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AUDIT AND GOVERNANCE COMMITTEE

Tuesday 28 November 2023
12.30 pm
Warspite Room, Council House

Members:
Councillor Allen, Chair.
Councillor Finn, Vice Chair.
Councillors Dr Mahony, Raynsford, Stevens and Independent Member Annette Benny.

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

You can watch any of our webcast meetings on YouTube. 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 - 10)**

To confirm the minutes of the meeting held on 5 September 2023 and 26 September 2023.

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. Internal Audit Half Year Report: **(Pages 11 - 34)**

6. Counter Fraud Half Year Report: **(Pages 35 - 46)**

7. Treasury Management Strategy: **(Pages 47 - 84)**

8. Treasury Management Mid-Year Review: **(Pages 85 - 102)**

9. Capital Finance Strategy: **(Pages 103 - 112)**

10. Risk and Opportunity Management Strategy 2023-2025: **(Pages 113 - 140)**

11. Risk Management Monitoring Report – November 2023: **(Pages 141 - 152)**

12. External Audit - Progress Report: **(Pages 153 - 170)**

13. Work Programme: **(Pages 171 - 176)**

14. Tracking Decisions: **(Pages 177 - 178)**

Audit and Governance Committee

Tuesday 5 September 2023

PRESENT:

Councillor Allen, in the Chair.
Councillors Harrison, Dr Mahony, Raynsford and Stevens.

Apologies for absence: Councillor Finn and Independent Member Annette Benny.

Also in attendance: Louise Clapton (Senior Auditor), Alison Critchfield (Acting Head of Legal), Carolyn Haynes (Lead Accountancy Manager), Ross Jago (Head of Governance, Performance and Risk), David Northey (Interim Section 151 Officer) and Hannah Whiting (Democratic Advisor).

The meeting started at 3.37 pm and finished at 4.57 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.

18. **Declarations of Interest**

No declarations of interest were made.

19. **Minutes**

The Committee agreed the minutes of the meeting held on 25 July 2023 as a correct record.

20. **Chair's Urgent Business**

There were no items of Chair's urgent business.

21. **Stage One - Constitutional Changes**

Ross Jago (Head of Governance, Performance and Risk) ran through the proposed changes, with support from Alison Critchfield (Acting Head of Legal), and the following points were highlighted and discussed by the Committee:

a) Article 5, paragraph 5.5 needed rewording as it read that following the death of the Lord Mayor, they could return;

b) How to word the paragraph relating to not requiring a vote for reports to note at City Council meetings;

c) If an age limit should be put in place for petition signatures and how this would be policed, or if 'regardless of age' would be better.

During these discussions it was agreed that the following further amendments would be made:

1. Both 'Councillors' and 'Members' had been used interchangeably in the document previously and only Councillors would be used moving forward;

2. Article 5 paragraph 5.5 would be changed to read "If the Lord Mayor resigns or dies the Deputy Lord Mayor will act as Lord Mayor until the next appropriate Meeting of the Council where a new Lord Mayor will be elected by the Council";

3. Article 5 would have an additional paragraph that would read "If the Lord Mayor is incapacitated the Deputy Lord Mayor will act in their place until the Lord Mayor is able to return to the role.";

4. Article 11 paragraph 11.5 would have the word 'annually' added to the end of the following sentence: "in the case of revenue projects when the decision involves entering into new commitments and/or making new savings in excess of £1million";

5. Part B, Paragraph 19.5 would be changed to read "Reports which contain only recommendations "to note" may not require a vote, unless a vote is called for by Councillors.";

6. The second bullet point of paragraph 2.1 in the Petition Scheme would have "regardless of age" added.

The Committee then agreed to:

1. Recommend amended Part A, Part B and Petition Scheme Guidance to City Council for approval;

2. To review the Officer/Member Protocol at a later meeting.

Audit and Governance Committee

Tuesday 26 September 2023

PRESENT:

Councillor Allen, in the Chair.
Councillor Finn, Vice Chair.
Councillors Dr Mahony, Raynsford and Stevens.

Independent Member Mrs Annette Benny.

Also in attendance: Louise Clapton (Senior Auditor for Finance, Assets and Efficiency), Alison Critchfield (Interim Head of Legal), Paul Dossett (External Auditor, Grant Thornton), Glenda Favor-Ankersen (Head of Electoral Services), Carolyn Haynes (Head of Finance), Ross Jago (Head of Governance, Performance and Risk), David Northey (Interim Service Director for Finance), Giles Perritt (Assistant Chief Executive) and Jon Roberts (External Auditor, Grant Thornton).

The meeting started at 12.30 pm and finished at 3.08 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.

22. Declarations of Interest

No declarations of interest were made.

23. Chair's Urgent Business

There were no items of Chair's urgent business.

24. External Audit Progress Report

Paul Dossett (External Auditor, Grant Thornton) introduced the report and highlighted the following points:

a) Budgets for following years had had to be set, even though the disagreement around the impact of the pension transaction had not been agreed on;

b) He had interpreted legal advice received to mean that should the Council set the 2024/25 budget, without resolving the issue of this transaction, there was a risk that the Council would be setting an illegal budget;

c) Grant Thornton had engaged very constructively with Council Officers in recent weeks and Council Officers had engaged in discussions with DLUHC to try to resolve the issue;

d) There had been a net gain from the transaction.

Jon Roberts (External Auditor, Grant Thornton) added:

e) They had been working on the 2020/21 audit, around the issue of the previous transaction, so that once the transaction was resolved it would 'roll' forward into 2020/21;

f) The 2020/21 audit had progresses since the last meeting and it would be ready for sign off in October 2023;

g) They would be checking the Council's vulnerability to works relating from the discovery of RAAC;

h) Following equal pay liabilities at Birmingham Council, which attracted national news coverage, Grant Thornton would be looking at risk and liabilities relating to this issue across their portfolio;

i) Should expected reforms, as set out in the paper, have taken place, there would be the option to apply a 'backstop' 2021/22, meaning auditors could 'jump' that year and go straight to 2022/23 which had the benefits of auditors working on more up to date information, and secondly if the audit code amendments for property valuation and pension valuations be introduced, it would be a much short audit.

David Northey (Interim S151 Officer) added:

j) He stressed that at this stage the interpretation of the legal advice had been an interpretation of legal advice;

k) He had a further meeting with DELUHC that week;

l) The transaction was the right thing to have done for the taxpayers of Plymouth as there had been a net gain.

In response to questions it was further explained:

m) If the backstop was used there would be no shortfall of assurance or audit work and it would mean that instead of auditing the closing balances of 2021/22, additional audit work would be carried out on the opening balances for 2022/23, with the benefit of entering into a more current year, but couldn't confirm the approach without confirmation from Government;

n) If the approach was agreed by Government, the backstop would be used and the plan would be to get back to the expected timeline for approving accounts;

o) Sorting of the pension transaction from 2019/20 had taken a substantial amount of time and a considerable amount of accounting and legal advice had been given, but it did seem to be coming to a conclusion to allow the Council to set a legal budget for 2024/25;

p) Paul Dossett felt that DELUHC, in order to resolve the issue of the 2019/20 transaction, the Council would need to dispose of assets in order to cover off the position in a capitalised directive, or alternatively DELUHC may determine that the original investment cold stand as a capital item;

q) The actuary carried out a triennial review of the pension fund;

r) The transaction had enabled the Council to eliminate its pension deficit at the time, and so there would not be liabilities in relation to deficits and that particular transaction in the future, and Paul did not see the transaction having a negative effect in the future, the disagreement had just been that it was not the correct accounting at the time;

s) David Northey would provide further updates in the future to the Committee;

t) A governance review had taken place, following recommendations from Grant Thornton relating to the transaction, and progress against the recommendations had been reported on;

u) The transaction was, and had been since the beginning, financed, the disagreement was about how it had been financed and whether that should have been in one year, or over a period of years;

v) The council had made revenue savings of £1.47 million as a result of the transaction being discussed;

w) DELUHC did schedule meetings relatively quickly on request, which was positive considering the financial difficulties of Council's across the country, and if the situation changed, David Northey would inform the Committee.

