as local stakeholders and businesses however whilst the Council worked hard to maximise the response rate to previously advertised consultations, the rate of responses in other local authorities regarding the electoral cycle was very low. It was important that the Council demonstrated that the consultation results had been properly considered, however was not bound by it;
- (h) the advantages and disadvantages table contained within the report on page nine of the agenda was taken from the Electoral Commission report (this was footnoted in the agenda). The type of information as well as the questions that formed part of the consultation, if agreed by Members, would be a matter for the committee to decide. It was accepted that the potential savings to the Council by moving to an all-out election approach, whilst referred to in the report as 'substantial', were an extremely small multiple of the Council's overall budget however were a significant part of the elections budget within the council;
- (i) the Council had complete discretion over its election cycle; its only duty was to inform the Electoral Commission of its election cycle. Ward boundaries and the number of Councillors were the subject of a report produced by the Electoral Commission and laid before Parliament. The one condition set by the Electoral Commission specified that Councils that elected by thirds must have wards divisible by three;

- (j) there wasn't a legal requirement for the Council to undertake the electoral cycle consultation however it was considered that if there was a challenge raised upon the Council's decision to either retain its current approach or move to all-out elections then evidence from the public consultation might be relied upon. It was highlighted that the decision might be more vulnerable to successful challenge if a consultation was not undertaken;
- (k) Section 116 of the Local Government Act 2003 enabled Councils to design an appropriate approach to the consultation; the expenditure of the consultation would be dependent upon the means of undertaking, however a mindful approach would be appropriately considered when designed. The Chair did suggest the committee adopted a 'hands on' approach to consultation design and promulgated setting up a working committee/sub-committee for this purpose;
- (l) the consultation would be designed following a Council decision in December and the period of consultation carried out would be May to August 2024; there would be a period of analysis following that; it was acknowledged that the consultation could be advertised or sent out with the scheduled Council election paperwork – this would be considered;
- (m) it was recommended that a new report was submitted to Council from the Audit and Governance Committee specifying that the committee were to be involved in the development of the material associated with the consultation, and that the report would detail issues raised by Members at the meeting, specifying concerns raised. It was offered that the previous 10 years' worth of data relating to election costs could also be provided in the report. This was offered in response to Councillor Evans OBE concerns that the basis in which the Council was consulting on the electoral cycle was based on incorrect data and misinformation. It was later acknowledged that a revised report would be sent to Council only providing information relevant to the recommendations contained within it;

Audit and Governance Committee recommends to Council that –

1. a public engagement consultation is undertaken using powers under Section 116 of the Local Government Act 2003 between June and August 2023 on the issue of moving from the current electoral cycle of elections to 'whole council' elections once every four years.
2. the Audit and Governance Committee oversees and agrees the design and implementation of the consultation, in particular who will be consulted/engaged with and how;
3. the council confirms that the Boundary Commission Review commences in December 2023 and is conducted across 2024/25 with resulting arrangements implemented in 2026.

20. **Exempt Business**

There were no items of exempt business.

## Audit and Governance Committee

**Thursday 29 September 2022**

### **PRESENT:**

Councillor Luggar, in the Chair.  
Councillor Lowry, Vice Chair.  
Councillors Evans OBE, Finn and Tofan.

Independent Member: Mrs Annette Benny.

Apologies for absence: Mr Ian Shipperley.

Also in attendance: Paul Dossett (External Auditor), Ross Jago (Head of Governance, Performance and Risk), Paul Looby (Head of Financial Planning and Reporting), Brenda Davies (Audit Manager), Brendan Arnold (Service Director for Finance), Wendy Eldridge (Principle Technical Accountant), Emma Jackman (Monitoring Officer), Giles Perritt (Assistant Chief Executive), Carolyn Haynes (Financial Controller) and Helen Rickman (Democratic Advisor).

The meeting started at 2.00 pm and finished at 3.35 pm.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

### 21. **Declarations of Interest**

The following declarations of interest were made by Members in accordance with the code of conduct:

<b>Name</b>	<b>Minute Number</b>	<b>Reason</b>	<b>Interest</b>
Councillor Finn	Minute 28	Member of the Devon Audit Partnership Oversight Committee	Personal
Councillor Luggar	Minute 28	Member of the Devon Audit Partnership Oversight Committee	Personal

### 22. **Minutes**

The minutes of 25 July 2022 were agreed as an accurate record of the meeting.

23. **Chair's Urgent Business**

Under this item the Chair advised Members that volunteers were required for the Electoral Cycle Working Group; Members from other committees were also encouraged.

Members were to email the Chair if they wished to volunteer.

24. **Disclosure and Barring Checks for Councillors - Policy - To Follow**

With the agreement of the Chair, this item was deferred to a future meeting of the Audit and Governance Committee.

25. **External Audit Progress Report, Findings report 19/20 and Auditors Annual Report 20/21 - To Follow**

Paul Dossett (External Auditor) presented the External Audit Findings Report 19/20 to Members.

It was highlighted that –

- a) there had been a delay to the report for 19/20 due to ongoing discussions relating to the pensions transaction, but these discussions were nearing their end and should be resolved by the end of 2022;
- b) an issue was identified between CIPFA code on infrastructure assets and local authorities, and CIPFA's solution was not accepted by the Financial Reporting Advisory Board and now sat with DLUHC who, in the short term, would propose a statutory override;
- c) 19/20 was the last year that a value for money report was required, from then it moved to an Auditor's Annual Report, which would be presented at the next meeting.

In response to a question raised it was reported that, with regards to the statutory override, some timeframes could change due to political challenges, but if delayed indefinitely, local authorities could close accounts on a technical qualification.

The Committee agreed to note the update.

26. **Annual Governance Statement 2021/22 - To Follow**

Ross Jago (Head of Governance, Performance and Risk) presented the Annual Governance Statement (AGS) 2021/22.

Members were advised that the AGS was an annual report which included information upon the governance framework and system of internal control, a look back over 2021/22 including actions taken to address governance challenges as well as a focus for 2022/23, including major changes for the council such as changes to the integrated care system and reforms to adult social care.

In response to questions raised it was reported that:

- (a) the Annual Governance Statement accurately reflected the financial position the Council was in. It was reported in the Medium Term Financial Plan a gap

higher than £20m for the financial year 2023/24 – this was reported to Council in February 2022. Since then a number of inflationary measures had been applied to the budget, including the energy price increases, the increase to diesel and petrol, and the proposed pay award for Council staff, all of which added a significant pressure. The Council was required to deal with these impacts and this was referenced in the report when stating: “there were significant gaps that currently exist in the council’s financial budget and therefore the prospect of obtaining a balanced budget would not be without decisions that would result in the reduction in services, the potential for cessation or deferral of some services and the reduction in planned headcount”;

- (b) reassurance was provided that the Council had robust governance structures in order to help deal with the impact of the current economic climate upon the Council (by reducing services, the potential cessation or deferral of services or reduction in the planned headcount), however if further governance was required then appropriate action would be taken;
- (c) the Council had previously taken advantage of cheap short term borrowing, and engaged in those transactions however with appropriate foresight a move was made to change to long term fixed rate debt – the Council was now in a positive position to deal with the current increase in interest rates;
- (d) the Peer Review was a regular item under consideration by the Corporate Management Team and was likely to be discussed at Performance Scrutiny.

The Committee agreed 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).

## 27. **Scrutiny - Risk Management Update - To Follow**

Ross Jago (Head of Governance, Performance and Risk) presented the Scrutiny – Risk Management Update report.

The following key points were highlighted:

- (a) the report itself was in response to Councillor Lowry’s request at the previous Audit and Governance Committee to ensure that scrutiny panels were considering risk as part of their workload; it was confirmed that all scrutiny committees received a cut of the strategic risk register (relevant to the panel’s TOR) and used that to populate their work programme;
- (b) due to the recent period of mourning for the Queen, several scrutiny committees were moved into October therefore there was little to update however a fuller report would be provided in November;
- (c) Members of the Health and Adult Social Care Overview and Scrutiny Committee used the risk register to identify some issues with the adult social care reforms and were looking to the cost of care work.

Members did not have any questions.

The Committee agreed to note the update report.

28. **Audit Actions Review**

Paul Looby (Head of Financial Planning and Reporting) presented the Audit Actions Review report.

Key points highlighted included:

- (a) there were no outstanding external audit recommendations contained within the report;
- (b) the first pie chart in the report presented a breakdown of recommendations detailing those that were fully implemented, partially implemented, or outstanding; table one gave a breakdown of the status of recommendations, and table two identified internal audit recommendations that had not yet been implemented;
- (c) the 36 actions that were overdue would be pursued by management and an update provided at the next meeting.

In response to a question raised it was reported that –

- (d) in terms of workload of the 47% of outstanding actions that were yet to be completed, it was a mixed bag in terms of when they were to be finalised. Resourcing issues and the complexity of actions, were affecting completion. Actions were always associated with a timeline and some required significant project work to deliver. It might be helpful moving forward to begin tracking the metrics that were presented in the report to see how many delivered and outstanding over time.

The Committee agreed to note the content of the report.

29. **Internal Audit Progress Report**

Brenda Davies (Audit Manager) presented the Internal Audit Progress Report.

The following key points were highlighted:

- (a) the report detailed the progress of the work of the team against the Audit Plan agreed by the Audit and Governance Committee in March 2022; the additional number of grants administered by the team in-year totalled 25 whereas last year for the whole year totalled 23. This was indicative of the work of the authority and the success they have had in attracting new money which was to be celebrated;
- (b) because of the current changes in the financial environment and budgetary pressures the Audit Manager was to meet with the Corporate Management



Team to review the items in the Audit Plan to establish if the risk profile had changes – that would be reported back to the committee.

In response to a question raised it was reported that –

- (c) figures detailing the time spent by officers in administering covid grants would be provided to Members.

The Committee agreed to –

- (1) note the findings within the report;
- (2) Request that figures detailing the time spent by officers in administering covid grants would be provided to Members.

### 30. **Whistleblowing Policy**

Brenda Davis (Audit Manager) presented the Whistleblowing Policy.

The following key points were highlighted:

- (a) the Whistleblowing Policy was presented to the Audit and Governance Committee on a regular basis – changes made to the policy were highlighted in red text in the report;
- (b) the policy and the changes were discussed with trade union leaders, HR, Legal Services and the Cabinet Member;
- (c) reference to the Nolan principles were included in the policy as well as protected characteristics (however this sat outside of the policy so signposting to grievance resolution policy was included).

In response to questions raised it was reported that:

- (d) Members were always incorporated into the Whistleblowing Policy – the addition in the report to section 1.3 was to make it clear that where the event that was being complained of concerned a Councillors behaviour, it was properly dealt with through the Standards regime other than Whistleblowing;
- (e) key contact information was contained at the back of the policy as to where support/ advice could be sought;
- (f) the report set out that the preference was to people to blow the whistle early on within their line management. Councillors' conduct was to be dealt with through the Standards regime – if a complaint was made regarding a Councillor that was acting in their capacity as Councillor then it wouldn't be considered under the Whistleblowing Policy. If someone wanted to make a complaint about a Councillor and at the time they weren't acting in their capacity as a Councillor then it would be considered under the

Whistleblowing process;

- (g) the current Whistleblowing Policy would stand until the newly amended version had been agreed by Members, therefore there was an opportunity to further consider the impact upon Members and for Officer to provide clarification.

There were concerns that Councillors may lose their right to whistle-blow, and that further information upon whistle-blowers and how they were protected from victimisation should be considered.

The Committee agreed to defer the Whistleblowing Policy.

31. **Treasury Management Outturn Report 2021/22 - To Follow**

Brendan Arnold (Service Director for Finance) and Wendy Eldridge (Principle Technical Accountant) presented the Treasury Management Outturn Report 2021/22.

The following key points were highlighted:

- (a) the Treasury Management Outturn Report was delayed due to staff shortfalls in the finance department;
- (b) Table 1 established the level of borrowing needed by the council given the amount of schemes it had that were fit for borrowing and to make sure the council didn't borrow unnecessarily;
- (c) Table 2 described the Council's borrowing activity, specifically where borrowing had come from, and also showed the position at both the start and end of the year; the table set out where the Council took advantage of low interest rates that it could secure over a longer term (in this case 50 years with the Public Works Loan Board) – this gained rates ranging from 1.37% to 2%;
- (d) the Council showed a reduction in its borrowing activity from £628m to £577m – the Council had addressed some of the interest rate risk;
- (e) Table 3 set out where the council had its investments; overall the Council's investments had increased from £97m to £101m through improved valuation of pooled funds;
- (f) Table 4 provided a summary of the treasury management outturn position and summarised the impact on the revenue ledger;
- (g) page 11 of the report set out the prudential indicators – all activities had been delivered within these. These indicators encouraged councils to look in detail at the cost of their capital investment and treasury management activities and ensure they were funded by the revenue account. The council was required to set limits around that activity and if limits were breached there was an opportunity to consider the wider affordability of plans to be

pursued. The council was sitting within the prudential indicators and the burden was acceptable and affordable to the council.

In response to questions raised it was reported that –

- (h) the council was carrying large cash balances because of the receipt of grants or receipt of other monies coming in from Government – as at 31 March 2022 a lot of covid grants had already been received;
- (i) the interest rate credit swap would be shown in the short term borrowing section; the interest rate heading arrangements would be more noticeable in future reports however was referenced to in the written report;
- (j) all liabilities associated with long term debt and financing the of capital programme were closely monitored – through the medium term financial process the Council carefully assessed what was affordable to establish what the Council's future liabilities would be. Plymouth City Council had an unusually a high proportion of capital spend financed by capital grants. The approved programme was approximately £400m and of that capital borrowing was £80m;
- (k) in light of the outturn provision, the transfer for reserves were entries on those which might affect the outturn position for 21/22;
- (l) it was considered appropriate that an interim statement on Treasury Management should be provided to the committee in the future.

The Committee agreed –

- (1) to note the Treasury Management Annual Report 2021/22;
- (2) recommend the Treasury Management Annual Report 2021/22 to Full Council for approval;
- (3) that an interim statement on treasury management activity is provided to the committee going forwards.

## 32. **Statement of Accounts 2021/22**

Brendan Arnold (Service Director for Finance) presented the Statement of Accounts 2021/22.

The following key points were highlighted:

- (a) there were potential further adjustments that would need to be made to the Statement of Accounts when going through the process of reaching a final audit opinion. The two principle issues were the valuation of infrastructure assets, and the addition of the accounting arrangements agreed to deal with the Miel pension transaction;
- (b) it was for Members to take assurance that the Council had a competently put

together a set of financial statements and that Members could exercise challenge on the report if required;

- (c) grant funding was referred to in this report, as well as detail about revenue and capital grant funding.

In response to questions raised it was reported that –

- (d) a hard copy of the statement of accounts 2021/22 would be made available in Members Group rooms;
- (e) a note would be published on the Council's website detailing that the Statement of Accounts would not be finalised until audited and that this was reliant upon the audit of the Council's 19/20 and 20/21 accounts being audited first;
- (f) a meeting would be arranged for the following week between officers and the Chair and Vice Chair to discuss any potential arising issues from the accounts.

The Committee agreed –

- (1) to approve the Statement of Accounts for 2021/22 (attached as Appendix B to the report) with the understanding that they are currently being audited by GTUK. Should any issues be identified during the GTUK audit Members are asked to delegate the approval of the Statement of Accounts to the Chairperson of the Audit and Governance Committee, in consultation with the Service Director for Finance;
- (2) that the Chair and Vice Chair would meet with relevant officers to discuss the detail of the accounts and any potential issues that may arise.

### 33. **Tracking Decisions**

Brendan Arnold (Service Director for Finance) advised Members that the tracking decision that made reference to Ken Johnson meeting with the appropriate Cabinet Member regarding fraud activity was complete as this meeting had now taken place.

The Committee agreed to note the tracking decisions update contained within the agenda.

### 34. **Work Programme**

Under this item Paul Dossett (Grant Thornton) advised Members that the external auditor's annual report for 20/21 and 21/22 would be scheduled for the November Audit and Governance Committee.

The Committee agreed to note the work programme.

Under this item the Chair wished Brendan Arnold (Strategic Director for Finance) good luck and farewell prior to him leaving the Council.

# Auditor's 20/21 and 21/22 Annual Report on Plymouth City Council

17 November 2022

# Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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

# Executive summary



## Value for money arrangements - key recommendation and improvement opportunities

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We have written this annual report, with our VFM commentary in it, for both the 2020/21 and the 2021/22 financial years, for two reasons:

- we have been unable to close the 2019/20 financial statements audit, and commence the 2020/21 and the 2021/22 financial statement audits; and
- the Council is facing a financial crisis in the medium-term, from 2023/24 and beyond, and we need to report on the Council's VFM arrangements to the Audit and Governance Committee on 28 November 2022.

2020/21 and 2021/22 were unprecedented years in which the Council operated with a large number of its staff home working whilst supporting local businesses and residents through the pandemic. The Council responded well to COVID 19 and put in adequate arrangements to support its stakeholders.

### Overall:

- We identified three key recommendations, in response to the significant weaknesses in Financial Sustainability and 11 opportunities for improvement, across all of the three Code's criteria, 14 recommendations in all, which are reported overleaf and the findings set out in detail within our report.
- The table below shows, in summary, our risk assessment and conclusion for the three VFM criteria: Financial Sustainability, Governance and Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
<u>Financial sustainability</u>	<ul style="list-style-type: none"> <li>• Risk of significant weaknesses identified in 20/21 audit plan</li> </ul>	<ul style="list-style-type: none"> <li>• Significant weaknesses in arrangements still exist in overall arrangements resulting in:               <ul style="list-style-type: none"> <li>○ three key recommendation;</li> <li>○ four improvement recommendations made</li> </ul> </li> </ul>
<u>Governance</u>	<ul style="list-style-type: none"> <li>• Risk of significant weakness identified in 2020/21 audit plan</li> </ul>	<ul style="list-style-type: none"> <li>• No significant weaknesses in arrangements identified during our fieldwork, however               <ul style="list-style-type: none"> <li>○ three improvement recommendations made</li> </ul> </li> </ul>
<u>Improving economy, efficiency and effectiveness</u>	<ul style="list-style-type: none"> <li>• No risks of significant weaknesses identified</li> </ul>	<ul style="list-style-type: none"> <li>• No significant weaknesses in arrangements identified during our fieldwork however,               <ul style="list-style-type: none"> <li>○ four improvement recommendations made</li> </ul> </li> </ul>



# Executive summary

## Financial sustainability - how the body plans and manages its resources to ensure it can continue to deliver its services



The Council is operating in an increasingly uncertain financial environment. For the second successive year, in 2020/21, the Comprehensive Spending Review was a single year spending review. The Council delivered a breakeven position for the 20/21 financial year, after taking into account central government funding for COVID-19 and one-off adjustments. However, the Council's financial position is critical as there were significant funding gaps in each year of its five-year medium term financial plan with a total cumulative funding gap of £256 million to 2027/28. We have identified a significant weakness in the Council's financial sustainability. We are not satisfied that the Council has appropriate arrangements in place to manage the risks it faces (like many other authorities) in respect of its financial resilience and have identified three KEY recommendations and four improvement recommendations, as follows:

### Key recommendations:

- R1: Members should follow the advice of the Council's section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time into the base position.
- R2: The Council's Medium Term Financial Plan (MTFP) needs to be updated, as a priority, for the mid-year 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24;
- R3: The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the Council's significant financial challenges and associated workload during 22/23.

### Improvement recommendations:

- R4: The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.
- R5: The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organisation. Service budgets and financial forecasts should be aligned with the Council's outcomes.
- R6: The Council's Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the "Action Plan / Future Mitigation" column of the Risk Register (which currently replicates the controls in place) so that officers and members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.
- R7: We consider that the Council's level of unearmarked General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit the Reserves Strategy and build up its reserves at a rate of greater than the current planned contribution of some £350,000 a year from 23/24.

## Governance - How the body ensures that it makes informed decisions and properly manages its risks



Our work for the 20/21 and the 2021/22 financial years focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic. Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. We have identified three improvement recommendations:

- R8: We recommend that the Strategic Risk Register better informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.



# Executive summary (continued)



## Governance (Continued)

- R9: Given the significant financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly financial monitoring reports so that senior officers and members may see the level of variances at a service activity level to better inform decision making.
- R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards (in the Financial management Code), produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

## Improving economy, efficiency and effectiveness - How the body uses information about its costs and performance to improve the way it manages and delivers its services



The Council's ambition, community engagement and effective partnership working commendably earned it the national 2021 "Council of the Year" award as judged by the Municipal Journal. The Council has adequately delivered economy, efficiency and effectiveness in its use of resources. As part of its transformation journey, the Council still needs to effectively use benchmarking and data quality assurance to better understand the information about its costs and performance to improve the way it manages and delivers its services. We did not identify any risks of significant weakness, but we have identified the following four **improvement recommendations**.

The Council should:

- R11: develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.
- R12: consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.
- R13: define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.
- R14: produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.

## Financial Statements audits



- Our progress on the 2019/20 and the 2021/22 financial statements audits, to date, is summarised on page 6 overleaf.

# Financial statements audits



## Opinions on the financial statements for the 19/20 and 20/21 accounts

Nationally, there is a technical accounting issue currently being debated by CIPFA on how public sector bodies account for their infrastructure assets in accordance with the International Financial Reporting Standards (IFRS). All local government audit opinions, for all firms, await national guidance and a possible statutory override of IFRS for infrastructure assets which is why we cannot sign any audit opinions without qualifying those with material infrastructure asset balances until this is resolved, which may be in the Autumn 2022.

### 2019/20 financial statements

We presented out 2019/20 audit findings, to date, to 29 September 2022 Audit and Governance Committee. We reported that our work is incomplete and there are a number of areas where we are awaiting further information and revised accounts from the Council to conclude our work. These include:

- Receipt of a revised set of financial statements, incorporating a number of changes including those relating to financial instruments;
- The conclusion of our work in respect of the pension transaction - a significant issue which has consumed significant Council and audit resource.
- Resolution of the national issue relating to the carrying value of infrastructure assets within the Council's financial statements

The Council will need to reflect on the impact of the pension transaction within its Annual Governance Statement and we will review the other information to be published with the financial statements for consistency with our knowledge of your organisation once this is resolved.

### 2020/21 financial statements

Depending on the outcome of the 2019/20, we plan to start the audit of the 2020/21 financial statements in January. We have been made aware through our 2020/21 planning work that one-off adjustments at the 2020/21 year end has enabled the Council to report a breakeven position for that year so we will be adding these issues to our areas of audit focus.

We presented a revised 2020/21 audit plan to 28 November 2022 Audit and Governance Committee.

### 2021/22 financial statements

We need to discuss with officers how we both work to auditing the annual accounts within the normal local government cycle as by the time we come to audit the 2021/22 financial statements, officers will be preparing the 22/23 financial statements in May 2023.



# VFM: Arrangements to secure economy, efficiency and effectiveness in use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement. Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

## Conclusion

Plymouth City Council is an ambitious council that continues to achieve and improve the lives of its residents, through partnership working and community engagement, and commendably it earned the national 2021 "Council of the Year" award as judged by the Municipal Journal. Judges described Plymouth as "a local Council that has put culture-led regeneration and a sense of place at its heart, one that is determined to put its city on the map for all the right reasons".

The 2022 LGA Peer Review (Feb 2022), commissioned by the Council's Leadership, stated that "Leading the way in terms of delivering economic growth has been a powerful driver for PCC to date and has already delivered a powerful legacy for the council, but as Plymouth - both the council and the city - emerges from the pandemic, and the Plymouth Plan is reviewed to reflect the impact of the last 2 years on demand led services, it's vital that the importance of this changing narrative for core statutory services is reflected in the ambition for Plymouth and that delivering social value receives parity of esteem with economic growth across all services areas."