25. **Internal Audit Progress Report**

Louise Clapton (Senior Auditor) introduced the report and highlighted:

a) It was the first report presented to the Committee on the work that had been undertaken by the internal audit team on the 2023/24 internal audit plan, which had been agreed by the Committee in March 2023;

b) Good progress had been made with work in progress on 57% of the plan agreed in March 2023;

c) The team would look at the plan, and in negotiation with directors and heads of service, would continue to assess the risk to the authority and would ensure that the audit plan remained relevant and that resources were being used on what was most important;

d) Of the work that had been completed to date 87% of the reports were of a reasonable or substantial assurance;

e) The work that had been undertaken had covered a significant amount of financial grants that required independent scrutiny and sign off;

f) Reports for 2022/23 had been finalised with managers and the related recommendations and actions had been agreed;

g) Core assurance risks relating to key financial systems work would start in September, but work had commenced on theme risks;

h) The March 2023 plan included work to be undertaken in relation to the Care Act and other social care reforms, and in agreement with heads of service, it had been deferred to the following year because the work the Government were going to undertake had been delayed, and so the associated work would not be relevant until 2024/25;

i) Safety at sports grounds had been removed from the audit plan, to be replaced by work done by the Events Safety Advisory Group.

The Committee agreed to note the report.

26. **Audit Actions Review**

Carolyn Haynes (Head of Finance) introduced the report and highlighted the following points:

a) The possibility of combining the Audit Actions Review report with the tracking in the Internal Audit report was being explored as the information relating to the actions would be contained within the Internal Audit report.

David Northey (Interim S151 Officer) added:

b) More detail was needed where action had not been taken;

c) The report would be presented differently in the future to better demonstrate the overall picture.

In response to questions, it was explained:

d) The outstanding recommendations relating to payroll were historic and related to the governance with the DELT payroll team and required an update to the service framework agreement to ensure it contained all the relevant information to make clear the roles and responsibilities of DELT's payroll team and Plymouth City Council's HR Team, an action that was being discussed with senior officers with progress being made.

The Committee agreed to note the report.

27. **Assessment of the Impact of Voter ID on Plymouth residents and elections team**

Giles Perritt (Assistant Chief Executive) introduced the report and highlighted the following points:

a) The report was a result of a recommendation from the meeting of City Council in March 2023;

b) Due to Plymouth's size, analysis had been limited, so information from the Electoral Commission and the All Party Parliament Group had also been included;

c) Initially 176 people were not able to obtain a ballot paper on request, but subsequently around half then returned with appropriate forms of ID and issued a ballot paper, so 86 people were not able to vote because they weren't able to provide appropriate ID;

d) Although 86 was less than 0.2% of the electorate, it was still 86 people who were not able to vote as a result of the requirement of ID;

e) The Electoral Commission had stated that some people who did not normally vote had cited perceived difficulties relating to the requirement of Voter ID as the reason they did not vote;

f) Some people only voted in general elections, turnouts had always been significantly higher compared to that of local elections, and so it was expected that some people would not be fully aware of Voter ID requirements at a general election in the future;

g) The report included a summary of the activity the council undertook in terms of advertising the need for Voter ID for the local elections in May 2023, along with a huge effort to raise awareness from local political groups;

h) A considerable amount of time was spent on training polling station staff to enable them to deal with an issues that arose;

i) The recommendations within the report had been drawn together from the findings in Plymouth as well as from the reports from the Electoral Commission and the All Party Parliament Group;

j) Staff training and communications to the public would be continued.

Supported by Glenda Favor-Ankersen (Head of Electoral Services), in response to questions it was further explained:

k) The second tranche of the Elections Act was to include a requirement for Voter ID if you wanted to vote via post;

l) Offering those who were not able to vote as they had no ID would be hard as it could lead to confusion or further frustration, as they would still not be able to vote in the election they had attended a polling station to vote in, but it could be done;

m) The elections team were very grateful to the politicians, canvassers and stakeholders who had worked with them to raise awareness around the requirement for Voter ID;

n) Posters were placed at polling stations in the lead up to the election, and on election day, relating to Voter ID requirements, as well as information going out with Council Tax bills, three emails going out to those who had an email address registered with the elections team (67% of the electorate) as well locally paid for radio station adverts;

o) No tender ballot papers had been issued at the last election;

p) The rejection rate of postal votes was very low in comparison to the rest of the country at 1-1.2%, and most rejections were due to people either leaving the date of birth blank, or putting the date they completed in the box, rather than their date of birth;

q) Declarations were going to be brought in for 2024 for anyone delivering a postal vote to a polling station on election day, as well as a limit of how many could be handed in;

r) Face to face training was done with polling clerks and presiding officers to ensure they were all following the same instructions, and this training included scenarios relating to Voter ID requirements;

s) If a facial likeness was questioned, there were three levels of people it would go through for a decision;

t) The Government were expected to release statistics on the number of people who were refused a ballot paper as their Voter ID did not have a photo with a likeness;

u) A report on the statistics showing the number of people refused a ballot because they had no ID, compared to those who were refused a ballot paper because they brought an invalid type of photo ID would be to provided to the Committee.

The Committee agreed to:

1. Note the briefing and reports at Appendix B (All Party Parliamentary Group on Democracy and the Constitution: 'Voter ID - What went wrong and how to fix it') and Appendix C (Electoral Commission report on the May 2023 local elections in England);

2. Endorse the findings and recommendations of the Electoral Commission and the All Party Parliamentary Group (APPG):
    - Recognise that the current system of Voter ID has the potential to reduce the number of eligible voters who are able to vote at the next General Election;
    - Review the current list to broaden the range of accepted ID documents and identify any additional documents that could be included;
    - Focus on forms of ID that would support people who are least likely to have documents on the current list, including ethnic minority communities, disabled people and those who are unemployed;
    - Ensure that changes to the list of accepted forms of ID should be confirmed in legislation in time for details to be included in public awareness materials and activities, and in guidance for polling station staff ahead of polling day;
    - Ensure appropriate training for polling station officers to maximise the opportunity for those that are eligible to exercise their vote;

3. Postal vote information being offered to anyone who attended a polling station, who was not able to vote due to not having a valid form of Voter ID.

The meeting was adjourned for 10 minutes for a short break at the end of this item.

28. **Polling Districts, Place and Stations Review 2023**

Giles Perritt (Assistant Chief Executive) introduced the report and highlighted:

a) Polling station provision was review internally after each election, so changes were not expected to be that significant, but this review was a statutory requirement;

b) A further review would be required following the conclusion of the Electoral Review;

c) There were no scheduled elections in 2025.

In response to questions it was explained:

d) A specific session with the Committee on this subject, closer to the time would be welcomed;

e) The last electoral review in Plymouth had been 22 years previous;

f) The boundary review would be considered during the polling station review;

g) Southampton had recently had an electoral review and was similar in size to Plymouth and so would be looked to inform Plymouth's;

h) The existing arrangements would be used as a foundation for the new arrangements.

The Committee agreed to:

1. Note and support the start of the 2023 Polling District, Places and Polling Station Review in October 2023 which would enable Plymouth City Council to fulfil its statutory requirement and for the review to be administered alongside the Local Government Boundary Commission electoral review that would also start in October 2023.

29. **Tracking Decisions**

The Committee agreed to note the tracking decisions document.

30. **Work Programme**

The Committee agreed to note the work programme.

31. **Exempt Business**

The Committee agreed to pass a resolution under Section 100A(4) of the Local Government Act 1972 to exclude the press and the public from the meeting for the following items of business, on the grounds that they involve the likely disclosure of exempt information, as defined in paragraph 3 of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

32. **Information Governance and Cyber Response Planning**

The Committee agreed to note the report.

Please note there is a confidential part to this minute.

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Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	28 November 2023
Title of Report:	**Internal Audit Half Year Report 2023/24**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Louise Clapton, Audit Manager Tony Rose, Head of Devon Audit Partnership
Contact Email:	louise.clapton@plymouth.gov.uk
Your Reference:	AUD/LC
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

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

- 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.
- a position statement on the audit work carried out since April 2023;
- the reviews scheduled for quarters 3 and 4;

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

1. The Audit and Governance Committee are required to:
   - Review and note the mid-year assurance opinion statement within this report.
   - Review and note the findings within this report.

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.

The Audit Committee are required to consider the assurance 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.

Alternative options considered and rejected

1. 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.

Financial Risks

Not applicable.

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) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	DAP Internal Audit Half Year Report 2023/24							

Background papers:

**Add rows as required to box below*

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

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

Sign off:

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Originating Senior Leadership Team member: David Northey, Interim Service Director for Finance											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 31/10/2023											
Cabinet Member approval: Cllr Lowry, approved via email. Date approved: 13/11/2023											

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devon audit partnership

DAP - Internal Audit Half Year Report 2023-24

Plymouth City Council
Audit & Governance Committee

November 2023

Official

Support, Assurance and Innovation

Introduction

This report provides a summary of the performance against the internal audit plan to date for the 2023/24 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 2023/24 was presented to, and approved by, the Audit and Governance Committee in March 2023. 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:

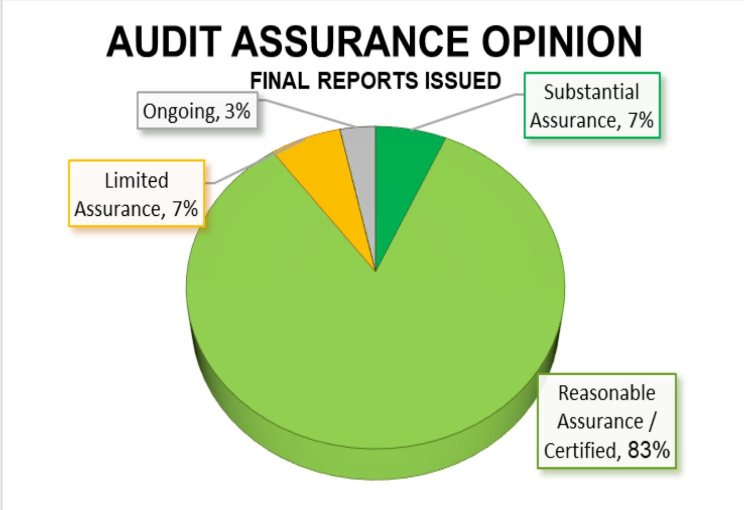
- the assurance statement within this report,
- the completion of audit work against the plan,
- the scope and ability of audit to complete the audit work,
- any audit findings provided,
- the overall performance and customer satisfaction on audit delivery, and
- review and approve the in-year changes 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 2023/24 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 2023/24 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 2024.

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

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Review of Audit Coverage

Reasonable progress continues to be made in delivering the 2023/24 Internal Audit Plan. Of the work in the current audit plan 74% is in progress or has been completed, with 90% of final reports providing at least Reasonable Assurance (this includes grants certified).

Audit of Key Financial Systems commenced in Quarter 2, including Housing Benefits and Payroll. We have also completed our audit of the purchasing and Creditors Systems and having considered the redesign of the self-service procurement process for low value procurements (below £5k) due to go live on 1st November, we are currently incorporating this into our audit work to inform the overall audit opinion. The remaining Key Financial System audits will be undertaken across Quarter 3 and into Quarter 4.

Plymouth City Council need to ensure sufficiency of places for all children including those with SEND within its maintained sector and academies. There are occasions when it is necessary to commission external SEND educational provision to meet the diverse and complex needs of children and young people with SEND. With an increasing demand, the Council's High Needs Budget is under extreme pressure from the increased cost of externally commissioned placements and the associated cost of the transport and with continued rising demand. The Council needs to ensure its SEND Strategy and delivery processes effectively ensure that the unique needs of every child and young person with SEND receives the highest quality education and support they deserve whilst ensuring value for money and financial sustainability is achieved. Linked to this our reviews of externally commissioned SEND educational provision are progressing following initial delays due to the Ofsted visit. The first area of review, SEND Governance, has been completed and the draft report has been issued to management for consideration. The audit work is mostly complete for the second area of review, Decision Making, from which the draft report will be issued following conclusion of our internal quality assurance.

Use of Direct Payments has been evaluated to ensure expenditure is in line with legislation, policy and agreements and they are regularly reviewed and monitored. Direct Payments (DPs) are a way of delivering council funded support to people who are eligible, by allowing them to receive a payment to purchase their own services rather than receiving a service arranged by the council on the service users' behalf. Direct Payment expenditure was found to be in accordance with Direct Payment legislation, however, annual reviews were not being undertaking in accordance with statutory timescales increasing the risk that council funded support through direct payments may not be meeting the individual needs of service users.

The number of grants received by the Council that require our certification remains high. All 14 grants audited in the year to date have been certified as being in accordance with the requirements of the relevant grant determination. We continue to provide advice to those responsible for delivery of grant funded projects to ensure compliance with grant funding conditions. DAP will soon be undertaking work to identify if there are grant opportunities being taken in one partner that may be relevant to others. Once complete the findings will be shared. In addition, we have audited five Families with a Future (Payment by Results) monthly claims and three Life Chances Fund Pause Programme claims.

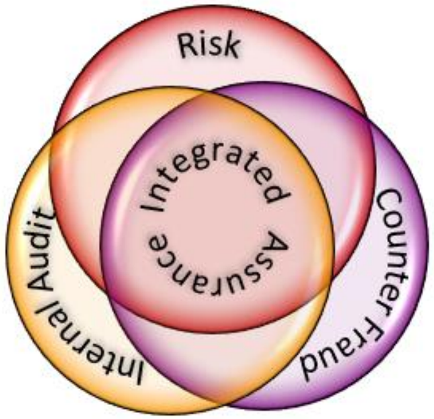
During Quarters 3 and 4 meetings will be scheduled with Directors and the S151 Officer to revisit the audit plan to ensure that the work performed in the second half of the year best reflects the rapidly changing environment that the Council is operating in. This may result in a "re-focus" of audit coverage.

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

Fraud Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise, The National Fraud Initiative (NFI), every two years. Data matches from the latest data matching exercise in 2022-23 have now been returned and are being actioned by both PCC and DAP staff in order to provide maximum assurance that potential fraud losses are minimised. Details of this and other fraud prevention and detection work undertaken in 2023/24 are reported in the Counter Fraud 2023/24 Half Year Report and Update. The next national data matching exercise is due in September 2024 and Devon Audit Partnership will continue as the point of contact between the Cabinet Office and the Council for this mandatory biannual exercise in fraud prevention and detection.

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 help 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 on the work being undertaken.

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Appendix 1

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Customer and Corporate				
Theme Risk	**Registration Office – Income Collection Controls 2022/23**	Final Report issued	**Reasonable Assurance**	Reported in the Progress Report to Audit and Governance Committee September 2023.
Theme Risk	**Income Collection Governance 2022/23**	Draft Report Issued	**Reasonable Assurance**	The reduction in back-office support services used to administer the Council's income collection has had an impact on some of the governance arrangements within the Finance Service/ Function, as well as its operational capacity. Further impacts to the Council have been a failure to resource income collection related contract management activities and industry standards compliance. The controls required to collect, process and deposit income are long established, were found to remain largely intact and as would be expected. However, the overall level of assurance is undermined by the direct impacts of the necessary rationalisation of the organisation. The review found that all these non-technical controls were severely eroded, undermining overall governance. DAP recognise that the Council can't allocate resources to all the problems and risks it faces and, therefore, observations have been made in order that management can reflect on what actions can reasonably be taken in line with available resources and the Council's priorities. Where appropriate the risks identified should be added to risk management activities.
Theme Risk	**Themes and Trends Debt Collection Overview 2023/24**	Draft Report Issued	**Added Value**	With finite resources resulting from the need to continually meet with the Councils financial challenges, management have had no option but to prioritise key aspects of service delivery. This has inevitably resulted in some tasks having a lower priority and an increase in backlogs. The financial impact of this situation becomes clearer when individual findings relating to debt collection and recovery are extracted and viewed collectively. Currently, the recovery of unpaid debt spans several