However, the Council's ambitions and potential commitments, with partners, under its Corporate Plan and the longer term 2014 – 2034 Plymouth Plan appear not to be underpinned by adequate financial funding in the medium nor longer term. The Council made immediate revisions to service costs for the 22/23 financial year given the forecast £14.855 million deficit at the end of June 2022. After accounting for savings of £7.716 million, the forecast revenue outturn is currently estimated at a net £6.656 million over budget, which is a variance of +3.4% against the net budget at the end of August 2022. Although the Council is actively managing its in year 22/23 financial position, at a detailed level, we are not satisfied the Council has appropriate arrangements in place to manage the risk to its medium-term financial sustainability and we would consider this a significant weakness in the Council's arrangements for ensuring it has the capacity to continue to deliver sustainable services in the medium term. Many of the challenges are sector wide given the dual challenges of inflation and increased demands for local government services.

# Financial sustainability

## How the body plans and manages its resources to ensure it can continue to deliver its services



### We considered how the Council:

**FS1:** identifies all the significant financial pressures it is facing and builds these into its short and medium term plans;

**FS2:** plans to bridge its funding gaps and identify achievable savings;

**FS3:** plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

**FS4:** ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning;

**FS5:** identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

### Significant weakness in financial sustainability

Plymouth City Council (the “Council”) has experienced deteriorating financial resilience for a number of years with its service spending pressures, its demand led children and adult social care costs, the impact of COVID-19 and the affordability of its ambitious capital programme. The Council’s ability to increase local taxation in line with inflation for several years has also impacted its financial sustainability as its level of general fund reserves is in the lowest 20% of unitaries nationally. General Fund reserves at £8.044 million are currently some 4% of net revenue expenditure. The budget monitoring reports during 20/21 and 21/22 showed significant overspends which reduced following one-off adjustments so the Council was able to break-even in both financial years.

The Council made immediate revisions to service costs for the 22/23 financial year given the forecast £14.855 million deficit at the end of June 2022. After accounting for savings of £7.716 million, the forecast revenue outturn is currently estimated at a net £6.656 million over budget, which is a variance of +3.4% against the net budget at the end of August 2022. In setting the Council tax for 22/23, members chose not to follow the advice of the Council’s section 151 officer to increase council tax within referendum limits. This decision impacts both the 22/23 budget and future budgets by not building on the base positions resulting in cumulative lost income of some £2.1 million a year, which would mean a “loss” of £10.5 million over the five year MTFS. In our view this was not a decision made after a full assessment of the degree of financial risk by members and this is not a decision that should be repeated in setting the 23/24 budget when the Council has such significant financial challenges. The Council’s Medium Term Financial Strategy (MTFS) needs to be updated and reported as a priority for the December 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFS, in February 2022, showed a cumulative deficit over the next four years to 26/27 of £118 million, however this gap has widened significantly as the five year MTFS has been recalculated to include the 2027/28 financial year.

The Chief Executive spoke at Cabinet on 7 July 2022 of the “grave” financial situation that the Council is facing. The Council’s Section S151 Officer and Service Director for Finance left at the end of September 2022 having been with the Council for 2 years. One of the Deputy Directors of Finance is “acting up” until a new Section 151 Officer is recruited for April 2023 and there is a 30% vacancy rate in the finance department. Given the significant financial challenges facing the Council, we recommend that the Council employs another senior finance officer, in the interim, so the senior finance team has the capacity and knowledge required to help manage the significant financial challenges and associated workload.

### Conclusion

Overall, we are not satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have identified three key recommendations for financial sustainability and 4 opportunities for improvement, as follows:

#### Financial Sustainability Key recommendations:

- **R1:** Members should follow the advice of the Council’s section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time.
- **R2:** The Council’s Medium Term Financial Strategy (MTFS) needs to be updated, as a priority, for the December 22 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24;
- **R3:** The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the Council’s significant financial challenges and associated workload during 22/23 and beyond



### Financial Sustainability Improvement recommendations

**R4:** The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.

**R5:** The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council's outcomes.

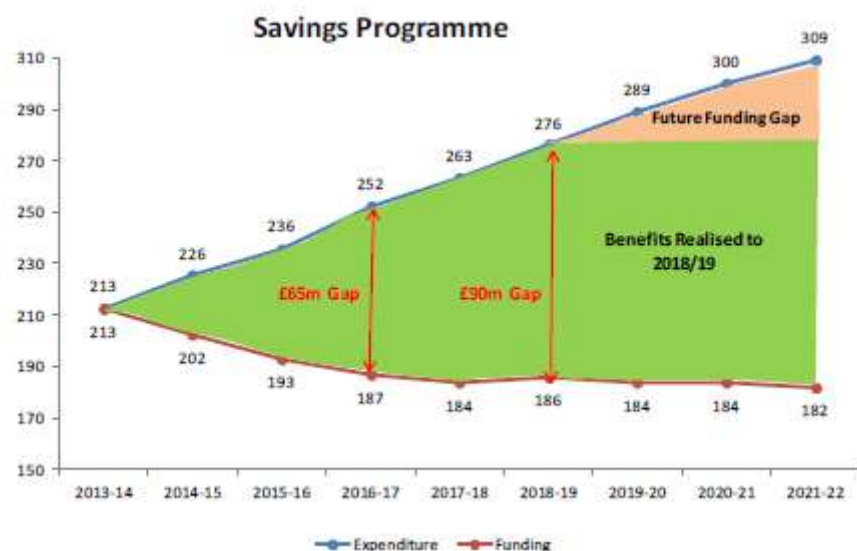
**R6:** The Council's Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the "Action Plan / Future Mitigation" column of the Risk Register (which currently replicates the controls in place) so that Officers and members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.

**R7:** The Council's levels of General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than £350,000 a year from 23/24.

### 1: How the Council identifies all the significant financial pressures it is facing and builds these into its short and medium term plans;

#### Ongoing financial challenges

The 19/20 – 20/21 Medium Term Financial Strategy (MTFS), currently on the Council's website, shows the financial pressures and the financial funding gap was estimated to be £37 million at the end of 2021/22, as shown below as the "future funding gap".



### Revenue outturn for 20/21 and 21/22

For the 2020/21 and the 2021/22 financial years, the Council reported a breakeven position against a net budget of circa £194 million. The year end performances were an improvement on the forecast outturn position reported throughout the years and were achieved due to the receipt of additional COVID-19 funding. For 20/21, there still was an overspend of £0.625 million at directorate level and corporate items showed an overspend of £4.859m for business as usual activities. For the 21/22 financial year, there were net additional cost pressures totalling £10.313m plus cost pressures arising from the COVID-19 pandemic of £9.604m which needed to be managed.

### Financial planning

The budget for 21/22 was agreed by Full Council in February 2021. However the MTFS was not formally updated and reported, at that time, detailing the extent of the growing medium-term funding gap and how the Council planned to bridge the funding gaps over the subsequent five years. This was because there was a period of limited direction from central government and the inability for local government to plan in detail beyond a one year horizon because of COVID-19. All that was reported to Council was the in year funding gap of £7.112 million which included significant cost and volume increases for Adults' and Children's services, as the significant proportion of the Council's revenue budget (over 70%) is spent on these areas. Prior to receipt of the provisional settlement and spending review announcement financial modelling had shown a budget gap of £14.063m for the 21/22 financial year so the situation had ostensibly improved as management action actions were identified.

For 22/23, the annual budget gap increased to some estimated £30 million for the year. However, financial modelling scenarios with best, realistic and worst case scenarios were not formally presented to Cabinet. Instead the budget was presented with in-built planning assumptions using management actions that have not fully materialised. Significant work is currently being undertaken by the Council to identify savings opportunities to balance the books for 2022/23, as at the end of June 2022, the Council was reporting a £13.617 million forecast deficit. The Council's Section 151 Officer has a draft Section 114 report in writing and may issue this if the 22/23 financial position is not improved by the 19 September 2022 Council meeting.

The MTFS, in February 2022, shows a cumulative deficit over the next four years to 26/27 of £118 million, however this gap has widened significantly to £256 million, in September 2022, as the MTFS fifth years has been recalculated to include the 2027/28 financial year. The financial risks facing the Council are significant and given the low level of reserves, current indications are that the Council's financial position is critical.

## 2: How the council plans to bridge its funding gaps and identify achievable savings?

### Savings plans

The Council monitors the delivery of planned savings on a monthly basis through its Central Management Team (CMT) and Cabinet. Historically the Council has a good track record of delivering its savings targets. Over the last 10 years, the Council reported that it has successfully delivered a savings programme totalling some £185m which averages out at approximately £18 million a year. However, a savings target of only £7.4m was included within the 2020/21 budget set in February 2020. Whilst specific savings schemes could not be always be achieved due to the need to act on a responsive basis to the service delivery and other operational challenges brought about by the Pandemic, the Council nevertheless achieved overall financial balance, through one-off measures for the 2020/21 year.

For 21/22, £18.845 million of savings were approved by Cabinet in February 2021. Progress against in year delivery of savings, on a risk basis, is reported each month as below in the October 21 Financial Monitoring Report

#### Appendix A 2021/22 Savings status (1) Summary

	Total	Achieved savings	on track for delivery	Working on for delivery	Planned, internal/external actions required to deliver
	£m	£m	£m	£m	£m
Children's	4.001	1.723	0.688	1.176	0.414
People	3.160	3.160	0.000	0.000	0.000
ODPH	0.028	0.028	0.000	0.000	0.000
Customer & Corporate	4.571	1.136	1.896	0.019	1.520
Place	1.035	0.080	0.045	0.257	0.653
Corporate Items	1.050	1.015	0.000	0.000	0.035
<b>2021/22 Savings</b>	<b>13.845</b>	<b>7.142</b>	<b>2.629</b>	<b>1.452</b>	<b>2.622</b>

### Recurrent versus non-recurrent savings

Although the Council has a recent track record of closing budget gaps to produce breakeven outturns for 20/21 and 21/22, this has been mainly achieved through the use of additional COVID-19 grants and other one-off year end measures. This has masked the critical nature of the Council's financial position in year and in the medium term. It is not clearly reported whether savings are of a recurrent nature or whether they are one-off non-recurrent savings identified to balance the budget. The Council has a high level of vacancies, for example the vacancy rate in the Finance Department is approximately 30% so these vacancies are

classified as savings each year. The Council needs to identify new recurrent savings each year to sustainably close its funding gap rather than rely on annual vacancies. Difficult service decisions will need to be made to identify sufficient significant potential savings. The savings schemes at £11 million for 22/23 are insufficient to deliver the current years financial plan.

**Improvement recommendation 4:** *The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.*

## 3: The Council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

### Strategic priorities

The Council set out its longer-term strategic plan within the Corporate Plan 2021 to 2025, which aligns to the Plymouth Plan 2014 – 2034. The Plymouth Plan sets the visions for the City for the Council and its partners and provides a strategic framework for its decision making, and informing the Medium Term financial forecast and annual budget setting.

The budget for 2021/22 was agreed by Full Council in February 2021. As part of that process, the Council's vision and values was restated as "A key principle informing the Council's response to the COVID-19 pandemic is that our existing vision, values, priorities and plans as summarised in the Corporate Plan remain fit for purpose. The Council's approach has been to prioritise key elements within the plan to ensure that we address the most immediate impacts of the pandemic on those most vulnerable, and support the city's recovery, both in health and economic terms in the most appropriate way."

### Capital investment

The Council has focussed on driving the City's growth agenda which included leveraging investment, business development and support, spatial planning and strategy, a strong cultural and events offer, housing delivery and the ambitious capital delivery programme which includes major sustainable transport improvements. The capital programme is significant, as shown below.

#### Planned capital expenditure 20/21 to 24/25

Directorate	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m	£m
People	10.300	2.391	7.009	3.025	-	22.725
Place	135.354	129.423	84.525	13.000	2.655	364.957
Customer & Corporate	7.932	31.003	-	-	-	38.935
Public Health	5.209	7.804	-	-	-	13.013
<b>Total</b>	<b>158.795</b>	<b>170.621</b>	<b>91.534</b>	<b>16.025</b>	<b>2.655</b>	<b>439.630</b>

#### 4: ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning:

##### Financial planning - consistency with other plans

Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the Council's annual budget setting round. The Council has a People Strategy, adopted in March 2020, but it is not clear how this is reflected in the Council's MTFS as we have seen no evidence of where workforce establishment has been reported at a FTE level as part of medium term financial planning. The Council's annual financial budget is not clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Some redundancies have been made as reported in the Council's Financial Statements, however this is not reported as a planning measure.

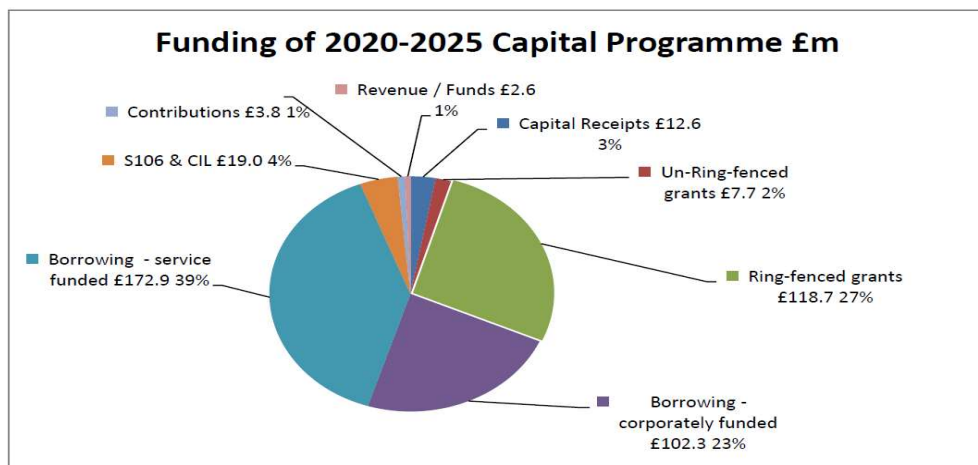
**Improvement observation 5:** *The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council's outcomes.*

##### Treasury Management

The Council has formally adopted CIPFA's Code of Practice on Treasury Management. Its 20/21 Treasury Management Strategy was agreed by Cabinet in February 2020. Treasury mid-year statement and annual reports are presented regularly to the Audit & Governance Committee. The City has an ambitious capital investment programme which supports the local economy and the revenue implications of this investment are included within the budget plans, with an additional £1.485m added in 21/22. However, interest rates are rising which makes the capital programme less affordable in the long-term, especially where borrowing is funded by short-term borrowing. The Council has changed its debt portfolio in the last two years towards long term debt.

##### Funding for the capital programme

The Council's Capital Financing Reserve is financed by an increasing amount of external borrowing at some 62% compared to other sources as shown below:



Service borrowing accounts for 39% of the capital programme of £172.9 million. Service borrowing funds capital investments where the borrowing repayments are covered by income or savings being made within the Service Departments. However it is not reported whether the capital scheme has been effective and the savings made. The Council also funds projects from Corporate Borrowing at £102.3 million, some 39%. This is largely for projects that are considered to be overall strategic priorities and where the borrowing repayments are covered by making revenue provision in the annual budget. To ensure the capital programme remains sustainable in the long term the level of borrowing continues to be regularly monitored and any impact of a change in interest rates reported.

##### Financial risk management

The Council maintains a Strategic Risk Register that is reviewed quarterly by CMT and the Audit & Governance Committee. The Strategic Risk Register, was updated for May 2022 report with the Financial Risk upgraded from an Amber Risk with a score of 12, in February 2022, to a Red Risk risk with the highest possible score of 25. This financial risk is described as "The risk of the Council's expenditure exceeding the resources available to meet that expenditure within the medium term financial plan period (2022/23-2025/26)." However this wasn't the risk, this was the fact as medium-term expenditure already exceeded medium-term resources by an estimated £118 million in February 2022 and interestingly, at this time, the risk was inappropriately scored as a 12 (a Probability of 3 multiplied by the Impact of 4).

The risk would be better described as a "Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes". The Action Plan for this risk replicates the description of the controls already in place with the additional line that "It is of critical importance to the Council and City that CMT and Cabinet select means of reducing the costs of the Council to fully mitigate the forecast budget shortfalls in future years. Until this work is completed later in 2022 the risks will remain at the current level"

There is no clear financial plan in the "Action Plan / Future Mitigation" column of the Risk Register as to how the Council may put itself on a sustainable footing and reduce its financial pressures and achieve its strategic outcomes. The Council's risk monitoring needs to better record all its key financial risks, at a more granular level rather than one overall finance risk, over the short term and medium-term; and the mitigating actions required to manage these significant financial risks.

**Improvement observation 6:** *The Council's Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the "Action Plan / Future Mitigation" column of the Risk Register (which currently replicates the controls in place) so that Officers and members are clear how the Council may put itself on a sustainable footing and reduce its financial pressures and achieve its strategic outcomes.*



## 5: identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

### Managing financial resilience

The budget for 2021/22 was agreed by Full Council in February 2021. Cabinet were asked to note that the budget shortfall of £7.112m could be offset by:

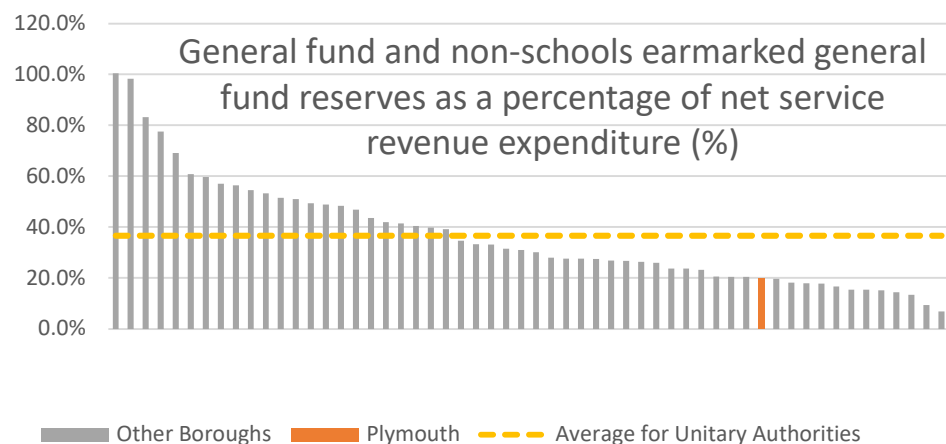
- a Council Tax increase of up to 1.99%
- an Adult Social Care (ASC) precept of up to 3%
- the use of limited local resources including a limited use of reserves.

Section 25 of the Local Government Act 2003 requires that when a local Council is making its budget calculations, the Chief Finance Officer of the Council must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

The Council's Service Director of Finance advised that a zero or nil council tax rise would financially disadvantage the Council in the short and medium term. However, this advice was not taken for both the 21/22 and the 22/23 budgets when a zero council tax rise was voted in for two years running. We have made the Key Recommendation earlier in the report that this should not be repeated for the 23/24 budget as this has cost the Council a cumulative total of some £9 million.

### Level of reserves

General fund reserves should only be used for unplanned events and uncertainties in future years' budgets, whereas earmarked reserves are set aside for specific purposes where the Council has future commitments that it needs to fund.



The graph shows that Plymouth is in the bottom quartile for available general fund reserves, of only £8.044 million, at 31 March 2022, and the Council is the 43<sup>rd</sup> lowest unitary out of 53 unitaries nationally in terms of reserve levels.

For 2019/20, the average level of reserves for unitary authorities is 36.7% and the graph, to the left, shows Plymouth with less than the average at only 19.9%. At the end of the 21/22 financial year, the Council had "Other PCC Earmarked Reserves" of £22.22 million and General Fund reserves of £8.044 million. This will be even lower at the end of 2022/23, as it was recommended to Cabinet in October 2022, that reserves of £1.585 million are applied in year to offset the 2022/23 in-year overspend as these earmarked reserves are no longer required for their original purpose.

When earmarked reserves are excluded, the General Fund reserves are only at 1.99% of gross revenue expenditure, which is much lower than the Council's own target for its reserves level of 5% which was set as part of the 19/20 to 20/21 Medium Term Financial Strategy. However, the Council's potential five year budget gap of over an estimated £150 million to 27/28 exceeds the Council's reserves of only £8.044 million by many, many times which shows that the Council's planned target of 5% is insufficient as the level of financial risk is great.

We recommend that a detailed reserves strategy is put in place detailing how the Council plans to increase the level of its reserves to . Although there is a budget allowance of £350k a year to top up the balance to achieve the 5% target, the level of reserves is deteriorating as there was a £350k contribution holiday in 22/23.

**Improvement recommendation 7:** We consider that the Council's level of General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than the current planned contribution of some £350,000 a year from 23/24.



# Improvement recommendations



## Financial sustainability

### KEY Recommendation One

R1: Members should follow the advice of the Council's section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time.

### Management comment

Agreed.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

### KEY Recommendation Two

R2: The Council's Medium Term Financial Plan (MTFP) needs to be updated, as a priority, for the mid-year 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24.

### Management comment

The 2023/24 position was presented to Council in November 2022, which is the earliest available opportunity to match savings with the funding gap. The funding gap has been discussed since early July 2022 with cabinet members and the public have been notified of the scale of the deficit. It is difficult to maintain a meaningful MTFP when central government have been giving one-year settlements.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

### KEY Recommendation Three

R3: The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the significant financial challenges and associated workload during 22/23.

### Management comment

An interim has been appointed, starting 16<sup>th</sup> November until March 2023



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

### Improvement Recommendation

R4: The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.

### Management comment

The savings proposals listed in the 2023/24 budget show this, with sustainable savings and difficult decisions. There will always be some element of one-off savings; we are working to minimise these.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

### Improvement Recommendation

R5: The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council's outcomes.

### Management comment

We do ensure the budgets are aligned to our outcomes.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial sustainability

### Improvement Recommendation

R6: The Council's Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the "Action Plan / Future Mitigation" column of the Risk Register (which currently replicates the controls in place) so that Officers and Members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.

### Management comment

We have requested further detail on "granular level".



The range of recommendations that external auditors can make is explained in Appendix C.



# Improvement recommendations



## Financial sustainability

### Improvement Recommendation

R7: The Council's levels of reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than £350,000 a year from 23/24.

### Management comment

We had a plan to increase by £350,000 p.a. but this is difficult in the current financial climate. We have asked for clarification on what level would be sufficient.



The range of recommendations that external auditors can make is explained in Appendix C.

# Governance

## How the body ensures that it makes informed decisions and properly manages its risks



### We considered how the Council:

Gov 1: monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;

Gov 2: approaches and carries out its annual budget setting process;

Gov 3: ensures effectiveness processes and systems are in place to ensure budgetary control;

Gov 4: ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency;

Gov 5: monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

### Summary on Governance

Our work for the 2020/21 and the 2021/22 financial years focussed on developing a detailed understanding of the governance arrangements in place at the Council as we had identified a significant risk around governance in our 20/21 audit plan given the governance issues that arose in 19/20. We have since found that the issues arising from our 2021 July Governance review have been adequately resolved with new procedures put in place. Our 19/20 Audit Report, presented to the Audit & Governance Committee on 28<sup>th</sup> September 2022, details the improvements made.

Plymouth has adequate risk management processes and procedures in place for 20/21 and 22/23, although these are currently being reviewed to better embed risk management throughout the Council. As we have seen from the Financial Sustainability section in this report, key critical decisions need to be made to stop the further deterioration of the Council's financial position. The Council's Risk Register does not sufficiently document the Council's financial risk nor the mitigating actions being taken to manage that risk.

### Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it makes informed decisions and properly manages its risks, with the exception of the Council's financial risks. We have identified four opportunities for improvement, as follows:

#### Governance improvement recommendations:

- *R8: We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.*
- *R9: Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so that senior officers and members may see the level of variances at an activity level which will better inform their decision making around services.*
- *R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, in the CIPFA Financial management Code, produce a robust action plan with SMART targets to achieve full compliance by the deadline of March 23 and reports this to the Audit & Governance Committee.*



## Gov 1: How the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;

### Risk management

The Council has a Risk and Opportunity Strategy 2020 – 2022 which was approved by the Council's Audit & Governance (A&G) Committee in November 2020. This Committee is currently responsible for reviewing the Council's Strategic Risk Register at each of its meetings. The Strategic Risk Register include a description of the risk, mitigating actions, and a RAG rated risk score derived from the probability and impact of the risk occurring both before and after the mitigating actions are taken into account. A risk owner is assigned to each risk.

There were 22 strategic risks on the Risk Register in March 2022. This is a large number of risks for the A&G Committee to review. It is also the role of the Committee to provide assurance to Cabinet over the effectiveness of the Council's Risk Management process rather than deep dive into individual risks. The scrutiny function is delivered through four overview and scrutiny committees and the main aim of scrutiny is to act as a 'critical friend' to the Cabinet and other decision makers, to promote better services, policies and decisions. We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members decisions making.

**Improvement recommendation 8:** *We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.*

The Strategic Risk Register is supported by registers for each Directorate and these are discussed regularly at Directorate management Team meetings. In September 22, the Council is using Gallagher and Bassett, its Insurance Risk Advisors, to review the Council's risk management process and provide further training for the Departmental Risk Management Champions, as the Council needs to better embed risk management throughout its structures. The LGA Corporate Peer Challenge Review Report, of February 2022, stated that the Council should "Promote and embed risk awareness across the organisation and continue to address and report progress against key financial risks and external audit requirements".

### Internal control

In 2020/21 and 21/22, Internal Audit reported to each meeting of the G&A Committee and provided an annual report and opinion, update reports and internal audit plans. The Committee also approved the Internal Audit Charter and Strategy. Sufficient work was undertaken to enable the Head of Internal Audit to provide a 'reasonable assurance' opinion in both financial years.

The Council had the following policies to prevent and detect fraud:

- Anti-fraud and corruption strategy; and
- Whistle-blowing

Anti-fraud work and investigations were undertaken by the Council's proactive Counter Fraud Service. The annual and half yearly report of the CFS provides updates on both anti-fraud and corruption strategy and the whistle-blowing policy

From our work we have found no areas of weakness in the management and reporting on internal control and the prevention and detection of fraud.

## Gov 2: How the Council approaches and carries out its annual budget setting process;

### Budget setting

Under the Council's Constitution, Cabinet is required to recommend the annual revenue and capital budget to Council in February each year as well as the Capital Financing and Treasury Management Strategy. The Cabinet report:

- summarises the impact of the provisional Local Government Finance Settlement on the budget;
- sets out revenue budget planning assumptions in respect of income, approved savings plans and resource requirements;
- summarises cost pressures and mitigations in respect of the COVID-19 pandemic;
- sets out the Capital budget, Capital financing strategy and the treasury management strategy for 2021/22;
- itemises the Council's response to its agreed recovery and renewal priorities and objectives during 2021/22; and
- sets out the Cabinet's response to the Budget Scrutiny Select Committee's recommendations relating to the 2021/22 budget.

### Public engagement

In December 2021, this year's budget engagement exercise "Help us prioritise Plymouth's pounds" yielded a high level of response from its stakeholders compared to previous years. Listening to Plymouth residents is a high priority for the Council and it received valuable feedback.

### Budget Engagement



The Council recognises that setting the budget does not mean the work is over as financial pressures continue to provide a challenge and it will need to deliver savings plans and continue to transform how it operates to reduce costs.

### Gov 3: How the Council ensures effectiveness processes and systems are in place to ensure budgetary control;

#### Budget monitoring

The Council operated a formal corporate revenue and capital monitoring process during the 20/21 and the 21/22 financial years. Monthly budget monitoring reports were presented to the Overview & Scrutiny Committees and Cabinet. Variances at a departmental level are also reported, as shown below:

#### Monthly finance report to Cabinet – October 2021

Directorate	Budget £m	Forecast £m	COVID offset £m	Forecast Net Variance £m	Status
Executive Office	5.429	5.694	(0.245)	0.020	over
Customer and Corporate Services	44.031	45.850	(1.164)	0.655	over
Children's Directorate	53.047	61.865	(8.404)	0.414	over
People Directorate	89.441	93.018	(3.577)	0.000	on budget
ODPH	(0.537)	(0.730)	(0.134)	(0.327)	under
Place Directorate	24.976	28.830	(3.733)	0.121	over
Corporate Items	(20.846)	(38.103)	17.257	0.000	on budget
Total	195.541	196.424	0.000	0.883	over

As a senior manager or member the above £883k forecast variance in year compared to net expenditure of £195.541 million may not give much cause for concern. Explanation for variances are reported but at a high level so that any relevant non-financial information, such as service activity and workforce information, is not sufficiently included in the financial reports to Cabinet.

Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly monitoring reports so that service directors and managers are held accountable for financial performance and members may see the level of variances at an activity level to better inform their decision making.

**Improvement recommendation 9:** *Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so that members may see the level of variances at an activity level which will better inform their decision making around services.*

### Gov 4: How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency;

#### Informed decision making

In addition to decision-making committees, the Council also has four overview and scrutiny committees for different directorates, to ensure that decisions are subject to adequate challenge and review prior to being taken. The Council's committees make use of various report templates which are structured in such a way to ensure that relevant considerations and impacts are made, depending on the type of decision required.

2022/23 was the first year of implementation of the CIPFA Financial Management Code (FM Code), with local authorities being required to demonstrate progress towards compliance by 31 March 2023. In comparison to some other councils, there has no reporting to members with regard to the Plymouth's compliance with the FM Code or of actions required to move the Council towards full compliance as is required in 22/23.

#### **CIPFA Financial Management Code Principles**

The following FM Code principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management a local Council is financially sustainable:

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency at its core** using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- **Adherence to professional standards** is promoted by the leadership team and is evidenced.
- **Sources of assurance** are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management process and is **evidenced by prudent use of public resources**.

Source: The CIPFA Financial Management Code

CIPFA expects that compliance with the FM Code will typically be achieved by documenting compliance with the Statements of Standard Practice that underpin each of the Financial Management Standards. Given the Council's critical financial position we think this will be a constructive exercise in identifying areas, including leadership at the top, where financial management processes and procedures and subsequent decision making may be improved.

We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

**Improvement observation 10:** *We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, in the CIPFA Financial Management Code, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.*

#### Gov 5: How the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

##### Monitoring Standards

The 20/21 and 21/22 Annual Governance Statement are compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks. The Council's constitution has a section relating to Codes and Protocols which sets out general behaviour and principles expected of members and officers. This appears to be consistent with expectations observed across the sector.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. During our review we are not aware of any instances where officers or elected members have not complied with the necessary standards and no evidence of significant non-compliance has been identified, with the exception of the MIEL transaction and the Interest Rate Swap transactions which we reported on as part of our 2019/20 Value for Money Conclusion. The outcome of our Governance Review was reported to the July 2021 Audit & Governance Committee and we have since seen that the Council has implemented appropriate actions in response to the 11 recommendations .

# Improvement recommendations

**Improvement  
Recommendation**

R8: We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.

**Management  
comment**

We are undertaking a review of our scrutiny arrangements.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

### Improvement Recommendation

R9: Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so senior officers and members may see the level of variances at an activity level which will better inform their decision making around services.

### Management comment

We are always open to suggestions to better inform and report. However, we have to be mindful of too much detail. Best practice is sought.



The range of recommendations that external auditors can make is explained in Appendix C.



# Improvement recommendations

## Governance

### Improvement Recommendation

R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

### Management comment

We have asked for clarification.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improving economy, efficiency and effectiveness <sup>(3Es)</sup>

How the body uses information about its costs and performance to improve the way it manages and delivers its services



## We considered how the Council:

- **3Es 1:** uses financial and performance information to assess performance to identify areas for improvement;
- **3Es 2:** evaluates the services it provides to assess performance and identify areas for improvement;
- **3Es 3:** ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve;
- **3Es 4:** ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Summary on “Improving economy, efficiency and effectiveness”

The Council’s ambition, community engagement and effective partnership working commendably earned it the national 2021 “Council of the Year” award as judged by the Municipal Journal. Judges described Plymouth as “a local Council that has put culture-led regeneration and a sense of place at its heart, one that is determined to put its city on the map for all the right reasons and where political and officer leadership is genuinely a single voice for the benefit of all residents”. The judges added “Pride in the City leaps off the pages of Plymouth’s submission. It has taken a novel approach to putting the city on the map as Britain’s Ocean City. The Council is clearly ambitious, strongly engaged in its communities and is working well with partners on key agendas.”

However, as discussed in the Financial Sustainability section of this report, the ambition is not matched by the Council’s current available resources to continue this journey without a critical review of the Council’s short, medium and long-term finances. The Council needs to continue to transform its service delivery but savings and financial sustainability are increasingly harder to attain as, in April 2020, the Council moved into its seventh year of its transformation journey which appears to have enabled the Council to deliver over £108m of budget savings and efficiencies.

As part of its journey, the Council still needs to effectively use benchmarking and data quality assurance to better understand the information about its costs and performance to improve the way it manages and delivers its services.

## Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure economy, efficiency and effectiveness in its use of resources. We have identified no significant weaknesses and three opportunities for improvement, as set out below

### Improving economy, efficiency and effectiveness – Improvement recommendations:

- **R11:** The Council should develop a data quality strategy setting out the Council’s approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.
- **R12:** The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.
- **R13 :** The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City’s corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council’s objectives will enable the Council to evaluate and assess their level of contribution.
- **R14:** The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council’s policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.

### 3Es 1: The Council uses financial and performance information to assess performance to identify areas for improvement;

#### Performance management

The Council set out its vision and priorities within its Corporate Plan 2021 to 2025, which aligns to the Plymouth Plan 2014 – 2034 which sets the visions for the City for the Council and its partners.

#### Corporate Plan

The Corporate Plan 2016 to 2019 sets out our vision to be 'one team serving our city' and retains our ambition to be a Pioneering, Growing, Caring and Confident City.



Quarterly performance reports are presented to CMT and Cabinet. These reports included an assessment of performance against the Corporate Plan commitments and operational performance. Performance is reviewed by the Cabinet in a public meeting to facilitate openness and transparency and to enable public scrutiny.

The Corporate Plan priorities are delivered through specific programmes and projects which are coordinated and resourced through cross-cutting strategic plans, capital investments and directorate business plans. The key performance indicators (KPIs) and their associated targets are monitored quarterly to inform the Council on how they are doing in delivering what they have set out to achieve in the Corporate Plan.

The Council has continued to transform how it delivers services to ensure they are more efficient and better focused on customer needs. This includes working in new ways, joining services up with its partners and maximising the opportunities from digital technology. In difficult financial circumstances the Council continued to deliver core services. The COVID-19 pandemic has had far reaching impacts across all services, including the ability for the Council to report on performance against some indicators.

#### Data quality

The Council obtains its performance information from a range of sources and gains some assurance over the accuracy of data it uses by regular engagement of finance business partners with their service areas around spend/ in-year budget forecasts and regular reporting of financial matters to Departmental Management teams, CMT and Cabinet

However, the Council does not have a data quality strategy which could give it more comfort over the accuracy of its performance reporting. The Data Quality Strategy could include:

- definition of data quality objectives and why they are important;
- roles and responsibilities, including members and officers;
- monitoring of quality through independent review; and
- arrangements for data sharing.

**Improvement observation 11:** The Council should develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.



### 3Es 2: The Council evaluates the services it provides to assess performance and identify areas for improvement;

#### Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards. The Council does not appear to promote participation in formal benchmarking across its services, nor does it use it as a comparison in its formal quarterly performance reports. It may be used as part of business cases at a departmental level, however it is not part of the formal reporting of performance against corporate plan targets to the Cabinet

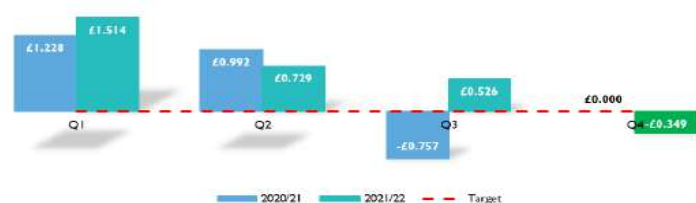
Currently the Corporate Performance Report only lists three Value for Money indicators which aren't really as VFM indicators, as they do not show the effectiveness of service delivery compared to the input expenditure. The Council's VFM indicators (shown below) are currently:

- spend against budget
- Council Tax collected (YTD) and
- Business rates Collected (YTD)

#### Providing value for money

Quarterly KPIs	Q1 2021/22	Q2 2021/22	Q3 2021/22	Q4 2021/22	Direction of travel	Target
5. Spend against budget	£1.514m	£0.729m	£0.526m	-£0.349m	▼	£0.000m
6. Council tax collected (YTD)	28.4%	55.2%	81.8%	96.8%	▲	96.5%
7. Business rates collected (YTD)	37.5%	51.6%	77.2%	98.7%	▲	99.0%

Forecast year end variation spend against budget (£million)

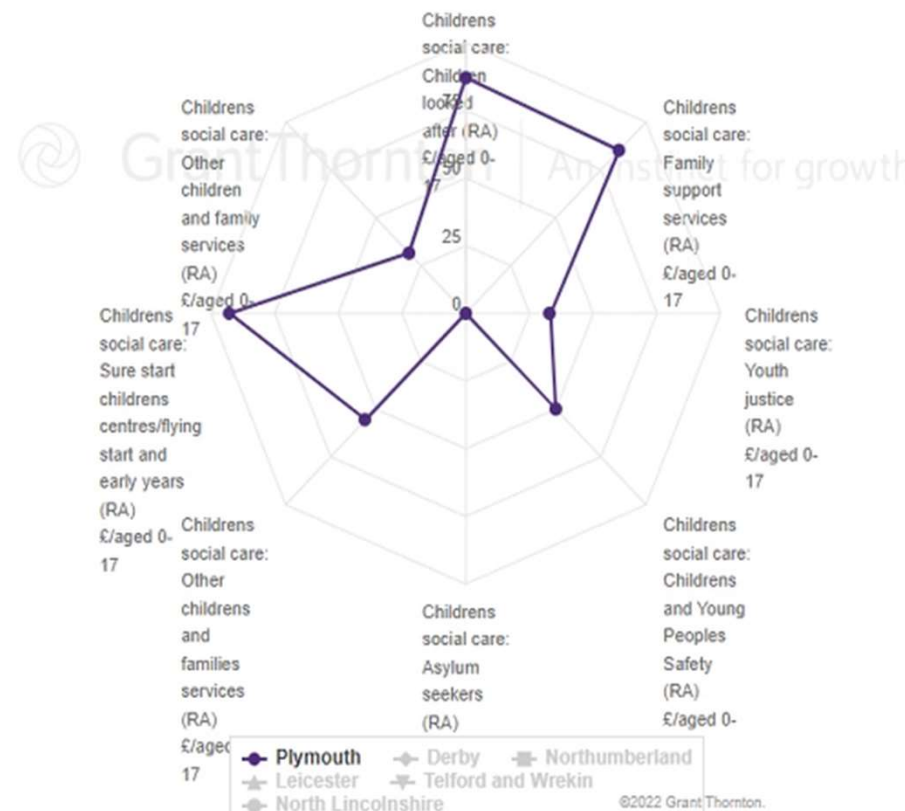


Independent benchmarking was undertaken as part of our VFM work. We used the CIPFA and GT management tool 'CFO Insights' and compared the national unit costs for a range of services, as reported to central government in the Revenue Outturn (RO) reports. This identified two areas where the unit costs for Plymouth were high in comparison to other unitary councils:

- Children's social care – see diagram on the right;
- Cultural and Related Services, which unsurprisingly showed the high level of spend on tourism.

The chart below illustrates the areas of spend that have contributed to these high unit costs eg Children's Services and Cultural Services. Whilst, these benchmarks are only able to provide an indication of where costs are high, they do provide an indication of where further exploration of these costs could identify potential efficiencies and savings for the Council.

#### CHILDREN'S SOCIAL CARE



**Improvement observation 12:** The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.

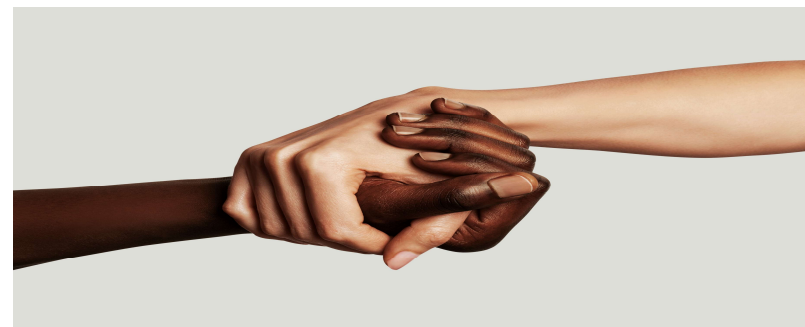
### 3Es 3: The Council ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve;

#### Partnerships

Since 2014, Plymouth City Council has led the development and implementation of the Plymouth Plan, a ground-breaking city plan which looks ahead to 2034. Since its inception, the Plymouth Plan has set out a shared direction of travel for the long-term future of the city of Plymouth. Plymouth City Council provides overall management and co-ordination of the Plymouth Plan, and the council and all its partners are responsible for its delivery.



The Council's Business Plan 2018-2022 identifies where partners contribute to the Council's objectives and has named a number of specific partnerships. The governance relating to these partnerships is varied and depends on the nature of the partnership. Those partnerships that the Council considers to be of greatest importance will have member involvement.



These arrangements are not dissimilar to other councils, but we have found is that an increasing number of councils are defining their significant partnerships in registers where the contribution that individual partnerships make to the council's corporate objectives can be evaluated and documented. Plymouth has a list of partnerships but there is no information on governance and expected outcomes. This is important as partnership outcomes needs to be measured. For example, Devon and Plymouth were rated as "SOF4" (the lowest score for the NHS System Oversight Framework 21/22) by NHSE through the performance of its NHS Trusts; and this is rare, with one of the key problems being the progress on the integration between health and social care.

The Council was particularly successful in its response to COVID 19 as it was able to draw upon its status as a trusted partner, building on a foundation of strong relationships developed over many years and political administrations. It is now important that the council allows time and space to consciously capture the learning from what worked well during these challenging times – especially in terms of the positive relationships we saw across the health and social care sector, to support a more resilient and sustainable future.

We have not identified any significant weaknesses in the Council's partnership arrangements, however we consider that the Council would benefit from defining its significant partnerships and developing a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.

**Improvement observation 13:** *The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.*

### 3Es 4: The Council ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

#### Procurement and contract management

Whenever money is being spent with an external provider, staff are required to follow the Council's mandatory contract procedure rules, documented in the Council's Constitution, to ensure that relevant legislation is complied with, and professional standards and internal policies are complied with.

The Council has a Head of Procurement to advise officers on procurement policies and procedures. The Procurement Service team specialises in procurements in Construction, Facilities Management, Professional Services and Environment and Transport. The Council's Strategic Co-operative Commissioning Team specialises in procurements in social care and healthcare.

The Council also complies with the Public Services (Social Value) Act and applies Social Value evaluation weightings between 5% and 25% of the total evaluation weighting. Implementing and embedding Social Value at a local level involves making commissioning and procurement decisions in a new way that ensures wider benefits are considered throughout the commissioning cycle and how this links to the strategic themes and policy areas within the Plymouth Plan.

#### Monitoring of contracts

Arrangements are in place to monitor performance of sub-contractors as part of the monitoring of budgets and Key Performance Indicators through the departmental and corporate performance monitoring procedures. In terms of securing grant funding for capital contracts, officers will remain proactive at securing external grant funding wherever possible in order to continue to deliver significant, ambitious capital investment in the city.

#### Procurement strategy

The Council does not have a procurement strategy although it does have a comprehensive procurement section on the Council's website detailing procurement rules, regulations & details of its E-Procurement System for its suppliers. A procurement strategy would enable the Council to better document its spending goals and objectives, legislative changes, the role and effectiveness of the

procurement function, the complexity of procurement carried out and the dynamics of the supply chain and markets. Importantly the Strategy could include strategic initiatives to further improve its procurement practices through better analysis of spend, budget and risk.

**Improvement observation 14; The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.**



# Improvement recommendation



Improving economy, efficiency and effectiveness

## Improvement recommendation

R11: The Council should develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.

**Management comment** Management will consider this recommendation.



The range of recommendations that external auditors can make is explained in Appendix C.



# Improvement recommendation



Improving economy, efficiency and effectiveness

## Improvement recommendation

R12: The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.

## Management comment

Management will consider this recommendation.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Improvement Recommendation

R13: The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.

## Management comment

Management will consider this recommendation.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



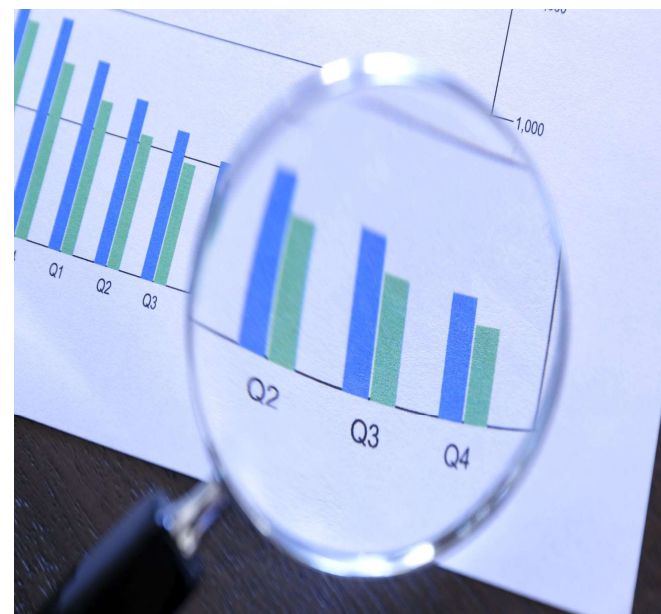
Improving economy, efficiency and effectiveness

## Improvement Recommendation

R14: The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.

## Management comment

Management will consider this recommendation.



The range of recommendations that external auditors can make is explained in Appendix C.

# Appendices



# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local Council accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



# Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	NO	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	YES	<ul style="list-style-type: none"> <li>Financial sustainability - page 8</li> </ul>
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	YES	<ul style="list-style-type: none"> <li>Financial sustainability - pages 8 - 9</li> <li>Governance – page 20</li> <li>Economy, efficiency and effectiveness – page 27</li> </ul>

# Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not make a statutory recommendation

## Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the Court

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the Council or an officer of the Council:

- is about to make or has made a decision which involves or would involve the Council incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an Council, or of a failure by an Council to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review



# Plymouth City Council 2020/21 audit plan (updated)

**Year ending 31 March 2021**

Plymouth City Council  
17/11/2022



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

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# Key matters

## Factors

### 2019/20 Audit and the planning of the 2020/21 Audit

Our 2020/21 audit plan is based upon our initial planning which was undertaken in July and August 2021. Our 2019/20 audit work is still currently ongoing and the audit opinion for both the financial statements for the year ending 31 March 2020 and our value for money conclusion for the same period is yet to be issued. The audit opinion for 2019/20 can only be issued once all audit work has been completed.

The 2019/20 audit has largely been protracted as a result of the pension liability transaction which the Council entered into in October 2019. A series of actions have been taken by the Council over the course of the last 12 months which includes obtaining specific legal and accounting advice. Given the complexities of this transaction, both the Council and Grant Thornton UK LLP have been reviewing the many documents and views as issued. The last set of legal views were provided to Grant Thornton UK LLP at the end of October 2021. Further legal views and opinions are currently being sought. Accounting advice is also currently being reviewed. This work is ongoing.