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
				teams. For Council Tax, Business Rates and Sundry Debtors, the software systems are configured to automatically produce reminders and in the case of Council Tax and Business Rates, this continues through to summons stage. However, when income recovery reaches a point where human intervention is needed, there is a resource shortfall. Management are faced with complex workplace decisions and need to consider what if anything may work better going forward.
Theme Risk	**Intelligent Automation (IA)**	Fieldwork Complete under QA	-	Whilst there are risks associated with the use of Intelligent Automation (IA) the greatest risk to the Council is in not optimising all technological opportunities available to it. The use of intelligent automation provides opportunities to increase efficiency, improve quality and, importantly, reassign staff from low level menial repetitive tasks to undertaking higher value tasks. The creation of a suitable platform to deliver and use IA provides additional benefits presented by the need to analyse end-to-end processes and, how data is held. To achieve this, there must be a top down appreciation of the opportunities presented and resources required. DAP have been working with Project Leads to help ensure that risks are understood, mitigated and managed. The draft report is pending discussion with the Project Officers.
Theme Risk	**Purchasing Cards 2023/24**	In Progress	-	The objective of this audit is to provide an assurance opinion on the effectiveness of the Purchasing Card system within Plymouth Council. The audit is to make sure that the purchasing card system is used appropriately, financial data is complete and reliable, opportunities for fraud minimised and users adhere to relevant policies and regulations.
Core Assurance	**Treasury Management 2022/23**	Final Report Issued	**Substantial Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Core Assurance	**Main Accounting System 2022/23**	Final Report Issued	**Substantial Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Core Assurance	**Business Rates 2022/23**	Final Report Issued	**Reasonable Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Core Assurance	**Debtors 2022/23**	Final Report Issued	**Limited Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Core Assurance	**Payroll 2023/24**	In Progress	-	The objective of this audit is to provide an assurance opinion on the adequacy and effectiveness of internal controls operating to ensure the Councils payroll and resulting payments and deductions are accurate and timely, financial data is complete and reliable and opportunities for fraud minimised.
Core Assurance	**Purchasing and Creditors 2023/24**	Fieldwork Complete under QA	-	The audit work is mostly complete and having considered the redesign of the self-service procurement process for low value procurements (below £5k), due to go live on 1st November, we are currently incorporating this into our audit work to inform the overall audit opinion. The scope and objective of this audit was to provide an assurance opinion on the effectiveness of internal controls operating to ensure payments made are appropriate, accurate and timely, financial data is complete and reliable and opportunities for fraud minimised.
Core Assurance	**Debtors 2023/24**	Not Started	-	Planned Q3
Core Assurance	**Main Accounting System 2023/24**	Not Started	-	Planned Q4
Core Assurance	**Council Tax 2023/24**	Not Started	-	Planned Q3
Core Assurance	**Business Rates 2023/24**	Not Started	-	Planned Q3
Core Assurance	**Housing Benefits 2023/24**	In Progress	-	The objective of this review is to provide an assurance opinion on the effectiveness of internal controls and procedures in place for the calculation, payment and recording of Housing Benefit and Council Tax Support.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Core Assurance	**Treasury Management 2023/24**	Not Started	-	Planned Q4
ICT	**NCSC Cyber Assessment Framework**	In Progress	-	Work is being undertaken to provide assurance on the effectiveness of the approach taken by the Council in utilising the Cyber Assessment Framework (CAF). The framework represents a new approach for managing cyber threats and creating an appropriate level of cyber resilience. The review will look to add value wherever possible and, whilst not a granular review, will record DAP's assessment of how risks are currently mitigated, and CAF principles met.
ICT	**User / Account Management**	Not Started	-	Planned Q3
ICT	**IT Asset Management 2023/24**	Not Started	-	Planned Q3
ICT	**Cyber Security (Patch Management) 2023/24**	In Progress	-	The focus of our work is on the processes in place to ensure that patches are applied in a timely manner and ensure that known vulnerabilities do not represent a risk to the Council's corporate network and it's information assets.
Advice	**Corporate Information Management 2023/24**	In Progress	-	Continued participation with the Council's Information Lead Officer Group (ILOG) and Devon Information Security Partnership (DISP).
Unplanned	**Additional Holiday Pay - Back Pay (Corporate) July 2023**	Final Report Issued	**Reasonable Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Unplanned	**Additional Holiday Pay - Back Pay (Schools) July 2023**	Final Report Issued	**Reasonable Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Childrens Services				
Follow Up	**Special Guardianship Orders 2023/24**	Draft Report Issued	**Limited Assurance**	Reported in the Progress Report to Audit and Governance Committee September 2023. The draft report was issued on 29th June 2023 and discussed with management on 5th July 2023 where it was agreed management responses would be provided to audit by 14th July, we still await the

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Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
				management response from Childrens Services to finalise this audit report. In March 2021, we report an opinion of "Limited Assurance" for Special Guardianship Orders. A follow up audit has been undertaken and the overall audit opinion remains "Limited Assurance". Whilst improvements and/or plans for improvements have been made in some areas, associated risks are not yet sufficiently mitigated due to some significant weaknesses in the internal control framework. The Head of Service is to undertake a review of Special Guardianships. This should clarify roles and responsibilities and provide ownership for the whole process ensuring a joined-up approach between Children, Young People and Families (CYPF), Client Financial Services Team (CFST) and Finance and maintaining good communication between stakeholders.
Theme Risk	**SEND Governance - Externally Commissioned Educational Placements**	Draft Report Issued	**Limited Assurance**	SEND governance has been enhanced through the development and implementation of the recently updated SEND Strategy 2023-26. However, an overall audit opinion of 'Limited Assurance' is given for SEND governance, as it is not yet evident that arrangements are embedded and integrated, due to: 1. The SEND Strategy 2023-26 not yet being formally published and being too early to evaluate delivery progress and outcomes. 2. Absence of clear and well-documented commissioning plans for SEND services is a notable concern. 3. Lack of a SEND Communication Strategy/Plan: 4. Risk management arrangements not being in place, the risks, barriers and uncertainties, to delivering the SEND Strategy have not been identified or captured in a risk log/register to enable mitigating action and allocation of resources to be determined. It is recognised that the SEND Strategy 2023-26 does include a range of priorities, including a refresh of the Local Offer, and implementation of joint commissioning and communication plans. It is imperative that

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
				sufficient leadership, capacity and resources are available to start to deliver on these priorities and that an appropriate risk management framework is implemented, including the setting of an appropriate risk appetite, to support the effective management of SEND service delivery risks and opportunities, enabling resources to be effectively allocated, significantly strengthening PCC SEND Governance.
Theme Risk	**SEND Decision Making - Externally Commissioned Educational Placements**	In Progress	-	The focus of this review is to evaluate the effectiveness of Strategic and Operational decision making in planning, allocating and contracting externally commissioned educational placements for Children with Special Educational Needs (SEN).
Theme Risk	**SEND Commissioning and Contracting - Externally Commissioned Educational Placements**	In Progress	-	For this audit we are looking to establish and evaluate the effectiveness of the overall system of internal control for the commissioning and contracting of appropriate external educational placements for Children with Special Educational Needs (SEN) as agreed by Panel or through an Executive Decision by the Head of Service or Panel Chair.
Theme Risk	**SEND Monitoring and Evaluation - Externally Commissioned Educational Placements**	In Progress	-	The final piece of work on this important service area will be to establish and evaluate the review, evaluation, monitoring and reporting of overall SEND provisions and individual SEND contract provision arrangements in place to measure, continually assess and improve the effectiveness of externally commissioned educational placements. Our work will focus on the externally commissioned educational element of the SEND provision and will consider each of Plymouth City Councils Local Offer areas; Primary, Secondary and Post 16.
Theme Risk	**Childrens Social Care Payments**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.
Theme Risk	**Childrens Review Programme**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.
Theme Risk	**Joint Funding Arrangements**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.

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Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Core Assurance	**Families with a Future (Payment by Results) Quarter 1**	Complete	**Certified**	This was the final claim for payments by results under the old "Troubled Families" framework and the first under the new national Supporting Families Outcome" framework. In accordance with DLUHC programme guidance three monthly payment by results claims have been sample checked and verified prior to submission and we certified the first quarterly claim by the 28th of June 2023 deadline. The Council target for 2023/24 is to achieve successful outcomes for 571 families, Payment By Results (PBR) were claimed for 66 (12%) families, resulting in £52,800 of funding to the Council.
Core Assurance	**Families with a Future (Payment by Results) Quarter 2**	Complete	**Certified**	In accordance with DLUHC programme guidance two monthly payment by results claims have been sample checked and verified prior to submission and we certified the second quarterly claim by the 28th of September 2023 deadline. The Council target for 2023/24 is to achieve successful outcomes for 571 families. Quarter 2 PBR's claimed were claimed for 66 (12%) families, resulting in £52,800 of funding to the Council. Overall PBR's claimed to 30th September totalled 132 (23% of target), resulting in £105,600 of funding to the Council.
Core Assurance	**Families with a Future (Payment by Results) Quarter 3**	In Progress	**-**	DAP are currently checking and verifying the October 2023 payment by results claim.
Core Assurance	**Families with a Future (Payment by Results) Quarter 4**	Not Started	**-**	Planned Quarter 4
People				
Theme Risk	**Client Financial Services 2022/23**	Final Report Issued	**Limited Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Theme Risk	**Analysis of Domiciliary Care provider Returns 2022/23**	Final Report issued	**Reasonable Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Theme Risk	**Care Act Adult Social Care Reforms**	Deferred	**N/A**	Reported in Progress Report to Audit and Governance Committee September 2023.
Theme Risk	**Direct Payments 2023/24**	Draft Report Issued	**Reasonable assurance**	Overall there is 'Reasonable Assurance' that Direct Payment expenditure is in accordance with Direct Payment legislation. However, failure to comply with statutory regulations and meet PCC performance targets to undertake annual reviews, along with ineffective monitoring and oversight to ensure client contributions towards care are made, there is 'Limited Assurance' that council funded support through direct payments is meeting the individual needs of service users.
Theme Risk	**Adult Social Care Payments**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.
Theme Risk	**Eclipse Project and Social Care IT Board**	In Progress and Ongoing	Value Added	Provision of real-time support and challenge to the Eclipse Project Board and additional formal advice. The Adults Eclipse Project went 'Live' in July 2023.
Theme Risk	**Deprivation of Liberty Safeguards – Transfer to Eclipse**	In progress	-	Audit terms of reference have been issued for agreement. The proposed scope and objective of this work is to provide assurance on the migration of Deprivation of Liberty Safeguards (DoLS) management information into the Eclipse System.
Core Assurance	**Life Chances Fund (Pause Programme) 2022/23 Quarter 4**	Complete	Certified	Reported in Progress Report to Audit and Governance Committee September 2023.
Core Assurance	**Life Chances Fund (Pause Programme) 2023/24 Quarter 1**	Complete	Certified	The 2023/24 first quarterly claim was checked and verified in September 2023. Sample checks were performed on the outcomes reported for Cohorts 1 and 2 of the Pause Programme, for the period 1st April 2023 to 30th June 2023, prior to payment to the service being approved. This programme works with women who have experienced or are at risk of,

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Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
				repeated pregnancies that result in children needing 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.
Core Assurance	**Life Chances Fund (Pause Programme) 2023/24 Quarter 2**	Complete	Certified	The 2023/24 second quarterly claim was checked and verified in October 2023. Sample checks were performed on the outcomes reported for Cohorts 3 and 4 of the Pause Programme, for the period 1st July to 30th September 2023, prior to payment to the service being approved.
Core Assurance	**Life Chances Fund (Pause Programme) 2023/24 Quarter 3**	Not Started	-	Planned Q4
Grant certification	**DLUH&C Disabled Facilities Grant**	Fieldwork Complete Under QA	-	In accordance with DLUH&C Disabled Facilities Capital grant conditions we undertook the audit of the statement of grant usage. Grant funding of £2.814m was awarded to Plymouth City Council for 2022/23.
Advice	**Service agreements for the purchase of care home placements**	Complete	**Advice provided**	Identification of key risks and further points for consideration for the proposed change in procedure.
Advice	**Residential care home cashflow risk**	Complete	**Advice provided**	Consideration of feedback on proposed management action to mitigate associated risks.
Executive Office				
Theme Risk	**Risk Management**	In progress	-	Work will continue across the year to continuously assess awareness of and compliance with the Risk and Opportunity Management Strategy. Findings to be shared with the Head of Governance, Performance & Risk to inform ongoing work in this area.
Theme Risk	**Electoral Registration – Trusted Advisor Support**	Not Started	-	DAP continue to maintain a relationship in reviewing pre-election QA process and in tracking ongoing service improvement tasks. Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Office of Director for Public Health				
Theme Risk	**Event Safety Advisory Group (ESAG)**	Not Started	-	Planned Q4 The Public Protection Service have requested work to be undertaken relating to the operation of the ESAG to from assurance on the transparency and consistency when discussing PCC run events and to check that the risk of legal challenge is sufficiently mitigated.
Place				
Theme Risk	**Commercial Properties**	Final Report Issued	**Reasonable Assurance**	Reported in Progress Report to Audit and Governance Committee September 2023.
Theme Risk	**Issuing, Appeals and Cancellations of Penalty Charge Notices (PCN's) 2023/24**	Draft Report Issued	**Limited Assurance**	Civil Enforcement Officers (CEO's) using handheld devices are responsible for the issuing of PCN's, policies and procedures are in place but are not always consistently adhered to. Development of procedures at different times along with modernisation across working practices has resulted in them becoming out of date. Appeals against PCN's are submitted to the Council via Firmstep, this generally works well with a satisfactory level of evidence held to support either the subsequent cancellation of the PCN or the upholding of the charge. However, there is a lack of demonstrable evidence maintained to support "spoiled" PCN's and a lack of clarity among the team as to when it is appropriate to spoil a PCN. Refresher and update training is to be considered alongside the review of procedural guidance to ensure that action required is understood and consistently taken.
Theme Risk	**Capital Programme Governance**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.
Theme Risk	**Plymouth and South Devon Freeport Governance**	Not Started	-	Audit need requirements to be discussed with Directors and S151 as part of Quarter 3 audit plan review.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Risk Theme	**Safety at Sports Grounds**	Removed	**N/A**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - Northern Corridor Junction Improvements Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - Eastern Corridor Strategic Cycle Network Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - Charles Cross Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - Plymouth Railway Station Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - Oceansgate Phase 1 Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Growth Fund - 5G Smart Sound Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Get Building Fund - National Marine Park Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**SWLEP Get Building Fund - Plymouth International and City Business Parks Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
Grant Certification	**SWLEP Get Building Fund - Concourse Phase 2, Brunel Plaza Grant Certification**	Complete	**Ongoing**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**BEIS Home Upgrade Grant Phase 2 Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**DFT LA Major Schemes Forder Valley Link Road Grant Certification**	Complete	**Certified**	Reported in Progress Report to Audit and Governance Committee September 2023.
Grant Certification	**DFT Integrated Transport Block 2023-24**	Complete	**Certified**	In accordance with DFT Integrated Transport Block 2022/23 grant conditions we undertook the annual audit of the statement of grant usage. Grant funding of £1.959m was awarded to Plymouth City Council for 2022/23.
Grant Certification	**DFT Highway Maintenance Needs Element 2023-24**	Complete	**Certified**	In accordance with DFT Highways Maintenance Needs Element 2022/23 grant conditions we undertook the annual audit of the statement of grant usage. Grant funding of £1.290m was awarded to Plymouth City Council for 2022/23.
Grant Certification	**DFT Highways Maintenance Incentive Element 2023-24**	Complete	Certified	In accordance with DFT Highways Maintenance Incentive Element 2022/23 grant conditions we undertook the annual audit of the statement of grant usage. Grant funding of £323k was awarded to Plymouth City Council for 2022/23.
Grant Certification	**DFT Pothole Action Fund 2023-24**	Complete	Certified	In accordance with DFT Pothole Action Fund 2022/23 grant conditions we undertook the annual audit of the statement of grant usage. Grant funding of £1.290m was awarded to Plymouth City Council for 2022/23.
Grant Certification	**BEIS Home Upgrade Grant Phase 1**	In Progress	-	In accordance with BEIS Home Upgrade Phase 1 grant conditions we are undertaking an audit of the project closure statement of grant usage. Grant funding of £2.254m was awarded to Plymouth City Council.
Grant Certification	**BEIS Local Authority Delivery Scheme Phase 3**	In Progress	-	In accordance with BEIS Local Authority Delivery Scheme Phase 3 grant conditions we are undertaking an audit of the project closure statement

Assurance Opinion and Extract Executive Summaries for audit work completed since 1st April 2023 up to 16th October 2023				
Areas of Review		**Status / Progress**	**Assurance Opinion**	**Residual Risk / Audit Comment**
				of grant usage. Grant funding of £1.752m was awarded to Plymouth City Council.
Advice	**BEIS Home Upgrade Grant Phase 2 Delivery**	In Progress	Advice provided	Provision of advice to Officers on project governance and project delivery assurance framework to ensure compliance with grant funding requirements.
Advice	**South West Devon Waste Partnership**	In Progress	-	DAP continue its participation with the Partnership, attending Project Executive meetings.

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

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Appendix 2 - Audit Standards and Customer Delivery

Conformance with Public Sector Internal Audit Standards (PSIAS)

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 Governance Committee in March 2023. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

The Institute of Internal Audit (IIA) are the key body involved in setting out the global standards for the profession which form the basis for the Public Sector Internal Audit Standards (PSIAS) and are undergoing review and revision. The proposed new standards which are likely to take effect in 2024 and this document helps clarity and raise awareness of the audit committee's governance roles and responsibilities in respect of this. IIA Document – Draft Standards.