Further work has also had to be undertaken regarding the valuation of the Council's portfolio of assets and its portfolio of investment properties, especially in light of the COVID-19 pandemic. This further work has required further review, testing and input from the Audit team's valuation expert. Further review and testing has also been undertaken regarding the Council's MRP policy, the calculation of the MRP estimate and capital financing reserve. Work is ongoing in this area, including evaluating MRP and its relationship with the value of investment properties, given the Council's large investment property portfolio. The Council's approach towards depreciation of revalued assets is also being considered.

We have continued to report our initial findings and progress on the 2019/20 audit to the Audit and Governance Committee for the past 18 months, specifically on 22 March 2021, 26 July 2021, 27 September 2021. The latest Audit Finding Report is being presented to 29 September 2022 Committee. As a result of the 2019/20 audit work still continuing, we presented an indicative 2020/21 audit plan, to the 26 July 2021 Committee, based upon the planning undertaken so far and the initial findings from the 2019/20 audit. Audit planning for 2020/21 will continue and will be concluded once the 2019/20 financial statements and value for money audits have been finalised and the audit opinion issued.

The Council have produced draft financial statements for 2020/21 and for 2021/22. The draft financial statements incorporate amendments made to the 2019/20 so far, as part of the financial statements audit for that year. The draft financial statements do not currently include any amendments that may be required relating to the pension liability payment in 2019/20 or the hedging transaction that took place in April 2020.

### Audit Quality

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1. Audit quality continues to be prominent and the Firm continues to be committed to audit quality and the quality of financial reporting across the Local Government Sector. Our audit plan focuses upon the key, significant areas as identified as a result of our initial audit planning and findings from previous years' audits. Those areas of audit focus are detailed further in slides 8 – 11.

## Our response

- We will continue to focus our audit resources and attention on the 2019/20 pension fund liability transaction and other areas of audit focus. We will review our initial planning in light of the completion of the 2019/20 audit and update our 2020/21 audit plan accordingly.
- We are currently carrying out the Value for Money work for the 20/21 and the 21/22 financial years and will be reporting our findings on this work to the Audit & Governance Committee in November 2022.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, highlights this commitment. Our risk assessment and the associated areas of significant audit focus within this audit plan, further support our increased focus on areas where there are large material balances, increased use of estimates and areas, where in previous years, errors have been identified and/ or supporting evidence and documentation has needed to be improved.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will consider your arrangements for managing and reporting on your financial resources as part of our work in completing our Value for Money work.



# Key matters

## Factors

### Local issues - Financial reporting

The Council entered into a hedging arrangement in April 2020. This was linked to the previous year's pension liability payment and was to the value of £72m. Given the uniqueness of this transaction and the possible associated complexities relating to the accounting treatment, we have included a specific piece of work to challenge and review the accounting treatment. In addition, and as a result of our audit findings relating to the pension liability payment in 2019/20 and the subsequent series of recommendations made regarding some weaknesses in governance arrangements surrounding the transaction, we also incorporated a review of the hedging arrangement in our governance review which took place in May 2021. The findings of this review and recommendations made were presented to the Audit and Governance Committee on 26 July 2021.

As part of our audit work on the hedging arrangement we have already reviewed the Council's proposed accounting treatment and discussed the arrangement, the classification of the transaction and the entries proposed by the council within the draft financial statements for 2020/21. Further challenge has been made by Grant Thornton UK LLP's financial reporting and technical team. As a result of this review, the Council have obtained accounting advice and may amend the draft financial statements for 2020/21.

### Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has managed to keep critical services going. The Council have continued to provide support to the homeless, boosted hardship funds, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support and distributed food parcels. Since the start of the pandemic, Plymouth City Council have distributed grants to businesses across Plymouth to help them offset the impacts of COVID-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020.

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Plymouth City Council, these pressures are particularly relevant for Children's services, where increasing demand pressures are leading to overspends against the budget.

At a global level, COVID-19 continues to provide uncertainty, with this being a relatively new risk factor, it is challenging to prepare for the impact. The Council will need to ensure it remains dynamic in this unprecedented time, in order to support the people most affected.

## Our response

- We will revisit and review the series of recommendations made as part of our governance review which was reported to Members at the 26 July 2021 Audit and Governance Committee.
- As detailed under "local issues – financial reporting" we have already tested and reviewed the background and assumptions made regarding the £72m hedge fund transaction. As part of the 2020/21 audit we will review the amended accounts and associated notes.
- We will consider the Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic as part of our audit in completing of Value for Money work.
- We will consider the work of Internal Audit and other council arrangements put in place to prevent and detect fraud in respect of COVID-19 grants.
- As part of our financial statements testing we will test the accounting treatment for COVID-19 related grants and determine whether the accounting treatment is in accordance with accounting standards.

# Key matters cont.

## Factors

### Accounting and auditing developments

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure and property investments which impacted both the Council's and Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

The Council continue to review the need for group accounts, given the interests that it has in partnerships, ventures and companies. Should group accounts be required this year, a detailed group audit plan will have to be drafted and agreed and we will present the revised audit plan to the Audit and Governance Committee.

### Information Systems Audit

We undertake a detailed review of the council's financial information systems on a cyclical basis. For 2020/21 we will undertake a detailed audit of all financial systems that are used by the Council where they either provide or support figures within the accounts. The work will be undertaken by our specialist IT auditors who will support the audit team in their work. Our IT audit work commenced in August 2021 and we continue to liaise and discuss the detailed testing with appropriate officers of the Council and DELT. The outcome of the IT systems audit will inform our risk assessment, planning and approach to the final accounts work.

## Our response

- We will continue to review the processes for valuing the Council's assets, with particular attention on the valuation of other land and buildings, the waste incinerator and the Tamar Bridge.
- We will review the Council's responses to our requests for further details regarding how significant estimates are devised across both the group and the Council. We will test significant estimate assumptions as part of our financial statements audit.
- The Council will need to produce a group accounts assessment to evaluate whether group accounts are required. We will review the assumptions made by management with regards to group accounts and discuss any further areas, where required.
- Our IT auditors are currently in the process of auditing and reviewing the IT processes used by the Council.

# Key matters

## Factors

### Value for Money Audit

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.
- The conclusion of our value for money work will be the Annual Auditor's Report. This will detail the findings of our work and is required to be presented to full Council. Further details of our work are included on slides 18-19.



#### Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



#### Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



#### Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

## Our response

### Financial sustainability – significant weakness

- The Authority is operating in an increasingly uncertain financial environment. For the second successive year, in 2020/21, the Comprehensive Spending Review was a single year spending review. The Council delivered a breakeven position for the 20/21 financial year, after taking into account central government funding for COVID-19 and one-off adjustments. For 2021/22, the Council was again able to deliver a reported breakeven position, although the two years 20/21 and 21/22 are still both subject to audit.
- The Council's financial position is critical as there are significant funding gaps in each year of its five-year medium term financial plan with a total cumulative funding gap of £118 million to 2026/27. We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

### Governance – significant weakness

- Governance is a significant VFM risk, in our VFM planning assessment, as we need to follow up on our governance review which was reported to Members at the 26 July 2021 Audit and Governance Committee. As part of our responsibilities, we will assess the progress on the recommendations made by the council. We will also consider your overall governance arrangements.

### Improving economy, Efficiency and Effectiveness

- We will consider your arrangements for the effective use of benchmarking and data quality assurance to better understand the information about your costs and performance to improve the way you manage and delivers services.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Plymouth City Council for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Plymouth City Council. We draw your attention to both of this document on the PSAA website.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Revenue recognition – rebutted in areas other than government grants
- Fraud in expenditure recognition
- Valuation of land and buildings including investment properties at year end
- Valuation of net pension fund liability
- Financial instrument disclosures
- Group accounts, consolidation and reporting where necessary

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £7,097k (PY £6,665k) for the Council, which equates to 1.33% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £400k (PY £300k).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following areas of significant risk:

- Financial sustainability
- Governance arrangements;
- The council's response to the financial impact of the COVID-19 pandemic

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Revenue cycle includes fraudulent transactions</b>	Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud or revenue recognition.	<p>Having considered the risk factors set out in ISA240 on 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 most income streams because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are limited</li> <li>• The culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable</li> </ul> <p>However, as a result of the large increase in grants that passed through the council due to COVID-19 and the errors found in issues identified in previous years' audits, we will test the accounting treatment for Government Grants, COVID-19 grants both as a principal and agent, capital grants and grants received in advance under this risk.</p>
<b>Management over-ride of controls</b>	<p>Under ISA240 there is a non-rebuttable presumed risk of management override of controls in all local authorities. The Council faces external scrutiny of its spending and this could potentially place management under pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement in audited bodies.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• Consider the arrangements the Council has in place for authorising signatures for financial transactions</li> <li>• Test unusual journals for appropriateness and corroboration</li> <li>• Gain an understanding of the accounting estimates and critical judgements made by management and consider their reasonableness</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we have regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period;</li> <li>inspect a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year-end; compare size and nature of accruals at year-end to the prior year to help ensure completeness; and</li> <li>investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.</li> </ul>
Valuation of net pension fund liability	<p>The authority's pension fund net liability as reflected in the balance sheet as the net defined liability represents a significant estimate.</p> <p>The pension fund net liability is significant due to the size of the numbers involved (£588,890k in the draft financial statements) and the sensitivity of the estimate to changes in the key assumptions.</p> <p>We therefore identified valuation of the authority's pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Update our understanding of processes and controls put in place by management and evaluate the design of the associated controls</li> <li>Evaluate the instructions issued by management to their management expert (the actuary) for the estimate and the scope of their work</li> <li>Assess the competence, capabilities and objectivity of the actuary</li> <li>Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>Obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings & Including Investment Property	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved] and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified 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.</p> <p><b>Energy from Waste Plant</b></p> <p>The Council also part own the Energy from Waste Plant which should be valued on an annual basis and the valuation of this asset is undertaken by a third party valuer.</p> <p><b>Tamar Bridge</b></p> <p>The Council own 50% of the Tamar Bridge and 50% of the asset value is held on the Council's Balance Sheet as Infrastructure – valued at Depreciated Cost.</p> <p><b>Investment Properties</b></p> <p>The Council hold a large portfolio of investment properties which are valued each year in accordance with the CIPFA Code.</p>	<p>We will:</p> <p>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work for both the internal and external valuers.</p> <p>Evaluate the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets</p> <p>Write to the valuers to confirm the basis on which the valuations have been carried out.</p> <p>Review the data and assumptions made regarding the year end valuation of the Councils Investment property portfolio</p> <p>Employ our own specialist internal valuer to review the assumptions made by management regarding the valuation of the Tamar Bridge</p> <p>Employ our own external valuer - Wilks Head and Eve, to review the instructions issued by management to valuers and the assumptions made by valuers for the valuation of Property, Plant and Equipment and the Council's portfolio of Investment Properties.</p> <p>Challenge the information and assumptions used by the valuers to assess completeness and consistency with our own understanding</p> <p>Test revaluations made during the year to see if they had been input correctly into the Authority's asset register</p> <p>Test the year end closing balance for property, plant and equipment</p> <p>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.</p> <p>Evaluate the assumptions made for the valuation of investment properties, including data used and yield assumptions.</p> <p>Evaluate of the impact of COVID-19 on valuations – particularly investment properties held by the Council.</p>



# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Financial instruments	<p>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 fair value of financial instruments is complex and requires specialist support as a part of the valuation process.</p> <p>In 2020/21 the council undertook an interest rate swap in the treatment of financial instruments, meaning the financial instruments were misstated in the prior year. This was an incorrect action and raised questions regarding the governance of the council. The interest rate swap was a poor decision and indicative of poor accounting practice in the treasury department and poor governance generally in this aspect of the accounts.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the council's processes implemented to establish the correct valuations of all financial instruments held</li> <li>• Test disclosures back to figures within the main financial statements</li> <li>• Test the disclosures in accordance with the CIPFA Code and accounting and auditing guidance</li> <li>• Review the work of the council's experts in this area.</li> <li>• Our work on the Council's hedge fund transaction will also focus upon the related financial instrument transactions and disclosures necessary for this type of financial transaction.</li> </ul>

# Other risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Capital financing requirement and MRP</b>	<p>The Council is statutorily required to repay debt annually by calculating an MRP (minimum revenue provision) using one of the four options in the legislation. In summary the Council's policy as set out in its Treasury Management Strategy uses the Annuity Method</p> <ul style="list-style-type: none"> <li>- 50 year repayment for capitalisation directives</li> <li>- PFI/Leases determined by the specific agreement</li> <li>- No MRP on capital loans or investments</li> <li>- Option for capital receipts to be used towards repaying debt.</li> </ul> <p>However, the Council's MRP calculation does not include the correct application for MRP on investment properties. The Council has a large number of investment properties and the borrowing attributable to these only has MRP charged against it if there is a decrease in value. This is not in accordance with the CIPFA Code and not considered to be prudent.</p> <p>The Council's overall MRP is however, not unreasonable as a % in terms of its overall debt portfolio which is why we have considered this to be an area of focus for the audit, rather than a significant risk.</p>	<p>We will consider the Council's accounting for MRP in the 2020/21 financial statements and whether this now complies with the CIPFA Accounting Code, as this was an issues raised as part of the Audit Findings from the 2019/20 audit of the Council's Financial Statements.</p>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified two recommendations in our 2019/20 audit in relation to the Council's estimation process for insufficient bad debt provision (although not material) and the need for management to take more ownership of estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties;
- Valuation of the Waste Incinerator;
- Valuation of Tamar Bridge;
- Depreciation;
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services;
- Credit loss and impairment allowances including business rates provisions
- Valuation of defined benefit net pension fund liabilities;
- Minimum revenue position – including its application and relationship between borrowing and the Capital Financing Requirement. This will also include the MRP estimate for investment properties including a comparison between the Council's policy and the CIPFA Code;
- PFI Liabilities.

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

### Planning enquiries

As part of our planning risk assessment procedures we have made planning enquires via Info. We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.



# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7,097k (PY £6,665k) for the Council, which equates to 1.33% of your gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be the banding brackets for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

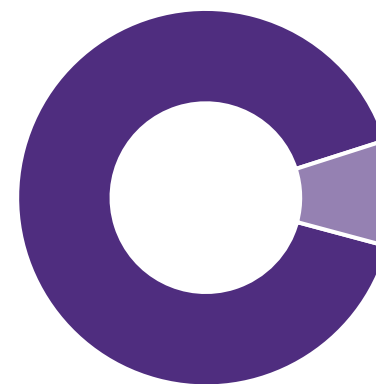
## Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.4m (PY £0.3m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

## gross operating costs

£533,619k Council  
(PY: £501,095k)



■ gross operating costs

■ Materiality

## Materiality

£7,097k  
Council financial  
statements  
materiality  
(PY: £6,665k)

£400k  
Misstatements  
reported to the  
Audit and  
Governance  
Committee  
(PY: £300k)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Areas of focus for our VFM work

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have not identified any risks of significant weaknesses at the planning stage and will continue to update our risk assessment over the course of the audit. We have already undertaken a number of meetings with the Chief Executive, Chief Financial Officer and the Director of Finance. We have highlighted below our areas of focus and some of the elements of review that we will undertake.

## Value for Money

### Financial Sustainability – significant risk

- The Authority is operating in an increasingly uncertain financial environment. For the second successive year, in 2020/21, the Comprehensive Spending Review was a single year spending review. The Council delivered a breakeven position for the 20/21 financial year, after taking into account central government funding for COVID-19 and one-off adjustments. For 2021/22, the Council was again able to deliver a reported breakeven position, although the two years 20/21 and 21/22 are still both subject to audit.
- The Council's financial position is critical as there are significant funding gaps in each year of its five-year medium term financial plan with a total cumulative funding gap of £118 million to 2026/27. We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

### Governance – significant risk

- We will review the overall governance arrangements across the Council and we will also review the new governance arrangements enacted as a result of our governance review, reported to the Audit & Governance Committee in July 2021.

### Improving economy, efficiency and effectiveness

- We will utilise data analytics and benchmarking tools to compare the performance of the Council against other large authorities. We will discuss what the Council does itself to benchmark performance and how this is reviewed, developed and reported.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness that we may identify. These are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

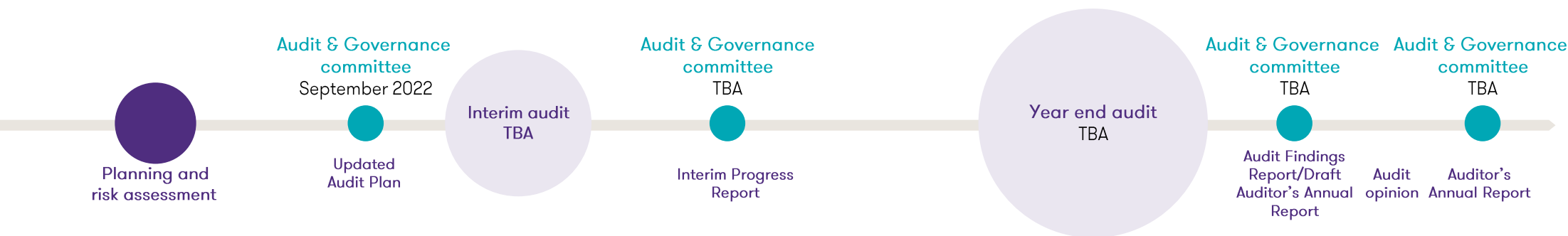
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

# Audit logistics and team



## Paul Dossett, Key Audit Partner

Jon leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

## Justine Thorpe, Audit Manager

Justine plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing issues.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

In 2018, PSAA awarded a contract of audit for Plymouth City Council to begin with effect from 2018/19. The fee agreed in the contract was £x. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 18, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £186,393 (11%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Plymouth Council Audit	£167,893	TBC	£186,393*
Total audit fees (excluding VAT)	£x	TBC	£x

\* The 202/21 fee is shown gross of the PSAA rebate of £20,000

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£105,393
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£3,500
<b>Materiality and new standards</b>	£6,000
<b>Local issues</b>	£13,393
<b>Estimated Audit fee 2019/20 – as per fee letter of 27 April 2020</b>	<b>£143,393</b>
<b>Rebased for Pension</b>	<b>£133,393</b>
<b>New issues for 2020/21</b>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors – new accounting treatment	£10,000
<b>Estimated audit fees (excluding VAT)</b>	<b>£186,393</b>
<b>Estimated fee based on 19/20 AFR.</b>	



# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	£25k	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £14,045 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teacher's Pension	£7.5k	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £3,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total Audit related fees	£32.5k		

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓



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# Audit and Governance Committee



Date of meeting:	28 November 2022
Title of Report:	<b>Internal Audit Half Year Report 2022/23</b>
Lead Member:	Councillor Mark Shayer, Deputy Leader and Cabinet Member for Finance and Economy
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Brenda Davis, Snr Assurance Manager
Contact Email:	brenda.davis@plymouth.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 2022;
- 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.

With the rapid pace of change in local government, we continue to liaise with the management to "flex" the plan as appropriate to ensure that our work focusses on those areas which add most value to the Council in these challenging times. 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 and 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 meet the needs of residents, businesses and communities through the delivery of quality public services.

### Implications for the Medium Term Financial Plan and Resource Implications:

Delivery of the audit plan assists the council in delivering value for money services and has helped ensure an effective control environment as the Council.

### 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 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) <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	DAP Half Year Report 2022/23							

### Sign off:

Fin	pl.22.23. 246	Leg	EJ/3885 1/28.10. 22	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: David Northey, Interim Service Director for Finance											
Please confirm the Strategic Director(s) has agreed the report? Date agreed: 19/10/2022											
Cabinet Member approval: Cllr Mark Shayer											
Date approved: 15/11/2021											

# DAP - Internal Audit Half Year Report 2022-23

## Plymouth City Council Audit & Governance Committee

November 2022

Official

Tony Rose  
Head of Audit Partnership

## Introduction

This report provides a summary of the performance against the internal audit plan to date for the 2022/23 financial year, summarising our main findings and recommendations aimed at improving controls where our work has been finalised.

The key objective of the Devon Audit Partnership (DAP) is to support the Council and provide assurance on the adequacy, security and effectiveness of the systems and controls operating across the organisation.

The Internal Audit plan for 2022/23 was presented to, and approved by, the Audit and Governance Committee in March 2022. However, with the rapid pace of change in local government, we continue to liaise with the management to “flex” the plan as appropriate to ensure that our work focusses on those areas which add most value to the Council in these challenging times.

The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides a position statement on the progress towards that opinion.

## Expectations of the Audit and Governance Committee from this half year report

Members are requested to consider:

- the assurance statement within this report,
- the completion of audit work against the plan,
- the scope and ability of audit to complete the audit work,
- any audit 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.

**Tony Rose**  
**Head of Devon Audit Partnership**

Opinion Statement

Overall, based on work performed to date during 2022/23 and our experience from the current year progress and previous years’ audit, the Head of Internal Audit’s mid-year assurance opinion is “Reasonable Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.

Work included in the 2022/23 audit plan includes assurance, risk, governance and value-added engagements which, together with prior years audit work, provide a framework and background within which we assess the Authority’s control environment. Should any significant weaknesses be identified in specific areas, these would need to be considered by the Authority when preparing its Annual Governance Statement later in the year.

When undertaking reviews, we assess whether key, and other, controls are operating satisfactorily and that exposure to risk is minimised. An opinion on the adequacy of the control environment is provided to management as part of the audit report. All audit reports include an action plan detailing the management responses to be taken to address any risk and control issues identified during a review. Progress with the implementation of each action plan is tracked by Internal Audit with the Finance Service incorporating the outcome of that work into the Audit Actions Review report. The outcomes of the implementation of management actions at the end of Quarter 1 was presented to Audit and Governance Committee in September. The next exercise is planned for Quarter 3 and the results will be brought before this Committee in March 2023.

<b>Substantial Assurance</b>	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.	<b>Limited Assurance</b>	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.
<b>Reasonable Assurance</b>	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.	<b>No Assurance</b>	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.

## Review of Audit Coverage

Information and data are vital to every part of the Council's business and is transforming the way we work and how local people access information and services. Against this backdrop, cyber-attacks are growing in frequency and becoming more sophisticated. The threat landscape, and the ever-increasing availability of sophisticated 'malware kits', makes a cyber incident highly likely and an effective backup process is a key component in safeguarding the Council's data and ability to deliver its services. Our review of the Rubrik backup solution concluded that the solution does provide an effective safeguard that should enable the timely restoration of data and services in the event of a cyber-attack. It is however imperative that the Council does continue to monitor, maintain, and test the backup solution.

Key Financial Systems – much of our work in this area is already underway and we have completed work on the Purchasing and Creditors Systems and our audit opinion of Reasonable Assurance reflects the continued focus and commitment of officers to maintain sound controls. It is however important that resource limitations are addressed to ensure that the controls currently in operation continue to be maintained.

The administration of the Council's commercial property portfolio had not been subject to audit review for a number of years and in 2021/22 we performed a full walkthrough, documenting the "as is system" to inform compliance testing in the current year. This work has recently commenced. The Council's commercial property portfolio has a value in the region of £300m and generates gross rental income of around £18m per annum.

Plymouth Active Leisure (PAL) is a Teckal company set up to provide the Council with a delivery vehicle from which they could better control leisure services provided within the City. The key factors were that the Council could provide a stable and sustainable model that would enable it to meet its strategic goal of making Plymouth "the most active coastal city in England by 2034". PAL was incorporated on 17th November 2021 and with swimming pools and large buildings to maintain, existing financial pressures have been further exacerbated by the global energy crisis. We have undertaken a high-level piece of advisory work to ensure that there are no significant weaknesses in the governance arrangements and key processes.

The number of grants received by the Council requiring internal audit certification continue to increase but all 27 grants audited in the year to date have been certified as being in accordance with the requirements of the relevant grant determination. In addition, we have audited 5 Families with a Future (Payment by Results) monthly claims.

At the time of writing this report, a meeting has been scheduled with Directors and the S151 Officer to revisit the audit plan to ensure that the work performed in the second half of the year best reflects the rapidly changing environment Councils are operating in. This may result in a "re-focus" of audit coverage.

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



## 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 2022-23 exercise, DAP are in the process of co-ordinating the extraction and provision of relevant Council datasets, as listed below, with the resulting data matches expected back from the Cabinet in February 2023. The processing of the matches by the relevant Council departments will be overseen by DAP's Counter Fraud Manager.

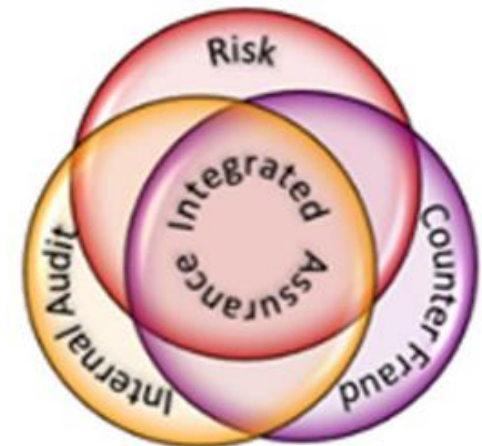
- Council Tax,
- Creditor Payments,
- Council Tax Support and Housing Benefits,
- Payroll / Pensions,
- Transport Passes (including blue badges and concessionary bus passes)

## Integrated Assurance

Collaboration between the Audit Team and the Counter Fraud Team continues to evolve and strengthen with auditors becoming more aware of fraud risks and fraud investigators having a greater understanding of systems and controls.

This joined up approach will help us to continue to provide the highest level of assurance possible and, for the Council to minimise fraud loss to the lowest level possible.

The Counter Fraud Team Manager has prepared a separate report for this Committee where more information can be found.



## Appendix I - Assurance Opinion and Extract Executive Summaries – up to 14 October 2022

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
<b>Customer and Corporate</b>		
Purchasing & Creditors Systems	Reasonable Assurance Status: Draft	<p>Whilst the overall Internal Control Framework provides reasonable assurance that Council Purchasing and Creditor Payments are accurate, complete, timely and in accordance with Financial Regulations and Standing Orders, the legitimacy, validity and integrity of payments is only ensured through consistent application of automated and manual verification, reconciliation and exception reporting.</p> <p>There are however capacity and resilience issues within the Financial Transactions Team from an increase in workload, following the Business Support Review and transfer of Plymouth Active Leisure and staff turnover. It is important that resource limitations are addressed to ensure that the controls currently in operation continue to be maintained.</p>
Housing Benefits	Reasonable Assurance Status: Draft	Assurance was reported in September 2022 Progress Report, please refer to that report for details.
Payroll (CoreHR) System	Status: In Progress	The scope and objective of this audit is to provide the Council with an opinion on the adequacy and effectiveness of internal controls operating within the Payroll system. Following two years of detailed substantive testing and evaluation of the overall internal control framework since the implementation of CoreHR, this years' audit will focus of key controls and follow-up of any outstanding recommendations.
Council Tax	Status: In Progress	Work has begun on the annual review of the Council Tax system. In recent years controls and compliance have been found to be consistently operating to a good standard and we will conduct a walkthrough of the system to verify that the control framework remains effective. Compliance testing will focus on income collection.
£150 Energy Rebate <i>Not included in original plan</i>	Status: Work to be run alongside the Council Tax Review	In the March Audit & Governance Committee, Members requested that a piece of work was undertaken to provide assurance that those Council Tax payers in band A – D

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
		properties eligible for the £150 energy rebate, were able to receive it. We plan to carry out this work alongside our annual review of Council Tax.
Business Rates	Status: In Progress	Work has also commenced the Business Rates system and as for Council Tax above, will constitute a walk-through of the processes with some additional testing focussing on the effectiveness of income collection and recovery.
Registrars Financial Audit <i>Not included in original plan</i>	Status: In Progress	The focus of our work is to provide assurance on the effectiveness of the income collection controls operating within the Registration Service. As part of this review we will also follow-up on the management actions taken in response to recommendations made by the GRO (General Register Office) following the stock and security assessment in February 2022. The GRO concluded that the service had achieved an overall “reasonable” level of security in relation to the control arrangements for the receipt, storage and use of secure certificate stock and registration records. T
Additional Holiday Pay <i>Not included in original plan</i>	Value Added Status: Complete	Assurance was reported in September 2022 Progress Report, please refer to that report for details.
Electronic Signatures	Limited Assurance Status: Draft	Assurance was reported in September 2022 Progress Report, please refer to that report for details.
ICT Backup Arrangements	Reasonable Assurance Status: Final	<p>Rubrik is a powerful and complex backup solution with a modern user interface, which enables an effective, efficient and secure backup process. Rubrik provides immutable backups, meaning the backup cannot be changed, deleted, encrypted, or modified; alongside scalability, which enables restore of a single file to a full Virtual Machine, in the restore process. Further assurance is provided by the use of secondary backup copies being stored in the Microsoft Azure hosted service.</p> <p>There is satisfactory governance in place regarding the implementation, policies and process around the Rubrik solution, with a mature change management process.</p> <p>Effective daily monitoring and monthly testing by the Infrastructure Team ensures the integrity and completeness of backup data and that appropriate reinstatement of data and services can be achieved if required.</p>

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
Client Financial Services	Status: In Progress	The objective of this audit is to evaluate and report on the adequacy of controls, processes and procedures operating for the collection of service user contributions toward their care costs: to ensure that service users receive timely and accurate financial assessments; are charged accordingly and outstanding debts are pursued and recovered. This is an end-to-end system review and will consider the roles and responsibilities of Livewell Southwest, Adult Social Care as well as the Client Financial Services Team.
Recommendation Tracking	Status: Ongoing	An exercise to follow-up on progress with the implementation of management actions (as at 30 June) which were agreed in response to audit recommendations has been completed. The results were reported to this committee by the Finance Director in September.
Health & Safety - Hand, Arm Vibration (HAVs)	Status: In Progress	The review will assess the effectiveness of the controls in place to safeguard employees from HAVs. We will consider if past operational weaknesses have been resolved and that controls ensure that appropriate planning, recording and, monitoring of operatives and their use of HAVs are effective.
Schools Financial Value Standards (SFVS)	Status: Complete	Assurance was reported in September 2022 Progress Report, please refer to that report for details.
Work on “Core Compliance” and “Debt Collection” is being considered across reviews of the key financial systems.		
The following key financial reviews have not yet commenced. <ul style="list-style-type: none"> <li>Main Accounting</li> <li>Debtors</li> <li>Treasury Management</li> <li>Capital Programme</li> </ul>		
<b>Executive Office</b>		
Electoral Services (Follow Up)	Value Added Status: Complete	Assurance was reported in July 2022 Progress Report, please refer to that report for details.

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
<b>People</b>		
OLM Eclipse Project	Value Added Status: Ongoing for duration of project	DAP continues to provide real-time support and challenge to the Eclipse Project Board and additional formal advice. The Children's project has now successfully delivered and early life issues are being well administered and addressed will robust challenge being made where supplier responses are not considered effective. The 'Adults' project has commenced and benefits from any lessons learnt during the Children's project. The 'Go Live' for the 'Adults' project remains projected as being during July/ August 2023.
Plymouth Active Leisure (PAL)	Value Added Status: Draft	<p>The scope of our work as agreed by the PAL Board was to perform a highlight review of key operational areas, looking also at the Governance to make sure they have the correct arrangements in place to enable them to learn and grow. Areas considered are as follows:</p> <ul style="list-style-type: none"> <li>• Governance &amp; Risk Management</li> <li>• Performance Indicators</li> <li>• Financial Management</li> <li>• Human Resources (HR) management including staff management, time management, training and skills</li> <li>• Building and asset management, maintenance of buildings and assets, safekeeping of assets.</li> <li>• Business Systems, Metrics and Intelligence</li> <li>• Engagement with the public, and front of house activities including handling of complaints.</li> </ul> <p>No significant concerns were identified but our situation report has highlighted the need to further develop and strengthen governance arrangements. This is a challenging area for all Teckal companies and getting a sound balance to provide strategic and operational clarity will materially improve PAL's ability to deliver its intended outcomes in a challenging financial climate.</p>
Finance & Assurance Review Group (FARG)	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 support and challenge.

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
Fully CATERed	Status: In Progress	Xero Accounting Software is used to manage the accounting transactions for FullyCATERed Ltd. Daily automatic integrations to Square, the point-of-sale software, and the bank account support prompt and accurate recording of financial transactions. Following sample checking of a range of financial transactions, including invoices, payments, journals and reconciliations within Xero. Whilst there remains a small amount of work for us to complete, we can advise that no issues have been identified to date.
Adult Social Care Reforms - Review of the Section 75 Agreement.	Status: In Progress	S75 of the Social Care Act 2012 gave powers to local authorities and clinical commissioning groups (superseded by the Integrated Care Boards (ICB) in July '22) to establish and maintain pooled funds out of which payment may be made towards expenditure incurred in the exercise of prescribed local authority functions and prescribed NHS functions. DAP attend the cross-party working group (PCC & ICB) set up to review and update the existing S75 agreement which has been in place since 2015.
The Plymouth Alliance	Reasonable Assurance Status: Draft	<p>The Council in partnership with service users and providers, co-designed a new complex needs system to enable people to receive the right support, at the right time, in the right place. In April 2019, 25 separate services were brought together into The Plymouth Alliance (TPA) to create a new single system to deliver an improved experience and better outcomes.</p> <p>DAP have completed a high-level review of the arrangements underpinning TPA and through discussion with internal and external stakeholders can provide assurance that a spirit of collaborative work has been embedded within TPA, replacing siloed working and fostering a shared determination to improve outcomes for service users.</p> <p>TPA has evolved since its inception it is considered that further, more focussed, audit work would be beneficial to provide further assurance that the Single Referral Pathway is operating as efficiently as possible, that PCC staff have full visibility of relevant financial information and that outcomes are being effectively measured and reported. The potential for additional work will be discussed as part of the 2023/24 audit planning process.</p>

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
There is more time earmarked for Adult Social Care Reforms and we liaise with the Strategic Director for People and the Head of ASC & Retained Functions as to the areas and timing of audit support needed.		
<b>Children's Services</b>		
Families with a Future (Payment by Results)	Regulatory Requirement	DAP have verified and certified five monthly claims in the year to date.
Life Chances Fund (Pause Programme)	Regulatory Requirement	Sample checks have been performed on the outcomes reported for Cohorts 1 and 2 of the Pause Programme. This programme works with women who have experienced or are at risk of, repeated pregnancies that result in children needed to be removed from their care. The model aims to give women the opportunity to "pause", take control of their lives and break free from destructive cycles.
Work has not yet commenced on the following areas: <ul style="list-style-type: none"> <li>• Special Educational Needs &amp; Disability (SEND) Contracts</li> <li>• Joint Funding Arrangements</li> </ul>		
<b>Office of the Director of Public Health</b>		
Public Burials	Reasonable Assurance Status: Final	Assurance was reported in the July 2022 Annual Report, please refer to that report for details.
There is a "pot of days" which the service will determine in due course where they would like best to use them.		



Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
<b>Place</b>		
Cultural Development Fund iMayflower Project Delivery <i>Not included in original plan</i>	Reasonable Assurance Status: Final	<p>The iMayflower project was an ambitious, large-scale, collaborative programme providing skills and learning opportunities through events and community engagement; there were significant interdependencies with the activities planned for the Mayflower 400 commemorations. The project harnessed immersive, digital technologies to support Plymouth's creative talent in bringing to life world class cultural heritage whilst helping the best and brightest ideas succeed, building businesses, and creating a sustainable future for all.</p> <p>An agreement was made at the onset of the project between the partners as to the intended project outcomes and criteria for eligible expenditure. However, the COVID-19 pandemic created major challenges and prevented elements of the programme from being delivered as planned. Nonetheless, most of the reported outcomes support the overall project objectives and demonstrate creative innovation and agility in adapting to a rapidly changing landscape.</p> <p>Our assessment of management controls, procedures and processes in place are considered sufficient to provide reasonable assurance that the Council as Accountable Body and RIO as a Delivery Partner have complied with the grant conditions.</p> <p>Whilst we have raised some points in our report relating to issues that have caused difficulties during project delivery so that lessons can be learned, it is important to recognise and celebrate the successes of the project and the outputs delivered to the City.</p>
Stores & Stock Control (Domestic Waste Containers) <i>Not included in original plan</i>	Reasonable Assurance Status: Draft	<p>We can report that the Council's stock of domestic waste containers and bags are subject to effective administration and stock control procedures. Since the responsible team leader was appointed in April 2022 there have been significant improvements made, with new processes and controls implemented. Stock takes are undertaken on a weekly basis and ordering trigger points have been adopted to ensure that there is sufficient holding stock to cover any delays with supply.</p>

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
		In addition, the Auditor has worked alongside the department to adapt the current weekly stock check spreadsheet to include the cost per unit, total inventory cost and variance from the previous week stock count. This will aid in identifying the total inventory cost of physical stock held at any given point as well as notable changes in stock levels which require reconciliation. Individual sheets have been created which will improve the visualization of checks on a monthly basis as well as a dashboard highlighting key information.
Stores & Stock Control (Stores)	Reasonable Assurance Status: Draft	<p>Overall we are able to provide a reasonable level of assurance that there are effective stock management controls operating within the main Stores at Prince Rock Depot. However, the Stores Officer is the only member of staff in the department licensed to receive and issue chemicals and we have highlighted the need for management to consider whether there is sufficient cover across the service to adequately cover periods of absence.</p> <p>Currently there are multiple spreadsheets in use to record the distribution of stock and the Auditor has worked with the Stores Officer to condense current records into a single spreadsheet. By condensing records into a single excel spreadsheet and using the tools available data analysis can be undertaken by using filters etc to identify trends.</p>
City Change Fund	Substantial Assurance Status: Draft	<p>City Change Fund (CCF) governance arrangements ensure compliance with Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019 and its effective use through appropriate management and allocation of City Change funds. Substantial Assurance is provided through current governance, risk management and internal controls that operate effectively and are consistently applied to support the achievement of City Change Fund objectives.</p> <p>This customer focused, digital system enables developer contributions to be directed at the priorities of local communities and has been held up as an exemplar with the CCF declared the winner in the '<a href="#">Excellence in Tech Within Planning Practice</a>' category before winning the overall <a href="#">Silver Jubilee Cup</a> at the RTPI awards in 2019, where it was recognised for a "genuinely citizen-led decision-making approach" and for "its unique, ground breaking initiative that went beyond simple community engagement by</p>

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
		empowering local communities to be proactive and invest in the City Change Fun to deliver local priorities.
Commercial Properties	Status: In Progress	<p>Following on from work performed in 2021/22 to understand and map the use of the new TF Cloud asset management system and associated processes, we are undertaking a programme of testing to check that:</p> <ul style="list-style-type: none"> <li>• Rental agreements are properly established, accurately recorded and held securely,</li> <li>• Rental income is received in accordance with the agreement and debt recovery processes are followed,</li> <li>• Rent reviews are carried out in accordance with the agreement.</li> </ul>
<p>With the rapidly changing environment the Council operates in, the Strategic Director has advised that the following reviews be deferred to 2022/23</p> <ul style="list-style-type: none"> <li>• Safety at Sports Grounds</li> <li>• Plymouth &amp; SW Devon Community Forest</li> <li>• The Box</li> </ul>		
Grant Certification	Regulatory Requirement	<p>Grants certified without amendment:</p> <ul style="list-style-type: none"> <li>• SWLEP Growth Fund - Derriford Transport Scheme</li> <li>• SWLEP Growth Fund - Northern Corridor Junction Improvements</li> <li>• SWLEP Growth Fund - Eastern Corridor Strategic Cycle Network</li> <li>• SWLEP Growth Fund - Charles Cross</li> <li>• SWLEP Growth Fund - Plymouth Railway Station</li> <li>• SWLEP Growth Fund - Oceansgate Phase I</li> <li>• SWLEP Growth Fund - 5G Smart Sound</li> <li>• SWLEP Get Building Fund - National Marine Park</li> <li>• SWLEP Get Building Fund - Plymouth International and City Business Parks</li> <li>• SWLEP Get Building Fund - Concourse Phase 2, Brunel Plaza</li> <li>• SWLEP Get Building Fund - Green Homes</li> <li>• DH&amp;SC LA Test and Trace Service Support</li> <li>• DH&amp;SC LA Trace and Test Support Payment Scheme (2 claims)</li> </ul>

Areas of Review	Assurance Opinion	Residual Risk / Audit Comment
		<ul style="list-style-type: none"> <li>• DH&amp;SC Contain Outbreak Management (5 claims)</li> <li>• DH&amp;SC Community Testing</li> <li>• DH&amp;SC LA Test &amp; Trace Contain Outbreak Management Fund Surge Testing</li> <li>• DLUH&amp;C Protect and Vaccinate</li> <li>• DLUH&amp;C Disabled Facilities Grant</li> <li>• Innovate UK - Marine e-charging living lab</li> <li>• DFT Transforming Cities - Tranche I</li> <li>• DFT LTCB - Integrated Transport and Highway Maintenance</li> <li>• DFT LTCB - Pothole Action Fund</li> </ul>
<b>National Fraud Initiative (NFI)</b>		
NFI	Status: Ongoing	The cycle for the National Fraud Initiative (NFI) is every two years. For the 2022-23 exercise, DAP are in the process of co-ordinating the extraction and provision of relevant Council datasets, with the resulting data matches expected back from the Cabinet Office in February 2023.

## 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 & Governance Committee in July 2022. 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 2021 ‘DAP is continuing to operate 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 are supported by a development programme.

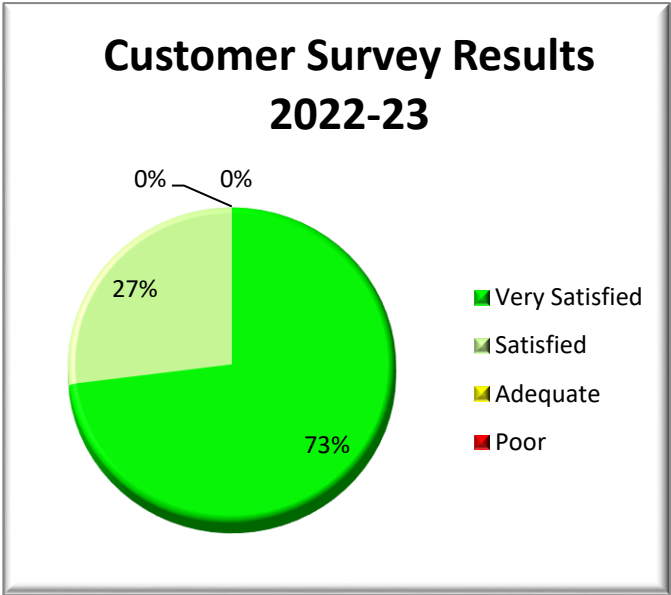
**Improvement Programme** – DAP maintains a rolling development plan of improvements to the Service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision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

### Customer Service Excellence

DAP maintains accreditation by G4S Assessment Services of the CSE standard during the year. We have had some very complimentary feedback of where our team have been able to add value to the Council these may be found upon our [webpage](#). The chart on the right of this page summarises the customer satisfaction results received to date during 2022/23.

### Inherent Limitations

The opinions contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.



## Appendix 3 - Definitions

Definitions of Audit Assurance Opinion Levels		Confidentiality under the Government Security Classifications	
Assurance	Definition	Marking	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.”	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.
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.”	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.
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.”		

### 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 [tony.d.rose@devon.gov.uk](mailto:tony.d.rose@devon.gov.uk)



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# Audit and Governance Committee



Date of meeting:	28 November 2022
Title of Report:	<b>Treasury Management Strategy 2023/24</b>
Lead Member:	Councillor Mark Shayer (Deputy Leader)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Interim Finance Business Partner for Capital and Treasury Management
Contact Email:	<a href="mailto:Wendy.eldridge@plymouth.gov.uk">Wendy.eldridge@plymouth.gov.uk</a>
Your Reference:	Finance/WE/TMS 23-24
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

This report sets out the Treasury Management Strategy for 2023/24 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

- I. The Audit and Governance Committee recommends the Treasury Management Strategy 2023/24 that incorporates the authorised limits, operational boundaries and prudential indicators to the City 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.

**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:**

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) <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	Arlingclose Forecast November 2022							
B	Investment and Debt Portfolio							

**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	pl. 22.2 3.28 2	Leg	EJ/ 38861/ 17.11. 22(2)	Mon Off	Click here to enter text.	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: David Northey											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 17/11/2022											
Cabinet Member approval: Cllr Shayer approved by email Date approved: 17/11/2022											

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**Treasury Management Strategy 2023/24**





**Councillor Mark Shayer****Deputy Leader of the Council and Cabinet Member for Finance and Economy**

This Strategy demonstrates the network of controls that are in place to provide confidence in the way we management of our investments and borrowing.

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

**David Northey****Service Director for Finance (Interim)**

This Strategy is designed to underpin the Council's ambition to invest in the future of Plymouth. The strategy sets out a framework within which the Council's treasury management needs and risks can be managed successfully.

The recent turbulence with the financial markets and world economy has had an impact upon borrowing and investment rates of interest. This Strategy will help support the council in responding to this volatility in the short to medium term.

The strategy will keep us within our prescribed limits under the Prudential Code.

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## 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. Of necessity, the Council borrows and invests substantial sums of money and is therefore exposed to financial risks including the effects of changing interest rates.

This Treasury Management Strategy sets out how the Council will invest to meet future Infrastructure needs in an affordable way.