Quality Assessment - the Head of Devon Audit Partnership maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

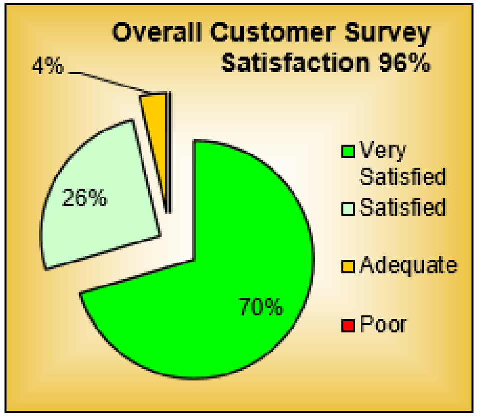
External Assessment - The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once every five years by a suitably qualified, independent assessor. For DAP this was recently conducted at the end of 2021 by the Head of Southwest London Audit Partnership, and the Chief Internal Auditor of Orbis (a partnership organisation covering Brighton and Hove, East Sussex, and Surrey County Council).

The assessment result was that *"Based on the work carried out, it is our overall opinion that DAP* ***generally conforms**** *with the Standards and the Code of Ethics".* The report noted that *"As a result of our work, a small number of areas where partial conformance was identified. These were minor observations, none of which were significant enough to affect the overall opinion".* DAP is actively addressing these improvement areas.

*** Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

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



Customer Service Excellence

DAP was successful in re-accreditation by G4S Assessment Services of the CSE standard during January 2023. This accreditation is a UK-wide quality mark which recognises organisations the prioritise customer service and are committed to continuous improvement.

During the year we have issued client survey forms for some of our reports, and the results of the surveys returned were very good / positive. The overall result is very pleasing, with near 97% being "satisfied" or better across our services (see Appendix 7). It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

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Audit and Governance Committee

Date of meeting:	28 November 2023
Title of Report:	**Counter Fraud Services Half Year Report 2023-24**
Lead Member	Councillor Mark Lowry (Cabinet Member for Finance)
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:	HYR/CFST/23-24
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report summarises the work carried out during the first half of the financial year 2023/24 by the Counter Fraud Services Team at Devon Audit Partnership to support the Council and counter fraudulent threats to the Council's budget and reputation, as well as providing reassurance to the residents of Plymouth that the public purse is being protected appropriately.

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

Sign off:

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Originating Senior Leadership Team member: David Northey

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

Date agreed: 31/10/23.

Cabinet Member approval: Councillor Mark Lowry approved via email

Date approved: 13/11/23

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devonauditpartnership
Counter Fraud Services

Plymouth City Council

Devon Audit Partnership

Counter Fraud
23/24 Half Year Report and Update

Audit and Governance Committee November 2023

CUSTOMER SERVICE EXCELLENCE CSE

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 the financial year 2023/24. 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 219 allegations of fraud and related offences against the Council and its citizens.
- Helped the Council generate calculated savings of £752,355.93 in all areas of Council business.
- Supported the Council's commitment to the National Fraud Initiative, by checking matches and supporting the relevant departments accordingly. Checks against higher risk matches continue to be undertaken by the Council and by DAP staff. Current savings figure against this exercise is a further £153,350.00.
- Undertaken rolling monthly data analysis exercises to identify potential fraud and error in multiple Council systems.
- Provided Fraud Awareness Training and support to the Councils Low Carbon Energy Team and the Plymouth Energy Community Team.

1.3 It is good to be able to report that much good work has again been carried out across the Council and that fraud awareness and counter fraud activity is increasing and we will continue to encourage this work throughout the rest of the year. Of special note is the hard work that staff within the Council itself have been undertaking in respect of the National Fraud Initiative (*see section 5 below*) clearing these matches shows a commitment to fighting fraud and maintaining accurate and up to date records, which in turn makes potential fraud easier to uncover.

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 Councils own 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.

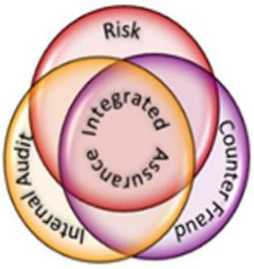
3.2 A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible 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 Devon Audit Partnership will continue to encourage best practice in line with CIPFA guidance and enable the Council to share knowledge and understanding of the threats faced across the region and nationally by actively engaging with the West of England Fraud Group and the Fighting Fraud and Corruption Locally Regional Group. It will also integrate other best practice as and when these are discovered by the team or by others within the counter fraud community.

3.4 The 22/23 assessment was very positive and future assessments we will be looking to add further value by providing a more granular view with suggestions for further improvement in order to ensure that the Council maximises its resilience as the fraud picture changes.

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. Counter Fraud support is now regularly sought during internal audits to ensure that value is added and maximum coverage is ensured. (*See Appendix 1*).



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.

4.3 We are looking to assist and support PCC in its effective overall Risk Management processes to ensure that we can provide maximum assurance going forward. This remains an ongoing objective.

5 National Fraud Initiative

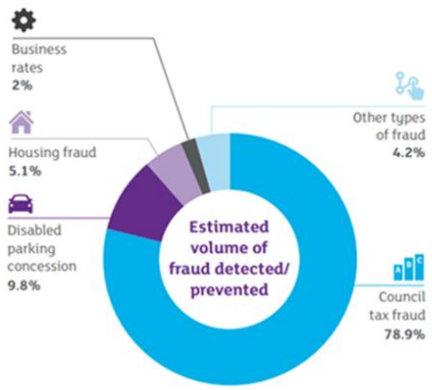
5.1 The National Fraud Initiative (NFI) is an exercise run and reported on by the Cabinet Office; it matches electronic data within and between public and private sector bodies to prevent and detect fraud and error.

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 Biannual National Exercise for 2022/23 data matches have now been returned and are being actioned by both Council and DAP staff in order to provide maximum assurance that potential fraud losses are minimised.

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.

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 £60,000.00 in potential savings.



5.6 The current exercise has already identified a total of £153,350.00 in savings across the organisation.

5.7 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 and or generated 219 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
- Internal

6.2 The CFS team have 42 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 continue to regularly pro-actively cross check data sets within the Council in order to reduce ongoing fraud and error. So far in 2023/24 this resulted in 558 matches, the savings from which are included in overall recordable savings in 7.1 below.

6.4 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 the current financial year 2023/24 the CFST have identified £752,355.93 savings (calculated using national indicators supplied by the Cabinet Office) across the Council and it is anticipated that further comparable savings will continue to be realised in the second half of 23/24. (NFI savings are not included as these will be calculated at the end of the exercise)

7.2 In the eight and a half years that the Council has been recording ‘Cashable and Non-Cashable’ savings related to fraud it has achieved just over £10.25million 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 its assets and its citizens.

7.3 National Fraud Initiative savings from the past 2 biannual exercises at the time of writing this report stand at a further £213,350.00.

7.4 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 Further information for Members

8.1 *The government is creating a new failure to prevent fraud offence to hold organisations to account if they profit from fraud committed by their employees. This will improve fraud prevention and protect victims. Whilst there are some existing powers to fine and prosecute organisations and their employees for fraud, the new offence will strengthen these, closing loopholes that have allowed organisations to avoid prosecution in the past.*
DAP and counter fraud professionals across the country are seeking further clarification around what this means for Councils, the Fighting Fraud and Corruption Locally Regional Group are meeting regularly to assess the impact and the DAP Counter Fraud Services Manager will update this committee as and when the new legislation becomes effective.

8.2 The latest publication from the International Public Sector Fraud Forum (Sept 23) states that "*Fraud is a serious, underestimated and often unchecked problem. All public sector organisations are exposed to fraud in some way, and many are an active target for fraudsters. International good practice shows the best way to deal with fraud is to prevent it.*" DAP will be actively digesting all relevant material from the recent publication produced with the support of the UK's Public Sector Fraud Authority, to further improve fraud resilience and increase its integrated assurance approach with colleagues in audit, risk and the wider Council.

9 Conclusion

9.1 As previously mentioned, it is of note in this half year report that the efforts made by management and staff within the Council to complete the National Fraud Initiative (NFI) Cabinet Office exercise has led to improved fraud resilience within their departments and the Council as a whole. Special thanks to the Digital and Customer Experience Team, Strategic Planning and Infrastructure Team and the Finance Team.

9.2 It is clear from reports across all sectors of the UK economy and international partners that fraud is increasing, in some areas this is down to socio economic pressures, others involve organised crime and state sponsored attacks to obtain funds / data and or cause mistrust in our social systems. None of these threats should be underestimated and Plymouth continues to adapt and improve its resilience in countering fraud and related offences.

9.3 Plymouth City Council's substantial Counter Fraud resilience, detection and prevention remains a regional lead and the stronger digital approach taken over the most recent years attests to its willingness to adapt and move towards an ever-stronger assurance position.