### INVESTMENTS – FACTS AT A GLANCE

#### Principles and Objectives of the Treasury Management Strategy

- To achieve the best secure investment returns
- 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

<b>Statutory and Performance Framework</b>  <i>Rules that guide us</i>	<b>Investments</b> <ul style="list-style-type: none"> <li>• Sterling only</li> <li>• Can use UK Government, Local Authority or a body of high credit quality</li> <li>• The Council defines “high credit quality” organisations and securities as those having a credit rating of [A-] or higher and domiciled in UK</li> </ul>
	<b>Counterparties and Limits</b> (see table on page 20)
	<b>Investment Limits – subject to Counterparty table on page 20</b> <ul style="list-style-type: none"> <li>• <b>Unlimited</b> UK Government</li> <li>• <b>Unlimited</b> Money Market Fund</li> <li>• <b>£25m</b> any single local authority or government entity</li> <li>• <b>£25m</b> secured investment</li> <li>• <b>£10m</b> per Bank (unsecured)</li> <li>• <b>£20m</b> unrated corporates</li> <li>• <b>£60m</b> Strategic Pooled Funds</li> <li>• <b>£10m</b> Real estate investment</li> </ul>
	<b>Key Council Budget Assumption for 2023/24</b> <ul style="list-style-type: none"> <li>• Investments make an average rate of return of 2%</li> </ul>
<b>Approach</b>  <i>Choices made within the framework</i>	<b>Objective</b> - Security first, Liquidity second and then Yield <b>Strategy</b> - to maximise returns, reduce risk and diversify investments <b>Risk Assessment and credit ratio</b> - Our advisors monitor credit ratings daily so any new investments will be made using the latest credit information <b>Other information on security of Investments</b> - 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 minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

### Market Intelligence

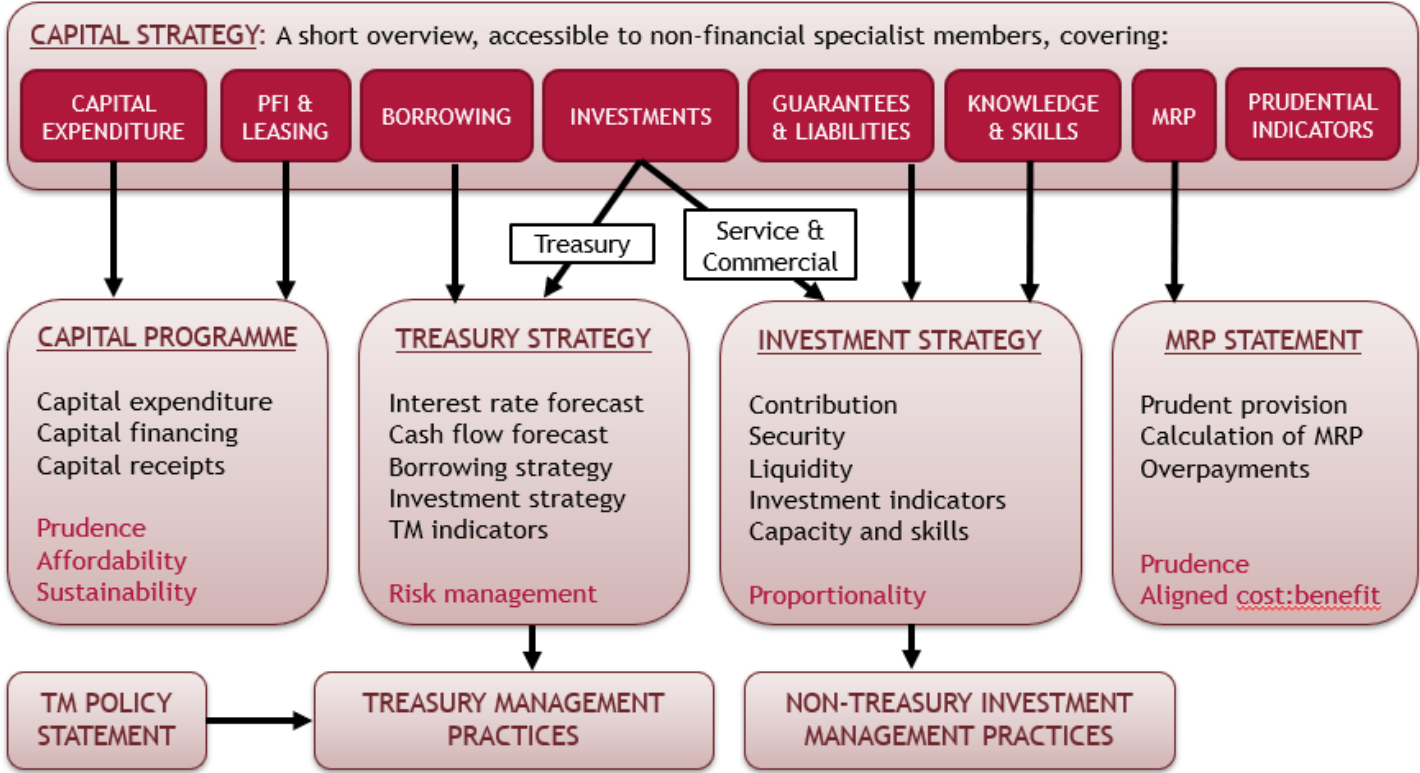
- Bank of England reports
- Market Outlook by the Council's advisers Arlingclose

<b>Statutory and Performance Framework</b>  <i>Rules that guide us</i>	<b>Borrowing</b> <ul style="list-style-type: none"> <li>• <b>£211m</b> Total Capital Expenditure</li> <li>• <b>£1076m</b> Capital Finance Requirement (need to borrow)</li> <li>• <b>£1082m</b> Total Debt (loans and private finance initiative)</li> <li>• <b>£1095m</b> Operational Boundary (practical ceiling on borrowing)</li> <li>• <b>£1130m</b> The Authorised Limit (absolute maximum debt approved)</li> </ul>
	<b>Prudential Indicators</b> <ul style="list-style-type: none"> <li>• <b>12.1%</b> Ratio of finance costs to net revenue stream (borrowing costs as a proportion of net revenue budget)</li> <li>• <b>£12.20</b> Hypothetical increase in Council Tax affordability. (this is technical measure; the Council has made no future years tax decisions)</li> </ul>
	<b>Treasury Management Indicators</b> <ul style="list-style-type: none"> <li>• <b>80%</b> Limit on Fixed Interest Exposure</li> <li>• <b>50%</b> Limit on Variable Interest Rate</li> <li>• <b>0% to 80%</b> Maturity Structure of Borrowing, exposure in any duration</li> </ul>
	<b>Minimum Revenue Provision Policy (MRP)</b> <ul style="list-style-type: none"> <li>• Annuity Method</li> <li>• PFI/Leases charged on an annuity method over the life of the asset</li> <li>• Option for capital receipts to be used towards repaying debt</li> </ul>
	<b>Key Council Budget Assumption for 2023/24</b> <ul style="list-style-type: none"> <li>• New long-term loans will cost an average rate of 4.0%</li> </ul>
<b>Approach</b>  <i>Choices made within the framework</i>	<p><b>Objective</b> - The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. In addition to ensure required short term borrowing is held to maximise benefit from hedging arrangement.</p> <p><b>Strategy</b> Given the significant cuts to public expenditure and in particular to local government funding, the Authority'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, or to borrow short-term loans instead.</p>

	<p><b>Sources of Finance</b> - 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 &amp; Lease back</p> <p><b>LOBOs</b> With interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years</p> <p><b>Municipal Bonds Agency</b> Council will use where appropriate as this is a more complicated source of finance. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.</p> <p><b>Debt Restructuring</b> A present value calculation based on current rates for the same period of loan may result in a discount or premium.</p> <ul style="list-style-type: none"><li>• Council will re-schedule if it reduces cost or risk</li></ul>
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The diagram below shows how Capital expenditure affects the Treasury Management Strategy

Strategy Reports: England



The diagram above shows how the requirements of the Department of Levelling Up Housing and Communities (DLUHC) 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 background as at November 2022:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority’s treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

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

## Credit Outlook

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.



**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 forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

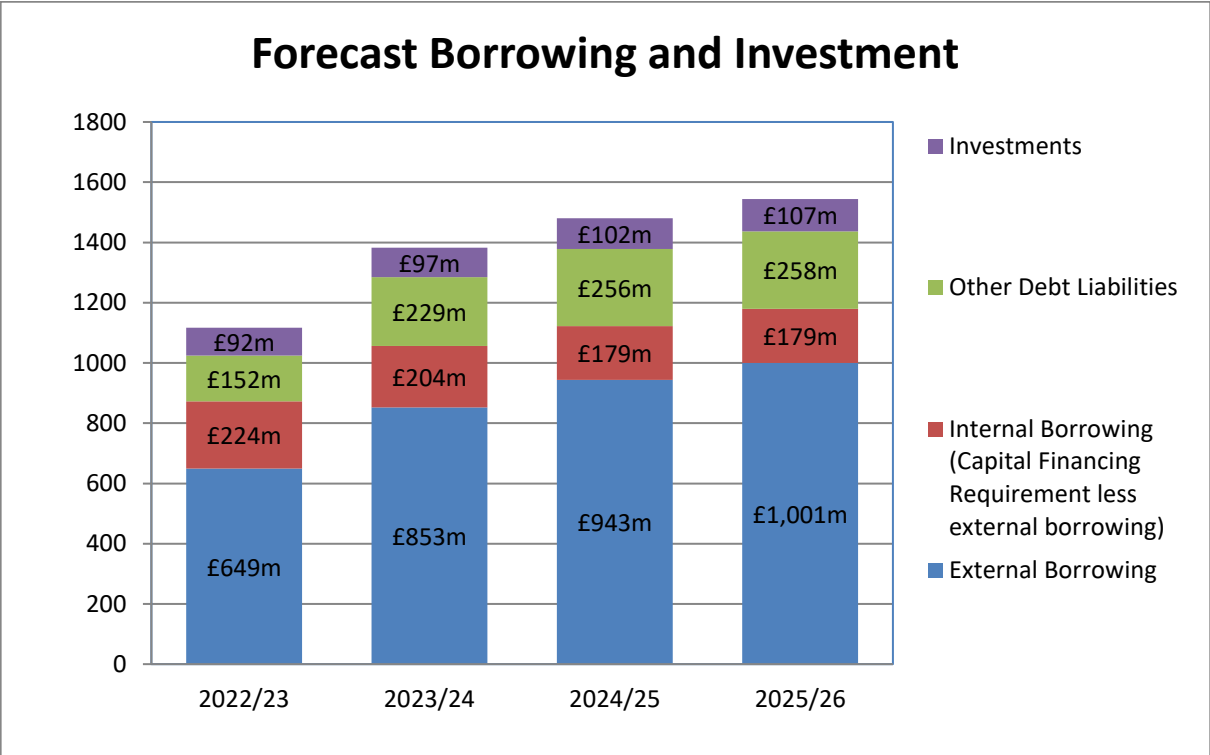
Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

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

**Part 2 – Technical Detail for Analysis**

**Borrowing**

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



Treasury Management Strategy 2023/24

**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 £554 million of loans in as at 31 March 2022. This was a decrease of £46 million on the previous year. The decrease in loans is because many of the capital project were slowed down by Covid and the Council received grants for capital and revenue purposes and will be used in 2022/23 and future years.

The Council expects to hold borrowing up to £ 853m in 2023/24. The total borrowing must not exceed the authorised limit set by the Council of £1130m which includes long term liabilities of £145m.

**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 fixed borrowing to obtain certainty of costs.
- Flexibility to renegotiate loans or to reschedule debt should the Council's long-term plans change.

**It is much cheaper to borrow for a short period now we will look for opportunity to fix borrowing over long term where affordable.**

### Borrowing Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Authority'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, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) 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. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has taken the opportunity to refinance some of its short term borrowing with long term fixed rate borrowing from PWLB. This has reduced the Council's short term borrowing and therefore reduced the interest rate risk (risk of interest rates rising).

There will be additional costs for taking the additional PWLB borrowing but it gives the Council certainty over more of its fixed costs. Long-term fixed rate loans remove the interest rate risk by fixing the rate for the term of the loan. These are popular among local authorities but are relatively expensive.

Treasury Management Strategy 2023/24

The Council will continue to review its portfolio of borrowing and may refinance its debt dependant on the market conditions. The benefits of short-term borrowing will continue to 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).

The Council has taken additional long term fixed rate borrowing from the PWLB - £50m in November to provide interest rate certainty and have funds available should lenders exercise right to call in LOBO loans with 4 working days notice.

The Council also has an Interest Rate Swap to mitigate part of this risk by a contract that fixes the rate of interest on £75m for 20 years.

The Council will reschedule or repay loans where this is expected to lead to an overall cost saving or a reduction in risk to reduce the overall long term costs of the loan portfolio.

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)
- The UK Infrastructure Bank
- 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 and short term borrowing
- Any other counterparty that is recommended by the Council’s TM advisors
- A Plymouth City Council bond or similar instruments
- Interest Rate Swaps – although not actual borrowing they can be used to reduce the interest rate risk

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 Council continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

**The LOBO 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 Authority holds £64m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

One loan of £5m is expected to be called in during 2022/23.

A further £44m of these LOBOs have options during 2023/24, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years.

**The Municipal Bonds Agency may offer an alternative for short term borrowing**

### **Municipal Bond Agency (MBA)**

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities.

This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

### **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**

The PWLB allows authorities 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 Authority 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.

The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## Prudential Indicators 2023/24

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 forecast at October 2022 may be summarised as follows.

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

Capital Expenditure and Financing	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	170.585	211.107	79.027	37.146
<b>Total Expenditure</b>	<b>170.585</b>	<b>211.107</b>	<b>79.027</b>	<b>37.146</b>
Capital Receipts	5.481	5.640	0.443	3.000
Grants and Contributions	93.598	31.775	8.013	1.861
Revenue	1.524	0.000	0.000	0.000
Borrowing	69.982	173.692	70.571	32.285
Leasing and PFI	0.000	0.000	0.000	0.000
<b>Total Financing</b>	<b>170.585</b>	<b>211.107</b>	<b>79.027</b>	<b>37.146</b>

### 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 22 Actual £m	31 Mar 23 Forecast £m	31 Mar 24 Forecast £m	31 Mar 25 Forecast £m
General Fund	832.728	902.710	1076.402	1146.973
<b>Total CFR</b>	<b>832.728</b>	<b>902.710</b>	<b>1076.402</b>	<b>1146.973</b>

The Council has an increasing CFR and is forecast to rise by £314m over the next three 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 23 Forecast £m	31 Mar 24 Forecast £m	31 Mar 25 Forecast £m	31 Mar 26 Forecast £m
Borrowing	673.982	952.674	968.245	1025.530
PFI liabilities & Finance Leases*	127.000	129.000	231.000	233.000
<b>Total Debt</b>	<b>800.982</b>	<b>1081.674</b>	<b>1199.245</b>	<b>1258.530</b>

\* A provision has been made for IFRS 16 to allow for operating leases being brought onto the balance sheet as a debt liability with effect from 1 April 2024.

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	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	750.000	950.000	1000.000	1050.000
Other long-term liabilities	144.000	145.000	250.000	255.000
<b>Total Debt</b>	<b>894.000</b>	<b>1095.000</b>	<b>1250.000</b>	<b>1305.000</b>

### 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	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	775.000	985.000	1020.000	1050.000
Other long-term liabilities	140.000	145.000	255.000	260.000
<b>Total Debt</b>	<b>915.000</b>	<b>1130.000</b>	<b>1275.000</b>	<b>1310.000</b>

### 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	10.0%	11.5%	12.1%	12.6%

### 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund - increase in annual band D Council Tax	£10.10	£18.30	£12.20	£12.30

### 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 Authority 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 for cash management**

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 grants received in advance of 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 £20m and £60m during the financial year.

### Objectives

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 its treasury management funds is to have the monies available at short notice for unexpected payments.

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.

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

### Investment Limits

When considering investment limits in the chart below you must also refer to the credit ratings of the individual organisations 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	£10m	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 2023/24

- Investments will make an average rate of 2.0%
- New long-term loans will cost an average rate of 4.0%

### Strategy

Given the increased risk and very low returns from short-term unsecured bank investments, the Council holds non-treasury management investment in diversified managed funds which offer a higher yielding. The Council holds £53m as a long-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

Treasury Management Strategy 2023/24

investments. Although there is a higher return there is an increased risk that of capital values falling. 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 money market funds which offer very low rates but allows immediate withdrawal. 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 Council 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 Council to diversify into asset classes other than cash without the need to own and manage the underlying assets. 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 Council'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 Council's investment at risk.

### **Operational Bank Accounts**

The Council may incur operational exposures, for example through 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:

	2022/23	2023/24	2024/25	2025/26
Upper limit on fixed interest rate exposure	75%	75%	80%	80%
Upper limit on variable interest rate exposure	50%	40%	30%	30%

Fixed rate investments and borrowings are those where the rate of interest is fixed for more than 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	50%	20%
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	80%	50%

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. **Non-Treasury Management Investments** – to invest surplus cash from reserves and other funds that are not required for the day-to-day cash flow activities.
2. **Service Investments** - to support local public services by lending to or buying shares in other organisations; and
3. **Commercial Investments** - to regenerate areas within the City or immediate economic area to encourage private investment and to create or retain local jobs (known as commercial investments where these are the main purpose).

### Non-Treasury Management Investments

The Council holds reserves that are not required for the day-to-day treasury management cash flow activities so can be invested in non-treasury management investments.

The surplus cash reserves can be invested in accordance with the CIPFA guidance. The balance reserve available for non-treasury investments is expected to fluctuate between £60m and £80m during the financial year.

### Objectives

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 helps support the Council's budget to enable it to delivery its essential services.

### 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. 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. Therefore the Council will take security against assets to mitigate the risk of default.

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. the rate of interest charged on any loan will reflect the risk of the project and potential for default;
7. subsidy controls 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.

### Property and Regeneration Fund

Commercial Investment Strategy: From 1 April 2021 the Council does not invest in commercial property if it is held primarily to generate income.

From the 1 April 2021 the Council will invest in the commercial property only where the main purposes are to regenerate areas of the City, encourage private investment and to create or retain local jobs.

### The Property and Regeneration Fund

The Property and Regeneration Fund invests in commercial property for the purposes of regenerating areas of the city that the council wants to improve, encourage private investment and to create or retain local jobs.

The Council has historical commercial investment portfolio that it had built up over many years. The local and regional, commercial and residential property provides a return to the council, after paying the borrowing costs and this can be spent on local public services.

### Property and Regeneration Fund

Property and Regeneration Fund	Actual 2021/22	Estimate 2022/23	Forecast 2023/24
Commercial Property Net Income	£2.492m	£3.203m	£2.635m
Net Return	1.19%	1.53%	1.26%

**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 development 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. The following table summarises the movement in the fair value of investment properties over the year 2021/22:

Analysis of Movement in Investment Properties	2020/21	2021/22
	£000	£000
<b>Balance at 1 April</b>	<b>254,440</b>	<b>275,442</b>
Additions	26,558	113
Disposals	(160)	0
Net gains/(losses) from fair value adjustments	(8,300)	(2,587)
<b>Transfers:</b>		
(to)/from Property, Plant and Equipment	2,904	(1,903)
<b>Balance at 31 March</b>	<b>275,442</b>	<b>271,065</b>

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 uses the profit generated by the commercial investment to provide services for the city and 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: Property Regeneration Fund

	2021/22 Actual
Gross expenditure on provision of services	£635.924m
Gross Investment income	£2.492m
Proportion	0.39%

### 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 for the Property and Regeneration Fund

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

- I. Proposed development opportunities are reviewed by Land and Property in areas of the City which require redevelopment or regeneration of brown and green field sites or areas where the Council

want to stimulate inward private investment and to create or retain local jobs. A report is prepared 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 development 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 development 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 Capital Finance 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 development, by including items such as future demand, yield, cash flows; rental movement, optimal holding periods for the property and data to support the regeneration and job creation to cover the cost 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 is produced, as part of the proposed development, 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 and Regeneration Governance**

Clear, robust and transparent governance is critical to the Capital Finance Strategy and meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective Treasury Management Strategy 2023/24

arms-length external advice where appropriate. It is also important to ensure any decision process retains fluidity, so officers are empowered to respond promptly to changes in the market. For example if there is a commercial company failure in the city the officers would be able to respond quickly to help retain local jobs and look for alternative purchasers.

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 Property and Regeneration Fund a proposal is presented to the Officers and Members with 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 25 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:**

Property and Regeneration Fund commercial property developments are funded by borrowing and repaid by the service from rental income from the development. The borrowing is not directly taken out against each property but is managed through our Treasury Management function.

The rental income generated from the development of commercial property is used to repay the borrowing before any 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 2023/24

Where the Authority 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 Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued 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 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.

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.

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

For capital expenditure loans to third parties that are repaid in annual or more frequent 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. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

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 DLUHC 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 has no plans to make use of derivative instruments at the present time but does not discount the possible use of these in the future dependent on the existence of appropriate operating conditions, the acquisition and analysis of specialist advice and thorough consultation with stakeholders.

This approach is in line with the CIPFA Code, which encourages the Council to seek external advice and to consider such advice before entering into financial derivatives to ensure that it fully understands the implications.

### 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 DLUHC 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.

### The Treasury Management Practices, Principles and Schedules

The Treasury Management Practices, Principles and Schedules sets out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Audit Committee is required to approve the Treasury Management Practices, Principles and Schedules each year under delegated decision.

#### 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 2022

### Underlying assumptions:

- UK interest rate expectations have eased following the explosive mini-budget, with a growing expectation that UK fiscal policy will now tighten to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower although the path for interest rates and gilt yields remain highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

### Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

### Extract from Arlingclose Economic and Interest Forecast issued 7 November 2022

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

**Appendix B - Existing Investment and Debt Portfolio Position**

	30 Sept 2022 Actual Portfolio £m	30 Sept 2022 Average Rate %
<b>External Borrowing:</b>		
PWLB – Fixed Rate	305.5	2.35
Short Term Borrowing	135.0	0.88
LOBO Loans	64.0	4.34
Long Term Borrowing	18.0	4.37
<b>Total External Borrowing</b>	<b>522.5</b>	<b>2.28</b>
<b>Other Long Term Liabilities:</b>		
PFI, Finance Leases and other liabilities	94.3	n/a
Other loans	19.3	n/a
<b>Total Gross External Debt</b>	<b>636.1</b>	
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term Money Market Funds	10.2	1.39
Other Short Term investments	1.6	1.66
<i>Managed externally</i>		
CCLA Pooled Funds	26.8	2.50
Other Pooled Funds	25.0	1.01
<b>Total Investments</b>	<b>63.6</b>	<b>1.72</b>
<b>Net Debt</b>	<b>572.5</b>	

**Treasury Management Strategy 2023-24**

Published by:  
Plymouth City Council  
Ballard House  
West Hoe Road  
Plymouth PL1 3BJ

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# Audit and Governance Committee



Date of meeting:	28 November 2022
Title of Report:	<b>Capital Financing Strategy 2023/24</b>
Lead Member:	Councillor Mark Shayer (Deputy Leader)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Interim Finance Business Partner for Capital and Treasury Management
Contact Email:	<a href="mailto:Wendy.eldridge@plymouth.gov.uk">Wendy.eldridge@plymouth.gov.uk</a>
Your Reference:	Finance/WE/CFS 23-24
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

This report sets out the Capital Financing Strategy for 2022/23 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

- I. The Audit and Governance Committee recommends the Capital Financing Strategy to the City 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 capital financing 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. Capital financing 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 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.

Fin	pl. 22.2 3.28 3	Leg	EJ/3 8861 /17.1 1.22( 3)	Mon Off	Click here to enter text.	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: David Northey											

Please confirm the Strategic Director(s) has agreed the report? Yes

Date agreed: 17/11/2022

Cabinet Member approval: Cllr Shayer approved by email

Date approved: 17/11/2022



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## CAPITAL FINANCING STRATEGY 2023/24



### 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 2018 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 updated the Plymouth Plan 2014-2034 on 25 January 2021 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 2022 the Council approved a budget which contained an uplift to the revenue budget of £0.81m to meet some of the increased costs associated with borrowing requirements to fund the capital programme. The current MTFP contains proposals to further increase this sum 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 151 Officer; 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
- how it will be funded

- if there are any future revenue implications from the project e.g. building maintenance
- 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.

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.

As part of Finance department restructure an updated governance process to establish projects onto the capital programme is being developed to support the programme approval process. This will provide members with further confidence that the schemes meet the expected requirements in line with the strategic direction of the city.

The Capital Financing Strategy is agreed annually with the Capital programme as part of the annual budget setting process. Variations to the Capital programme or in-year additions, subject to delegation, will be agreed by Cabinet through the presentation of quarterly Capital programme monitoring.

## **CAPITAL PLAN**

The Capital Plan is the collective term which defines two key elements; the Capital Programme as approved by the Leader or S151 Officer and the Capital Pipeline which refer to possible future funding that may be available for future projects yet to be approved.