9.4 Fraud remains and will continue to remain a threat to the Councils budgets and resources, the threat is ever changing, and the Council must remain flexible in order to respond appropriately. DAP will continue to support the Council to minimise fraud loss, maximise assurance and protect itself and its citizens.

Ken Johnson
Counter Fraud Services Manager

Tony Rose
Head of Devon Audit Partnership

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.

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, a Strategy for the 2020's)

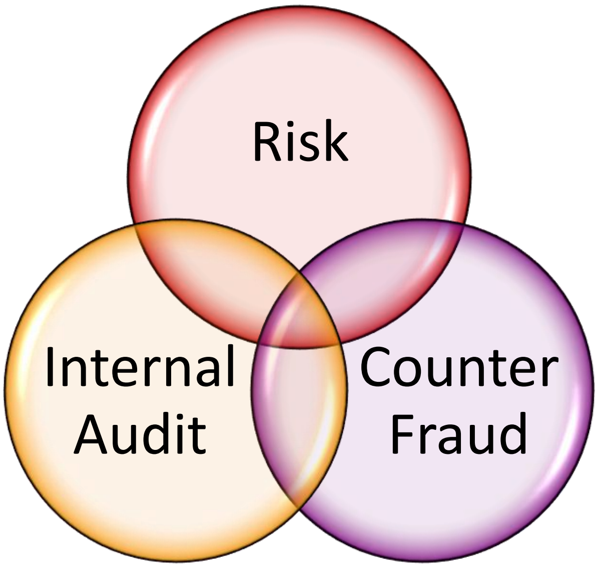
Appendix 1 - Assurance Integration Plan

Support, Assurance and Innovation

devon audit partnership

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

Our Goals

Meet Client Needs	•Client Counter Fraud Strategy in place •Integrated Audit and Counter Fraud Service Plan •Easy access to additional services
Working Together	•Joint working practices •staff understanding of audit and fraud interrelationships
Efficiency	•joint reviews on client functions and operations
Infrastructure	•Integrated resource management and performance •Joint infrastructure

Our Focus

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

- Restructure of Team work plan (releasing resources)
- Joint working practices
- Single Point of Contact for Fraud and Irregs

Infrastructure

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

Integration

Audit and Governance Committee

Date of meeting:	28 November 2023
Title of Report:	**Treasury Management Strategy 2024/25**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Lead Accountancy Manager Capital and Treasury Management
Contact Email:	Wendy.eldridge@plymouth.gov.uk
Your Reference:	Finance/WE/TMS 24-25
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report
This report sets out the Treasury Management Strategy for 2024/25 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
That the Audit and Governance Committee:

1. Recommends the Treasury Management Strategy 2023/24 that incorporates the authorised limits, operational boundaries and prudential indicators to the Council for approval.

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

Alternative options considered and rejected

1. 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) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Treasury Management Strategy 2024/25							

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

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

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

Sign off:

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Originating Senior Leadership Team member: David Northey
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 17/11/2023
Cabinet Member approval: *Councillor Mark Lowry approved via email* Date approved: 20/11/2023

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Treasury Management Strategy 2024/25

Councillor Mark Lowry

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 and forms a key strand of the Medium Term Financial Strategy and Budget.

David Northey

Service Director for Finance (S151 Officer)

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.

Contents -

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
- To balance risk against return

Market Intelligence

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

Statutory and Performance Framework *Rules that guide us*	**Investments** • Sterling only • Can use UK Government, Local Authority or a body of high credit quality. • The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher and domiciled in UK
	Counterparties and Limits (see table on page 20)
	Investment Limits – subject to Counterparty table on page 20 • **Unlimited** UK Government • **Unlimited** Money Market Fund • **£25m** any single local authority or government entity • **£25m** secured investment. • **£10m** per Bank (unsecured) • **£20m** unrated corporates • **£60m** Strategic Pooled Funds • **£10m** Real estate investment
	Key Council Budget Assumption for 2024/25 • Investments make an average rate of return of 5%
Approach *Choices made within the framework*	**Objective** - Security first, Liquidity second and then Yield. **Strategy** - to maximise returns, reduce risk and diversify investments. **Risk Assessment and credit ratio** - Our advisors monitor credit ratings daily so any new investments will be made using the latest credit information. **Other information on security of Investments** - Market intelligence from our advisors may give warnings before credit warning changes e.g., credit default swaps information

BORROWING – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

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

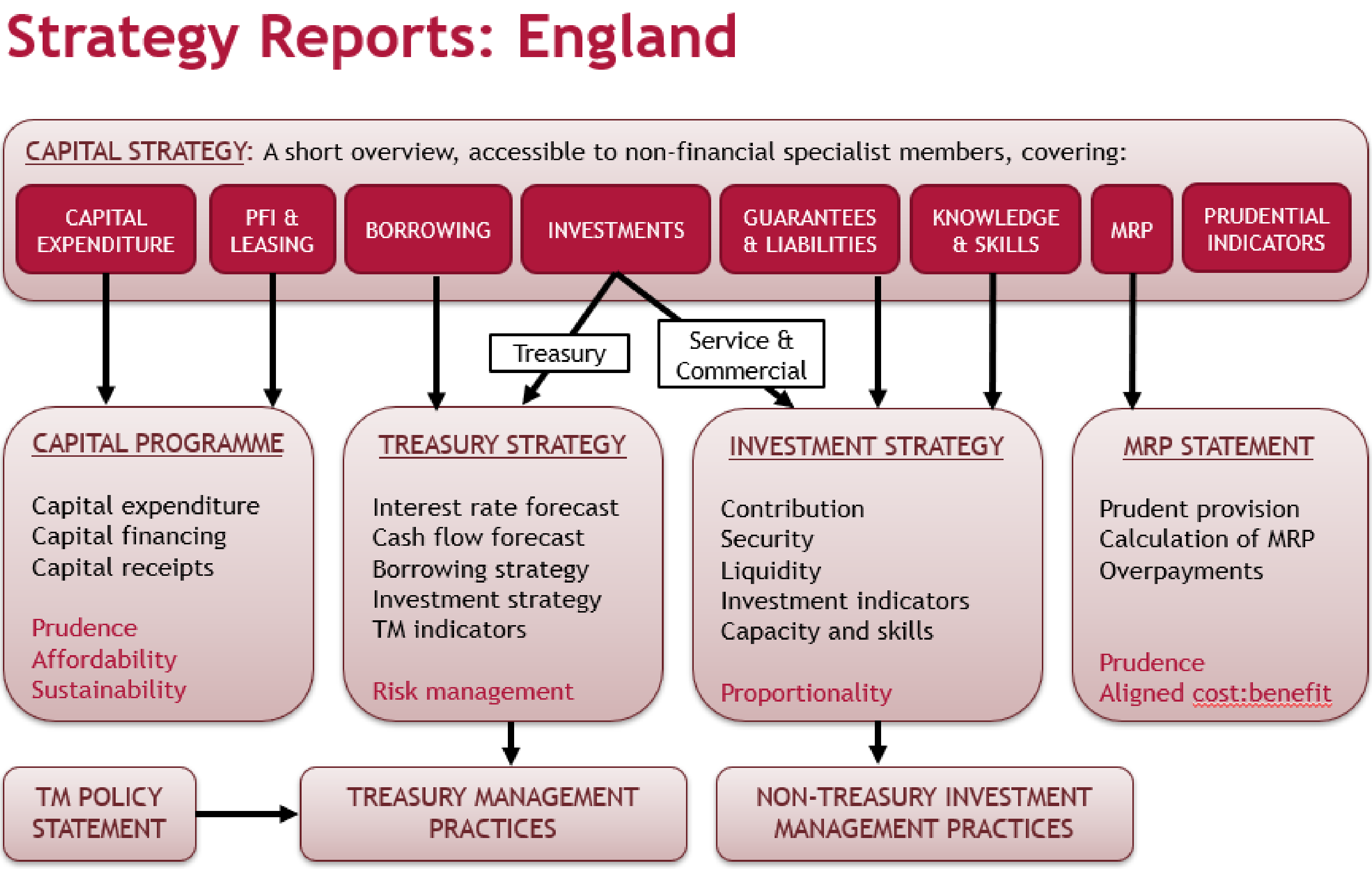
Market Intelligence

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

Statutory and Performance Framework *Rules that guide us*	**Borrowing** • **£147m** Total Capital Expenditure • **£1050m** Capital Finance Requirement (need to borrow) • **£963m** Total Debt (loans and private finance initiative) • **£1069m** Operational Boundary (practical ceiling on borrowing) • **£1169m** The Authorised Limit (absolute maximum debt approved)
	Prudential Indicators • **12.4%** Ratio of finance costs to net revenue stream (borrowing costs as a proportion of net revenue budget) • **£12.50** Hypothetical increase in Council Tax affordability. (this is technical measure; the Council has made no future years tax decisions)
	Treasury Management Indicators • **85%** Limit on Fixed Interest Exposure • **45%** Limit on Variable Interest Rate • **0% to 80%** Maturity Structure of Borrowing, exposure in any duration
	Minimum Revenue Provision Policy (MRP) • Annuity Method • PFI/Leases can be charged on an annuity method over the life of the asset. • Option for capital receipts to be used towards repaying debt
	Key Council Budget Assumption for 2024/25 • New long-term loans will cost an average rate of 5.5%