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

"The Capital Pipeline" is the term used to refer to funding that the Council hopes to receive in the future but has not yet been approved. These 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 at 30 September 2022 reported to Cabinet in November 2022, including, amongst others, the following schemes:

- Future High Streets Fund Civic Centre/Guildhall - £14.424m (total £14.497m)
- Corporate Property/Accommodation strategy - £8.074m
- Heat Sourcing in Corporate buildings - £3.286m (£4.787m)

- Better Places Programme - £14.738m (total £17.959m)
- Forder Valley Link Road – £11.310m (total £52.901m)
- Forder Valley Interchange - £4.246m (total £10.641m)
- Woolwell to the George - £33.763 (total £36.841m)
- Morlaix Drive access improvements - £3.796 (total £4.928m)
- Transforming Cities Fund – £44.854m (total £51.164m)
- Redevelopment of Plymouth Train Station – £29.962m (total £36.497m)
- Highway maintenance and essential engineering – £9.335m
- Street lighting & traffic signals - £9.882m
- Plymouth Crematorium - £23.175m (total £29.381m)
- Property Regeneration Fund - £70.140m

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.

#### **Five Year Capital Programme by Directorate**

Directorate	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m
People	9.010	7.643	3.668	0.132	0	20.453
Place - Economic Development	22.073	92.161	12.926	4.530	0.053	131.743
Place – Strategic Planning and Infrastructure	94.649	37.197	16.804	2.484	0	151.134
Place – Street Services	23.168	5.573	2.377	0	0	31.118
Customer & Corporate Services	7.852	6.424	0.582	0	0	14.858
Office for Director of Public Health	9.823	10.682	2.670	0	0	23.175
<b>Total</b>	<b>166.575</b>	<b>159.680</b>	<b>39.027</b>	<b>7.146</b>	<b>0.053</b>	<b>372.481</b>
<b>Financed by:</b>						
Capital Receipts	5.636	4.735	0.443	3.000	0.053	13.867
Grant funding	83.250	29.560	2.625	1.803	0	117.238
Corporate funded borrowing	34.064	44.398	18.621	2.259	0	99.342
Service dept. supported borrowing	31.714	78.951	11.950	0.026	0	122.641
Developer contributions	10.443	2.036	5.388	0.058	0	17.925
Other contributions	1.468	0	0	0	0	1.468
<b>Total Financing</b>	<b>166.575</b>	<b>159.680</b>	<b>39.027</b>	<b>7.146</b>	<b>0.053</b>	<b>372.481</b>

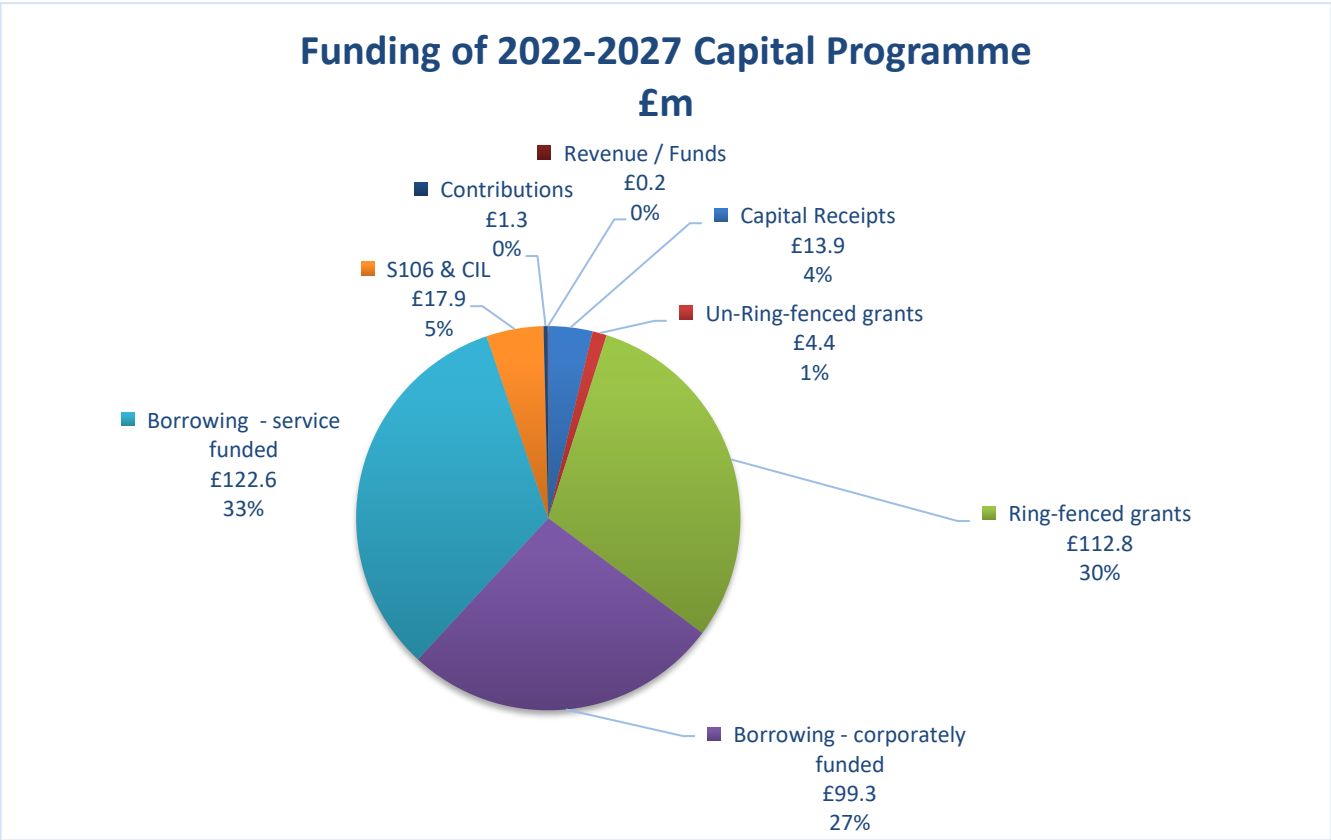
CAPITAL EXPENDITURE AND FINANCING

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 Capital Programme is of £372.481m is funding is summarised below by funding source.



PROPERTY AND REGENERATION FUND

The Property and Regeneration Fund’s strategic objectives are to deliver regeneration, economic and employment growth with associated income benefits in the Plymouth Functional Economic Area.

This will enable the Council to invest in direct developments and forward funding opportunities to promote regeneration, safeguarding and creating new jobs as well as encouraging economic growth in Plymouth Functional Economic Area.

The investment fund helps deliver the Plymouth Plan and assists in the redevelopment of brown field sites in the Plymouth area where it is difficult to attract external investment. Any regenerated areas encourage other private companies to invest in the locality as well as attracting external investment from inward investment by companies moving into the area.

## **EXISTING INVESTMENT PROPERTIES**

The Property and Regeneration Fund (previously known as the Asset Investment Fund) has approved investment of over £250 million in commercial property including direct development and forward funding commercial property schemes to deliver:

- Stimulation of economic and employment growth and regeneration in Plymouth Functional Economic Area.
- Associated long-term income generation (via rental revenues) to support the wider financial position of the Council.

All investment decisions have been fully accountable and followed a sequence of internal reporting and sign-offs. In addition, verification of purchase price by external suitably qualified RICS Approved Valuers were obtained prior to any investment.

In terms of on-going governance arrangements, the fund's properties are managed alongside the Council's existing commercial property portfolio in accordance with delegated land and property procedures as set out in the Council's Constitution. In addition, the team undertake regular analysis at both a portfolio and property-level to benchmark performance and manage risk. To improve transparency and disclosure, a regular fund managers' report is produced and a Management Group of key stakeholders meet regularly to review outputs.

## **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.

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 2023/24.

## **RISK MANAGEMENT**

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 25 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



Date of meeting:	28 November 2022
Title of Report:	<b>Counter Fraud Services Annual Report 2022-23</b>
Lead Member	Councillor Mark Shayer (Deputy Leader and Cabinet Member for Finance and Economy)
Lead Strategic Director	David Northey (Interim Service Director for Finance)
Author:	Ken Johnson Counter Fraud Services Manager
Contact Email:	Ken.johnson@plymouth.gov.uk
Your Reference:	HY/CFST
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

This report summarises the work carried out during the first six months 2022/23 by the Counter Fraud Services Team at Devon Audit Partnership 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 Year 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:

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 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) <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	Counter Fraud Services Half Year 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) <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:**

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Originating Senior Leadership Team member: David Northey											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 19/10/2022											
Cabinet Member approval: Approved by Councillor Mark Shayer Date approved: 15/11/2022											



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devon**audit**partnership

Counter Fraud Services

**Plymouth City Council**

**Devon Audit Partnership**

# **Counter Fraud Half Year Report and Update**

**Audit and Governance Committee November  
2022**

**CUSTOMER  
SERVICE  
EXCELLENCE**



**Support, Assurance and Innovation**

## 1. Executive Summary

1.1 The following is the [Devon Audit Partnership](#) (DAP) [Counter Fraud Services Team](#) Half Year Report and Update for the first half of financial year 2022/23. It outlines the counter fraud work undertaken in support of Plymouth City Council and its continued efforts to ensure that appropriate Governance processes are in place. This includes acknowledging the threats posed by fraud, preventing and pursuing those who would look to commit fraud and providing assurance that the Council and the public are being protected from fraud.

1.2 In the past six months the Counter Fraud Services Team have –

- Received and processed 277 allegations of fraud and related offences against the Council and its citizens.
- Helped the Council generate calculated savings of £520,994.54 in all areas of Council business.
- Undertaken an extensive review of Plymouth City Councils Counter Fraud resilience in line with best practice.
- Supported the Council's commitment to the National Fraud Initiative, by checking matches and supporting the relevant departments accordingly.
- Undertaken rolling monthly data analysis exercises to identify potential fraud and error in multiple Council systems.

1.3 We consider that this a very positive report which shows the genuine commitment from the Council to minimise the impact and losses of fraud. Further required work has been identified in order to fully understand 'fraud risk' in all areas of the Council's business to ensure maximum resilience and assurance.

## 2. Introduction

2.1 The Counter Fraud Services Team within Devon Audit Partnership (DAP) continues to support and facilitate the development of the Council's Counter Fraud processes and capability, which improves its resilience to fraud and related offences.

2.2 The ongoing work will assist all Council staff, management, and Members in identifying fraud and the risks associated with it. The aim is to ultimately provide the highest level of assurance possible utilising a joined-up service in association with our colleagues involved in Internal Audit, and the Council itself to minimise fraud loss to the lowest level possible.

2.3 Reporting Counter Fraud activity is part of good Governance, and regular updates on the Council's Counter Fraud activity improves accountability; this report aims to meet this requirement and the requirements for such reports in accordance with the Anti-Fraud, Bribery and Corruption Policy and the accompanying Strategy and Response Plan.

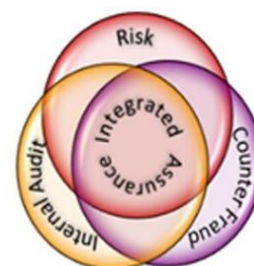
2.4 It is always worth reiterating that fraud is by definition a crime and should not be tolerated. Any fraud against Plymouth City Council is a fraud against the public purse. We will continue to acknowledge the threat from fraud, build processes and policies that will prevent fraud and pursue those 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.

### 3. Fraud response / resilience assessment.

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) reports that local authorities have achieved success by taking a structured response to fraud and that they now need to respond to an ever increasing fraud threat, and further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and focused on the key changes that will make the most difference.
- 3.2 A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.
- 3.3 The table in Appendix 1 shows the expected response from a local authority, and our assessment of Plymouth's arrangements against expectations. It is clear that the Council complies in almost all areas of Counter Fraud best practice. However further work in Joining up the 'Fraud Risk Management' process and Counter Fraud knowledge between DAP and PCC will add further value to the Counter Fraud Activity. (This is being addressed).

### 4 Integration of Counter Fraud, Risk Management, and Internal Audit.

- 4.1 The integration between these assurance arms continues to evolve and strengthen. Regular meetings between the relevant managers and staff ensure that cross collaboration is growing and improving so that auditors are aware of fraud and risk issues (*See Appendix 2*).
- 4.2 Regular communication between Devon Audit Partnership and the Service Director for Finance (Section 151 Officer) ensures that direction, clarity and flexibility take place and continue to improve.



### 5 National Fraud Initiative

- 5.1 The [National Fraud Initiative](#) (NFI) is an exercise run and reported on by the [Cabinet Office](#); it matches electronic data within and between public and private sector bodies to prevent and detect fraud and error.
- 5.2 Devon Audit Partnership acts as the point of contact between the Cabinet Office and the Council in matters relating to the National Fraud Initiative, this being a mandatory Biannual exercise in fraud prevention and detection.
- 5.3 The Bi Annual National Exercise for 22/23 has now started and data will be being uploaded to the Cabinet Office for inclusion in the exercise. It is anticipated that all matches will be returned for checking in Jan / Feb 2023.
- 5.4 In the Chartered Institute of [Public Finance and Accountancy \(CIPFA\) survey in 2019](#), the most common types of fraud faced by all Councils in England and Wales were identified as per the graphic below, it remains imperative that the Council continues to maximise counter fraud activity in these areas to ensure the minimisation of any loss to fraud.

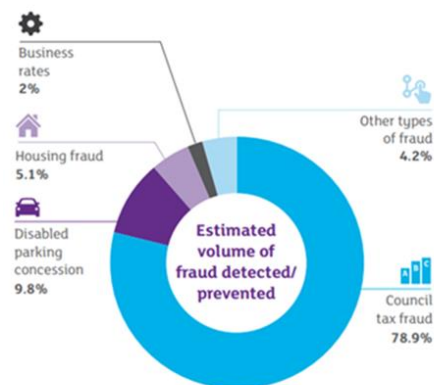


Cabinet Office

5.5 The last National Exercise assisted the Council to identify changes in entitlement which resulted in an estimated (Figures supplied by the Cabinet Office) total of £60k in potential savings. DAP is committed to supporting the Council in maximising savings from this exercise in the coming year.

5.6 Departments that complete the returned matches show that they are actively involved reducing fraud risk as well making sure that wherever possible their data management is compliant with the Data Protection Act 2018 by ensuring -

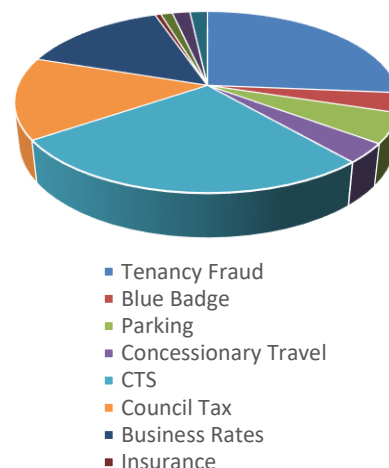
- **Data minimisation** by ensuring that PCC only holds data that is required.
- **Accuracy** by ensuring that the data held is as accurate as it can reasonably be expected to be.
- **Data retention periods**, showing that data is not being held longer than is necessary for its intended use.



## 6 Investigations and other ongoing work

6.1 In the past six months the Counter Fraud Services (CFS) Team have received 277 referrals covering the following areas of Council Business.

- Tenancy Fraud (involving our partner Registered Social Landlords)
- Blue Badge Fraud
- Parking Permits
- Concessionary Travel
- Council Tax Support / Single Person Discount
- Business Rates
- Insurance
- Internal



6.2 The CFS team have 101 live investigations (*details of individual investigations cannot be disclosed due to the sensitive nature of the information*), and we continue to support service areas that require data analysis and monitoring.

6.3 We are committed to actively drive the risk assessment for fraud within the Council, to establish where the highest-level threats are and to ensure that wherever possible the Council is able to formally;

- Acknowledge the threat from fraud.
- Identify the risks.
- Develop a strategy of pro-active and responsive counter fraud work that fits with the Councils wider objectives and goals.
- Assist in assuring correct resources are applied to issues identified.
- Once the Fraud Risk Management process is embedded, information will be included in the Annual Counter Fraud Report.

## 7 Recordable savings

- 7.1 In this financial year (2022/23 to date) the CFST have identified £520,994.54 of savings (as calculated using national indicators) across the Council and it is anticipated that further comparable savings will be realised in the coming six months.
- 7.2 In the seven years and a half years that the Council has been recording 'Cashable and Non Cashable' savings related to fraud it has achieved £8.7million in savings across all areas of business. This is a significant sum and continues to justify the Council's robust approach to countering fraud and re-assures the general public that Plymouth City Council is serious about protecting the public purse and its assets.
- 7.3 Fraud is by its very nature a hidden offence and therefore it must be assumed that the savings made and shown here are potentially the 'tip of the iceberg' and that further savings are obtainable. The more assets that are available to address this issue, the higher the potential savings figures will be in the future.

## 8 Conclusion

- 8.1 The threat from fraud is ever present and constantly changing. We will continue to assist the Council in anticipating these threats and adapting an appropriate response to them. We at DAP will endeavour to ensure that Plymouth remains at the forefront of fighting fraud in the public sector and we welcome the creation of the [Public Sector Fraud Authority](#) and any assistance they are able to supply over the coming years.
- 8.2 Plymouth City Council's substantial Counter Fraud resilience continues to improve, moving towards an ever-stronger assurance position. The newly undertaken benchmarking against best practice exercise is highly encouraging and supports the opinion that the Council is committed to reducing fraud losses to the minimum level possible.
- 8.3 The word unprecedented has been used many times over the past three years as a result of circumstances beyond Local Authority control, the current financial pressures on Councils and the people they serve remain unprecedented and the effects should not be underestimated. Financial pressure is a driver for fraud, and as such all Council's should, wherever possible look increase their fraud resilience. It is noteworthy that Plymouth continues to do that and lead the way in the south west peninsula.



**Ken Johnson**  
**Counter Fraud Services Manager**

**Tony Rose**  
**Head of Devon Audit Partnership**





Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, North Devon, Torridge, South Hams and West Devon councils and Devon and Somerset Fire and Rescue Authority. We aim to be recognised as a high-quality assurance service provider in the public sector.

We work with our partners by providing a professional assurance services 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 [tony.d.rose@devon.gov](mailto:tony.d.rose@devon.gov).

**Confidentiality and Disclosure Clause** - This report is protectively marked in accordance with the Government Security Classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

### (Fighting Fraud and Corruption Locally 2020)



## Appendix 1

### Counter Fraud resilience and Best Practice Checklist

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
<b>1. The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.</b>	<p>Yes</p> <p>The Corporate Risk Register, which incorporates the risk for fraud, is taken to the Audit &amp; Governance Committee.</p> <p>This is also considered by the Senior Management Team.</p> <p>Further work being to be undertaken to re-enforce this area. (DAP and Risk Management) to ensure that all individual areas of the Councils business are risk assessed.</p>
<b>2. The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community</b>	<p>Yes.</p> <p>In terms of horizon scanning, internal audit (DAP) provide updates on emerging fraud risks and the Devon Audit Group also helps to inform officers of locally developing issues.</p> <p>A local network of key contacts also helps to identify trends and developments.</p> <p>As above further work planned to assist Plymouth to understand risk to specific areas of business.</p>
<b>3. There is an annual report to the audit committee, or equivalent detailed assessment.</b>	<p>Yes.</p> <p>Each year a report is taken to the Audit &amp; Governance Committee, reporting the results of counter fraud work undertaken on 'Managing the Risk of Fraud and corruption.'</p>
<b>4. The relevant portfolio holder has been briefed on the fraud risks and mitigation</b>	<p>Yes</p> <p>Portfolio holder informed and aware of counter fraud resilience and activity. Annual and Half early reports signed off.</p>
<b>5. The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.</b>	<p>Yes.</p> <p>The Audit &amp; Governance Committee supports all officers in their work to prevent, detect and investigate fraud and corruption.</p> <p>Officers from partner organisations (e.g. Devon Audit Partnership) are used to provide specialist skills and additional resources as and when required.</p>
<b>6. There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.</b>	<p>Yes.</p> <p>The Authority has in place an <a href="#">Anti-Fraud, Bribery and Corruption Policy</a> and an <a href="#">Anti-Fraud, Bribery and Corruption Strategy and Response Plan</a>, both were updated August 2021.</p> <p>These documents are taken to, and approved by, the Audit &amp; Governance Committee.</p>
<b>7. The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.</b>	<p>Yes.</p> <p>The <a href="#">Councils Constitution</a> is available to all staff and Members, the document clearly defines codes of conduct and expected behaviours.</p>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	<p>The Anti-Fraud Bribery and Corruption Policy clearly identifies responsibilities for all Members and staff.</p> <p>The Whistleblowing Policy is currently under review, this will further strengthen assurance once in place.</p> <p>Policy and process documents reviewed by Audit and Counter Fraud Teams through DAP.</p>
8. The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	<p>Yes.</p> <p>A specific fraud risk entry is recorded in the risk register. However this now needs to be expanded to recognise threats across the varied areas of business that the Council undertakes.</p>
9. Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	<p>Yes</p> <p>The Authority relies on a dedicated Counter Fraud and Internal Audit team provided by DAP to support creation and implementation of policies, strategies and other initiatives across departments.</p> <p>New policies and strategies are always considered in the light of possible fraud and corruption and are designed to limit such exposure.</p> <p>Annual and Half Yearly Reports are supplied to Audit and Governance Committee.</p>
10. Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	<p>Yes</p> <p>Successful cases of proven fraud / corruption are publicised both internally and through external media in line with the Strategy and Response Plan.</p>
11. The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	<p>Yes</p> <p>All systems are designed to prevent fraud occurring. The diligence of management and staff is also key in this.</p> <p>A risk assessment is undertaken of the key risks of fraud, and the controls in place to prevent this taking place.</p> <p>The annual Internal Audit plan is prepared taking in to account risks, which include fraud risks. Internal audit will provide assessment on the effectiveness of controls, and test controls to ensure that they are being complied with in practice.</p> <p>The Audit and Governance Committee is provided reports on risk, and the results of Internal Audit, and Counter Fraud activity on a regular basis.</p>
12. The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:	
– codes of conduct including behaviour for counter fraud, anti-bribery and corruption	<p>Yes.</p> <p>The <a href="#">Councils Constitution</a> is available to all staff and Members, the document clearly defines codes of conduct and expected behaviours.</p>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	<p>eLearning package giving overarching awareness training on Fraud, Bribery and Corruption is available through the internal training website.</p> <p>Anti- Fraud Bribery and Corruption Policy and the accompanying Strategy and Response Plan clearly detail responsibility for preventing and reporting fraud and related offences. All such allegations are recorded on a secure case management system for audit and review.</p>
– register of interests	<p>Yes</p> <p>A register of member interests is maintained against each member and is publicly available on the Councils internet pages</p> <p><a href="https://democracy.plymouth.gov.uk/mgMemberIndex.aspx?bcr=1">https://democracy.plymouth.gov.uk/mgMemberIndex.aspx?bcr=1</a></p> <p>The Council also has a web page <a href="#">Declaration and Conflict of Interest</a> which details information and process around this topic.</p>
– register of gifts and hospitality.	<p>Yes.</p> <p>There is a “Member Toolkit” on Staffroom which has a section on <a href="#">useful documents</a> which has amongst others a Gifts &amp; Hospitality form. There is another form for the <a href="#">register of interests</a>. The <a href="#">Declaration and Conflict of Interest</a> webpage also details information and requirements on the register of gifts and hospitality.</p> <p>Policy and process for the recording of Gifts and Hospitality being reviewed.</p>
13. The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.	<p>Yes</p> <p>Plymouth have a <a href="#">Recruitment and Selection Policy and Procedure</a></p> <p>All offers of employment are subject to satisfactory pre-employment checks.</p> <p>Mandatory checks include :-</p> <ul style="list-style-type: none"> <li>• References</li> <li>• Verification of employment history</li> <li>• Verification of professional qualifications and memberships</li> <li>• Verification of ID , nationality and immigration status and right to work in the UK</li> <li>• Medical clearance</li> </ul>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	<p>Some posts require additional checks including</p> <ul style="list-style-type: none"> <li>• DBS</li> <li>• Credit checks</li> <li>• Checks on company directorships held, resigned or disqualified from (not routinely undertaken)</li> </ul>
<p><b>14. Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.</b></p>	<p>Yes.</p> <p>At the start of each Council meeting a declaration of interests is requested.</p> <p>However as per 12 this process is currently under review to ensure this is clear to all staff going forward. (DAP Audit involved in this process)</p>
<p><b>15. There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.</b></p>	<p>Yes</p> <p>DAP Audit and the Counter Fraud teams work to ensure that fraud remains a high priority for all staff and members. Regular reporting and the dissemination of fraud alerts via the <a href="#">National Anti-Fraud Network</a> (NAFN) are issued to relevant 'officers' as and when they become available. The involvement and support of DAP in the Councils mandatory involvement in the <a href="#">National Fraud Initiative</a> exercises also supports this.</p>
<p><b>16. There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.</b></p>	<p>Yes.</p> <p>A separate <a href="#">Whistleblowing policy</a> is in place and is currently under review, by DAP Audit and PCC Audit and Governance Committee.</p>
<p><b>17. Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.</b></p>	<p>At present the whistleblowing policy applies to all Council workers, including elected and co-opted Members. All third parties acting for and on behalf of PCC are expected to not act against the interests of PCC or the wider public interest as defined by the Public Information Disclosure Act 1998 (PIDA) where any individual suspects any of the following they will be protected by this legislation.</p> <ul style="list-style-type: none"> <li>• Criminal Offence</li> <li>• Failure to Comply with a Legal Obligation</li> <li>• Miscarriage of Justice</li> <li>• Health and Safety Risks</li> <li>• Environmental Damage</li> <li>• Cover Up</li> </ul>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
<b>18. Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.</b>	<p>Yes</p> <p>DAP supply all Counter Fraud resources. The Counter Fraud Services (CFST) has 4 individuals fully trained and qualified 'Accredited Counter Fraud Specialists (ACFS).</p> <p>The Counter Fraud Manager is an Accredited Counter Fraud Specialist (ACFS) an Accredited Counter Fraud Manager (ACFM). He also holds a Certificate in Counter Fraud Risk Management and a Diploma in Counter Fraud Management.</p> <p>A new apprentice has been inducted into the team to reinforce capability and capacity (Level 4 Apprenticeship in Fraud Investigation)</p> <p>The CFST retain a secure 'case management system' enabling the effective and legally required level of evidential security and auditability to maintain a transparent and fair record of investigation record and evidence retention.</p>
<b>19. There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.</b>	<p>There is no annual fraud plan as such at the current time.</p> <p>However, there are a range of "Audit work programmes" that are prepared each year, including actions arising for the Risk Management and Internal Audit.</p> <p>The elements of each of these various plans enables senior management to be assured that suitable resources are being allocated to prevent, detect and investigate fraud.</p> <p>Current levels of fraud prevention, detection and reporting are encouraging, however closer working arrangements and a dedicated 'fraud risk register' would allow the potential for the creation of an annual fraud plan.</p>
<b>20. Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.</b>	<p>Yes</p> <p>All referrals and reports of fraud are recorded as are the outcomes and financial loss and savings. These record cover all areas of counter fraud activity across the Council</p>
<b>21. Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.</b>	<p>Yes</p> <p>DAP investigators have direct access to certain PCC records as agreed under DAP terms of reference, however access to all documents and records can and would be obtained under the relevant Data Protection Act exemption (Schedule 2 Part 1 2(1)) as and when required.</p>
<b>22. There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.</b>	<p>Yes</p> <p>All cases which go to court are publicised through the PCC Corporate Communications Team.</p> <p>Plymouth has an enviable list of cases which have made local and on occasion's national headlines in the media.</p>
<b>23. All allegations of fraud and corruption are risk assessed.</b>	<p>Yes</p>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	Each referral or suspicion is “risk assessed” and scored using the national intelligence model before embarking upon a course of action proportionate to the issue and in line with PCC policy.
<b>24. The fraud and corruption response plan covers all areas of counter fraud work:</b> <ul style="list-style-type: none"> <li>• Prevention</li> <li>• Detection</li> <li>• Investigation</li> <li>• Sanctions</li> <li>• Redress</li> </ul>	<p>Yes</p> <p>The Strategy and Response Plan lays out in detail what actions are taken / considered at each stage of Counter Fraud work.</p>
<b>25. The fraud response plan is linked to the audit plan and is communicated to senior management and members.</b>	<p>Yes</p> <p>DAP is working to link the audit / risk and counter fraud disciplines to ensure that an ‘Integrated Assurance’ service is provided. This integration is now being improved and encouraged across the Partnership (DAP) The Response Plan and Strategy have been approved by the Audit and Governance Committee via normal senior management checking and sign off processes.</p>
<b>26. Asset recovery and civil recovery is considered in all cases.</b>	<p>Yes.</p> <p>Recovery process is undertaken by the relevant sections / departments within PCC. Where appropriate PCC Legal Team will request Proceeds of Crime POCA or Unlawful Profit Orders as required.</p>
<b>27. There is a zero tolerance approach to fraud and corruption which is always reported to committee.</b>	<p>Yes</p> <p>There is a “zero tolerance approach to fraud, endorsed by the Audit &amp; Governance Committee. Instances of fraud and corruption are reported to the Audit &amp; Governance Committee. Due to the sensitive nature of potential offences details are not revealed in the public domain unless the case has been heard before an open court.</p>
<b>28. There is a programme of proactive counter fraud work which covers risks identified in assessment.</b>	<p>Yes</p> <p>Proactive counter fraud work is delivered in a variety of ways each year. Some examples of how this is achieved include:-</p> <ul style="list-style-type: none"> <li>• Participation in the bi-annual National Fraud Initiative (NFI)</li> <li>• Elements of internal audit work focused on controls that may be more susceptible to fraud risk</li> <li>• Work by Service Managers – such as Council Tax Single Persons Discount review</li> </ul>

CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	<ul style="list-style-type: none"> <li>Internal data matches undertaken by DAP CFST</li> </ul>
<b>29. The fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.</b>	<p>Yes</p> <p>The CFST has offices within PCC's Ballard House Offices, it works with agencies as a matter of standard operating procedure. For example -</p> <p>Trading Standards</p> <p>The Department for Work and Pensions (DWP)</p> <p>HM Revenue and Customs</p> <p>Police</p> <p>Action Fraud</p> <p>Other Local Authorities</p> <p>Cabinet Office</p>
<b>30. The local authority shares data across its own departments and between other enforcement agencies.</b>	<p>Yes</p> <p>As required internally and to the CFST. Other agencies which have a valid requirement for the data to prevent / detect crime will be given access. The Cabinet Office (NFI) is a bi annual exercise where large amounts of data are lawfully shared to prevent and detect fraud.</p>
<b>31. Prevention measures and projects are undertaken using data analytics where possible.</b>	<p>Yes.</p> <p>Such examples include making good use of</p> <ul style="list-style-type: none"> <li>the NFI</li> <li>Council Tax - Single persons discount review</li> <li>CFST Data Matching</li> </ul>
<b>32. The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it.</b>	<p>Yes.</p> <p>Data is submitted every two years, with "matches" then investigated in accordance with the scoring of the match (e.g. higher scored matches reviewed first, lowest reviewed last and in accordance with resources available).</p>
<b>33. There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.</b>	<p>Yes</p> <p>PCC has access to fully Accredited Counter Fraud Specialists for all investigations via DAP as detailed in 18 above.</p>
<b>34. The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.</b>	<p>Yes</p>



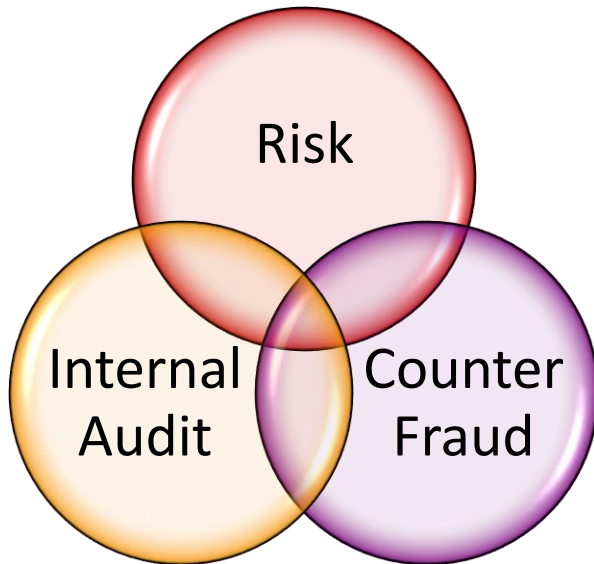
CIPFA / CIFAS expected Local Authority response to the risk of fraud and corruption.	Plymouth current position and action
	<p>The CFST along with Audit colleagues have extensive knowledge in many areas of Council business. Where that knowledge is weak then the PCC contacts / staff knowledge would be utilised to maximise effectiveness of investigations and or risk assessing.</p>
<p><b>35. The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:</b></p> <ul style="list-style-type: none"> <li>• <b>Surveillance</b></li> <li>• <b>Computer forensics</b></li> <li>• <b>Asset recovery</b></li> <li>• <b>Financial investigations.</b></li> </ul>	<p>Yes</p> <p>PCC accesses to all of these disciplines -</p> <ul style="list-style-type: none"> <li>• All DAP ACFS's are trained in Surveillance techniques and in the Regulation of Investigatory Powers Act 2000 (RIPA) which governs such activity.</li> <li>• DAP has access to computer forensic software and suitably trained individuals for relevant investigations.</li> <li>• Asset recovery is supplied via Council enforcement and legal teams as required</li> <li>• Financial Investigators are available through DAP and the wider partnership.</li> </ul>
<p><b>36. Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.</b></p>	<p>Yes.</p> <p>The Council is committed to ongoing and continual improvement. Any weaknesses identified by fraud investigations will be addressed wherever possible, although it should be noted that no system can ever be considered 100% free from the risk of fraud.</p> <p>Where weakness are detected they are fed back to the relevant Department and Policy and processes are strengthened to prevent future criminality.</p> <p>It should be noted however that fraud risk is inherent in some systems and even with relevant changes fraud risk will never be totally eliminated.</p>

## Appendix 2 - Assurance Integration Plan

Support, Assurance and Innovation

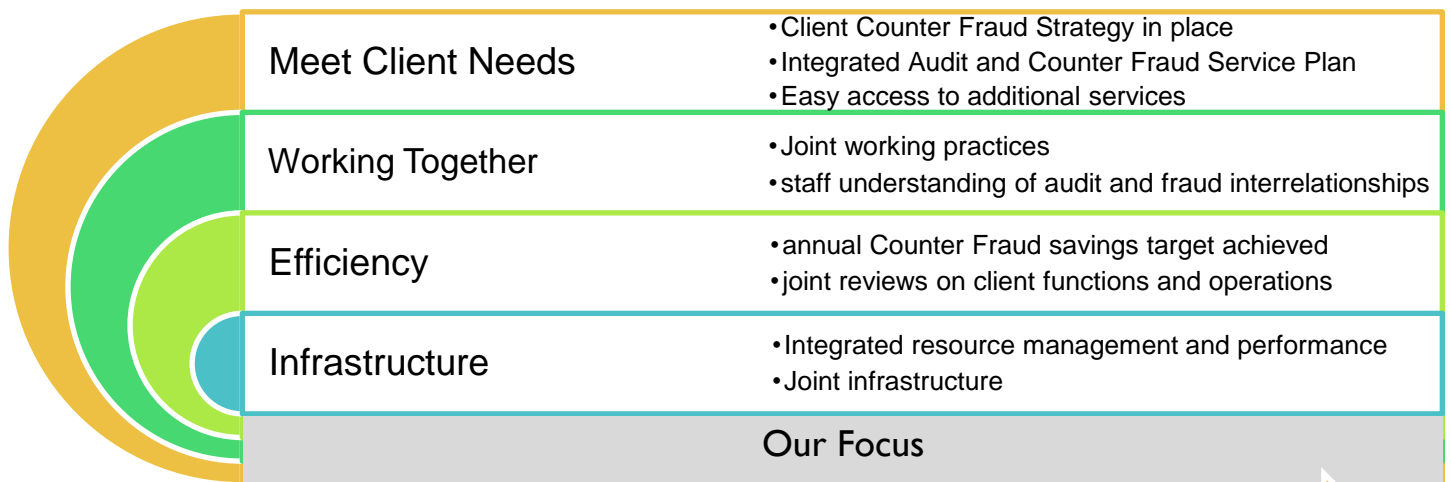
### Our Vision

To be a leading provider of internal audit, counter fraud, risk management and other assurance services to public and not-for-profit organisations in the South West and beyond.



### Operational delivery

- CFT to co-ordinate / undertake irregularities work coming through the audit plan
- Potential irregularities are triaged to fraud or audit for review
- Proactive fraud work e.g. NFI, developing delivery plan at client level
- Investigation work to be completed jointly (where appropriate) to progress possible fraud review and strengthen internal control frameworks
- Audit scoping to include counter fraud input
- Three-way liaison confirming risk and control
- Integrated reporting to be delivered on a case basis



### Client Services

- Counter Fraud Strategy with each client
- Regular client liaison Mtgs.
- POC access to additional integrated services
- CF Service plan with each client for both pro-active and re-active services
- Joint Partner CF work e.g. SPD
- Client training on Fraud Awareness

### IA, Risk & CF Working Together

- Joint Working Practices
- Joint scoping of audit and Irregs
- CF Risk Assessment Review - CIFAS
- Joint IA & CF plan
- Pro-active **Prevention** work
- Pro-active **Detection** work
- Effective **Investigation**
- NFI work co-ordinated by CFT

### Efficiency

- Savings Plan £55k by year three
- Restructure of PCC Team work plan (releasing resources)
- Joint working practices
- Single Point of Contact for Fraud and Irregs

### Infrastrucure

- Budget - Costcentre focused
- Laptops for CFT
- ICT Platform & common network access
- Data Sharing Agreements updated
- Terms and Conditions review

Integration

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**Audit and Governance Committee – Tracking Decisions 2022/23**

<b>Minute No.</b>	<b>Resolution</b>	<b>Progress</b>
25 July 2022 Minute 5 Audit Actions Review	It was agreed that a report would be submitted to the Audit and Governance Committee detailing work undertaken by internal audit in relation to covid related grants.	<b>Date:</b> July 2022 <b>Progress:</b> Report requested. This was expected to be provided at a future meeting due to resourcing issues.  Update: Work had been undertaken and information would be provided to Members.
25 July 2022 Minute 6 External Audit Update Report and Sector Update	The Audit and Governance Committee agreed –  (1)to note the report;  (2)that the Chair and Vice Chair would be briefed on the pension deficit transaction prior to the next committee meeting.	<b>Date:</b> July 2022 <b>Progress:</b> (1)Complete (2) Complete – update provided on 16.11.22
29 September 2022 Minute 24 Disclosure and Barring Checks for Councillors – Policy	With the agreement of the Chair, this item was deferred to a future meeting of the committee.	<b>Date:</b> October 2022 <b>Progress:</b> Complete - this item has been added to the work programme for the November 2022 meeting.
29 September 2022 Minute 25 External Audit Progress Report, Findings report 19/20 and Auditors Annual Report 20/21	The Committee agreed to note the update.	<b>Date:</b> October 2022 <b>Progress:</b> Complete – no action required.
29 September 2022 Minute 26	The Committee agreed to approve the Annual Governance Statement, alongside the Statement of	<b>Date:</b> October <b>Progress:</b> Complete

**Audit and Governance Committee – Tracking Decisions 2022/23**

Annual Governance Statement 2021/22	Accounts, prior to signature by the Leader, Chief Executive and Service Director for Finance (S.151 Officer).	
29 September 2022 Minute 27 Scrutiny - Risk Management Update	The Committee agreed to note the update report.	<b>Date:</b> October <b>Progress:</b> Complete
29 September 2022 Minute 28 Audit Actions Review	The Committee agreed to note the content of the report.	<b>Date:</b> October <b>Progress:</b> Complete
29 September 2022 Minute 29 Internal Audit Progress Report	The Committee <u>agreed</u> to –  (1) note the findings within the report;  (2) Request that figures detailing the time spent by officers in administering covid grants would be provided to Members.	<b>Date:</b> October <b>Progress:</b> (1) Complete (2) Complete – emailed Members on 18.10.22
29 September 2022 Minute 30 Whistleblowing Policy	The Committee agreed to defer the Whistleblowing Policy.	<b>Date:</b> October <b>Progress:</b> Complete – added to the work programme for November meeting.
29 September 2022 Minute 31 Treasury Management Outturn Report 2021/22 - To Follow	The Committee <u>agreed</u> –  (1) to note the Treasury Management Annual Report 2021/22;  (2) recommend the Treasury Management Annual Report 2021/22 to Full Council for approval;	<b>Date:</b> October <b>Progress:</b> (1) Complete (2) Complete (3) Complete – will be scheduled on the committee's work programme.

**Audit and Governance Committee – Tracking Decisions 2022/23**

	(3) that an interim statement on treasury management activity is provided to the committee going forwards.	
29 September 2022 Minute 32 Statement of Accounts 2021/22	<p>The Committee <u>agreed</u> –</p> <p>(1) to approve the Statement of Accounts for 2021/22 (attached as Appendix B to the report) with the understanding that they are currently being audited by GTUK. Should any issues be identified during the GTUK audit Members are asked to delegate the approval of the Statement of Accounts to the Chairperson of the Audit and Governance Committee, in consultation with the Service Director for Finance;</p> <p>(2) that the Chair and Vice Chair would meet with relevant officers to discuss the detail of the accounts and any potential issues that may arise.</p>	<p><b>Date:</b> October</p> <p><b>Progress:</b></p> <p>(1) Complete</p> <p>(2) A meeting is currently being arranged.</p>

Key:

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# Audit and Governance Committee

Draft Work Programme 2022 - 2023



**Please note that the work programme is a 'live' document and subject to change at short notice.**

For general enquiries relating to the Audit and Governance Committee, including this Committee's work programme, please contact Helen Rickman, Democratic Advisor on 01752 398444.

Date of meeting	Agenda item	Responsible Officer	Reason for consideration
<b>25 July 2022</b>	Election Cycle Report	Giles Perritt/Glenda Favor Ankersen	To consider the Election Cycle Report.
	Counter Fraud Services Annual Report 21/22	Ken Johnson	To consider the work carried out during 2021/22 by the Counter Fraud Services Team at Devon Audit Partnership in order to counter fraudulent threats to the Council's budget and reputation.
	Risk Management Monitoring Report – May 2022	Rob Sowden	To consider the strategic risk register for the organisation including key controls, sources of assurance and how progress against mitigation will be measured.
	Health, Safety and Wellbeing Annual Report 2021/ 22	Clare Cotter	To consider an annual report on Health, Safety and Wellbeing.
	Internal Audit Annual Report	Brenda Davies	To consider the work undertaken by Devon Audit Partnership during 2021/22, and review the performance and effectiveness of the Internal Audit service and the audit opinion on the adequacy of the Authority's internal control environment.



<b>Date of meeting</b>	<b>Agenda item</b>	<b>Responsible Officer</b>	<b>Reason for consideration</b>
	Internal Audit Charter and Strategy 2022/ 23	Brenda Davies	To consider the Internal Audit Charter and Strategy as part of the requirement of the Public Sector Internal Audit Standards to ensure they are consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.
	External Audit Progress Report	Grant Thornton	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.
	DBS Policy	Ross Jago	
	Member Development and Training	Ross Jago	
	Audit Actions Review	Paul Looby	To provide the Committee with an update on the tracking of Audit recommendations from Grant Thornton and Devon Audit Partnership.
<b>5 September 2022</b>	Election Cycle Report	Giles Perrit/ Glenda Favor-Akerson	EGM – prior to submission to Council in September.
<b>29 September 2022</b>	Internal Audit Progress Report	Brenda Davies	To note the findings in the report which provides Members with a position statement on audit work carried out.
	Whistleblowing Policy (a refresh)	Brenda Davis/ Ken Johnston	To note the changes and approve the updated Whistleblowing Policy.
	Annual Governance Statement 2021/ 22	Ross Jago/ Rob Sowden	To approve the Annual Governance Statement (statutory document required by Accounts and Audit Regulations).
	External Audit – Progress Report	Grant Thornton	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.
	External Audit Findings Report 19/20	Grant Thornton	To consider the External Audit Findings Report 19/20 from the Council's external auditor, Grant Thornton.

Date of meeting	Agenda item	Responsible Officer	Reason for consideration
	External Audit – Auditors Annual Report 20/21	Grant Thornton	To consider the External Audit Findings Report 19/20 from the Council's external auditor, Grant Thornton.
	Audit Actions Review	Paul Looby	To provide the Committee with an update on the tracking of Audit recommendations from Grant Thornton and Devon Audit Partnership.
	Treasury Management Outturn Report 21/22	Paul Looby	
	Statement of Accounts 2021/ 22	Carolyn Haynes	The Statement of Accounts 2021/22 are being presented for approval. The Accounts and Audit Regulations require the accounts to be formally approved and published in September.
	Disclosure and Barring Checks for Councillors – Policy	Ross Jago	Deferred from July 2022 meeting
	Scrutiny – Risk Management Update	Ross Jago	This was a recommendation from a previous meeting.
<b>28 November 2022</b>	Treasury Management Strategy	Carolyn Haynes	To consider the Treasury Management Strategy.
	Information Governance Report	John Finch	To consider an annual report on Information Governance.
	Risk Management Strategy (and scrutiny risk)	Ross Jago	To consider a report on the Risk Management Strategy and Scrutiny Risk.
	Capital Finance Strategy	Brendan Arnold	To set out the Capital Financing Strategy for 2023/24 (this is a requirement of The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.)

Date of meeting	Agenda item	Responsible Officer	Reason for consideration
	Counter Fraud Services Half Year Report	Ken Johnson	Half year report to summarise the work carried out during the first 6 months of 2022/23 by the Counter Fraud Services Team.
	Strategic and operational Risk Register	Ross Jago/Rob Sowden	To consider the Council's Strategic and Operational Risk Register.
	External Auditor – Audit Plan 2020/21 and 2021/22	Grant Thornton	To consider the Audit Plan 2020/21 and 2021/22 from the External Auditor.
	External Audit – Annual Report 2020/21	Grant Thornton	To consider the Annual Report 2020/21 from the External Auditor.
	Internal Audit Half Year Report	Brenda Davis	To consider the Council's Internal Audit Half Year Report.
<b>16 January 2023</b>	Strategic and Operational Risk Monitoring	Ross Jago/Rob Sowden	
	Scrutiny Update – Risk Management Update	Ross Jago	
	Whistleblowing Policy	Brenda Davis	Deferred from 29 September meeting.
	Disclosure and Barring Checks for Councillors - Policy	Ross Jago	Deferred from 29 September meeting.
<b>20 March 2023</b>	Audit Actions Review	Paul Looby	To provide the Committee with an update on the tracking of Audit recommendations from Grant Thornton and Devon Audit Partnership.
	External Audit – Progress Report	Grant Thornton	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.
	Treasury Management Practices and Principles	Wendy Eldridge	A review produced annually of practices and principles used to conduct TM activities.

<b>Date of meeting</b>	<b>Agenda item</b>	<b>Responsible Officer</b>	<b>Reason for consideration</b>
	Scrutiny Update – Risk Management Update	Ross Jago	

Items to be scheduled:

Review of Council's ICT Policy  
Review of Council Officers Code of Conduct  
Review of Arrangements for dealing with complaints through the code of conduct  
Review of Risk Register

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The following relates to exempt or confidential matters (Para(s) 1, 2, 7 of Part 1, Schedule 12A of the Local Govt Act 1972). A breach of confidentiality could prejudice the Council/person/body concerned & might amount to a breach of the councillors /employees codes of conduct.

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