Approach *Choices made within the framework*	**Objective -** 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. **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. **Sources of Finance** - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back **LOBOs** 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 **Municipal Bonds Agency** 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. **Debt Restructuring** A present value calculation based on current rates for the same period of loan may result in a discount or premium. • Council will re-schedule if it reduces cost or risk

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



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 September 2023: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

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

Credit Outlook

Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

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

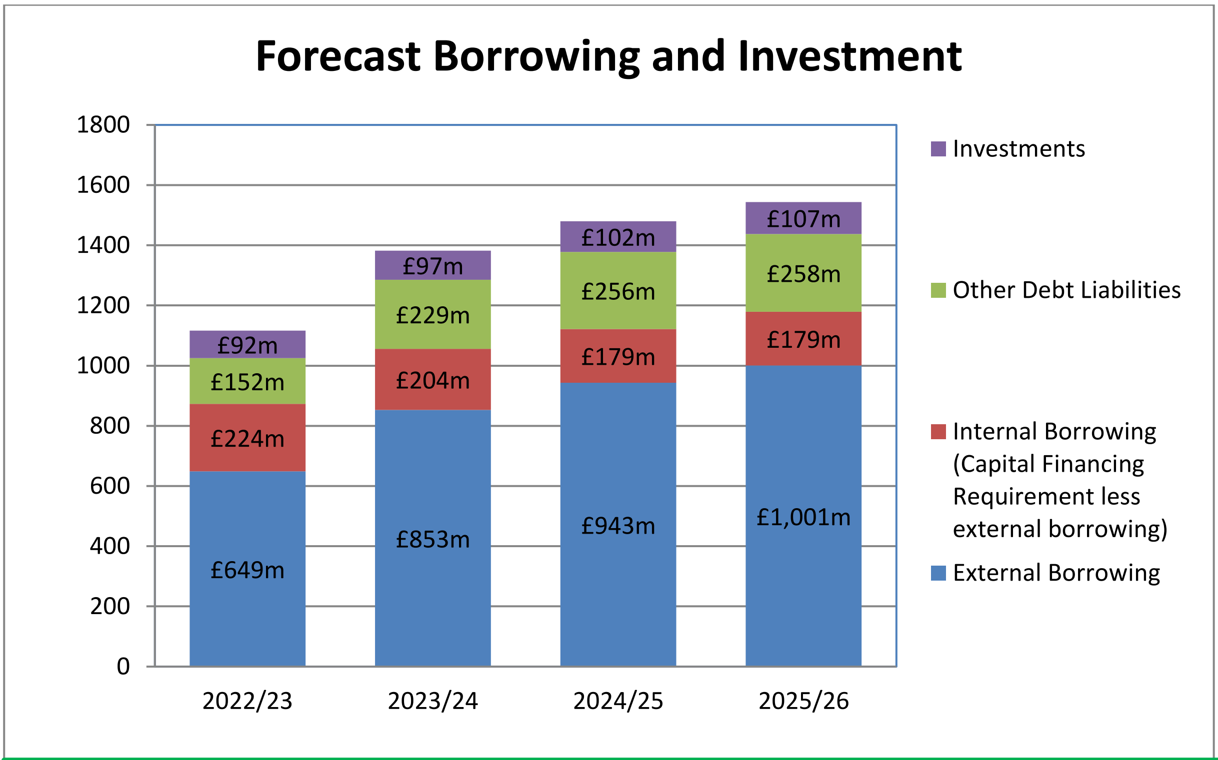
Interest Rate Forecast

The Authority's treasury management adviser Arlingclose have indicated following the Monetary Policy Committee (MPC) decision to hold the bank rate at 5.25% in September that rates have peaked. The next Monetary Policy Committee meeting is scheduled for 2 November 2023.

It is believed that the MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second round effects. Rate cuts are expected from Q3 2024 to a low of around 3% by early 2026. The immediate risks around Bank Rate lie to the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

Part 2 – Technical Detail for Analysis

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



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

Maximum Total Debt

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

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

The Council held £552.5 million of loans in as at 31 March 2023. This was an increase of £15 million on the previous year. This reflected the need to fund £44.5m borrowing to support the capital programme offset by use of Treasury Management working balances to limit draw on external funding where possible.

The Council expects to hold borrowing up to £ 743m in 2024/25. The total borrowing must not exceed the authorised limit set by the Council of £1,130m which includes long term liabilities of £219m. This is subject to review once the full impact of IFRS16 is known which although will be fully implemented for the Statement of Accounts for 2024/25 there will be implications for the current financial year 2023/24.

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 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. The previous differential with short-term interest rates being much lower than long-term rates has disappeared as Local Authorities seek to maximise a return on their investments. It is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead in order to be in a position to secure interest savings as rates reduce.

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 2024/25 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 it 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.

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 £15m short-term borrowing from Other Local Authorities so far in 2023/24 to fund the current capital programme, with Treasury Management advice with Bank

The Council also has an arrangement in place 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

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.

No call ins were exercised in 2022/23 or Q1 and Q2 2023/24 despite LOBO interest rates falling below the increasing Bank of England Rate. Opportunities to repay any LOBO obligations will be considered when it can be demonstrated to be cost effective.

A further £15m of these LOBOs have options during 2024/25, 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.

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 2024/25

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

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

The Council's planned capital expenditure and financing forecast at October 2023 is summarised as follows.

This incorporates reprofiling assumptions for current and future years based on a trend analysis using past years.

Capital Expenditure and Financing	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund	99.986	147.119	165.223	156.024
Total Expenditure	**99.986**	**147.119**	**165.223**	156.024
Capital Receipts	3.556	2.171	2.983	4.056
Grants and Contributions	46.072	42.940	44.569	94.933
Revenue	0.788	0.279	0.322	0.300
Borrowing	49.570	101.729	117.349	56.735
Leasing and PFI	0.000	0.000	0.000	0.00
Total Financing	**99.986**	**147.119**	**165.223**	**156.024**

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 23 Actual £m	31 Mar 24 Forecast £m	31 Mar 25 Forecast £m	31 Mar 26 Forecast £m
General Fund	879.445	929.015	1050.744	1193.093
Total CFR	**879.445**	**929.015**	**1050.744**	**1193.093**

The Council has an increasing CFR and is forecast to rise by £360.365m 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 next three years

Debt	31 Mar 24 Forecast £m	31 Mar 25 Forecast £m	31 Mar 26 Forecast £m	31 Mar 27 Forecast £m
Borrowing	622.070	743.799	886.148	896.148
PFI liabilities & Finance Leases*	119.000	219.000	221.00	223.000
Total Debt	**741.070**	**962.799**	**1107.148**	**1119.148**

* 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. Working is ongoing to assess the impact

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	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	750.000	850.000	950.000	1000.000
Other long-term liabilities	119.000	219.000	221.000	223.000
Total Debt	**869.000**	**1069.000**	**1171.000**	**1223.000**

Authorised Limit for External Debt

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

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

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	800.000	900.000	1050.000	1100.000
Other long-term liabilities	119.000	269.000	271.000	273.000
Total Debt	**919.000**	**1169.000**	**1321.000**	**1373.000**

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

This measure demonstrates that our proposed borrowing is affordable.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	11.4%	12.4%	15.1%	15.4%

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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund - increase in annual band D Council Tax	£12.50	£12.60	£13.40	£14.50

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 from 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 2024/25

- Investments will make an average rate of 5.0%
- New long-term loans will cost an average rate of 5.5%

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 £55m 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 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 though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than AAA- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances should be kept below £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

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

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

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

Other Information on the Security of Investments

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

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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:

	2023/24	2023/24	2024/25	2025/26
Upper limit on fixed interest rate exposure	75%	80%	85%	85%
Upper limit on variable interest rate exposure	40%	45%	45%	45%

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:

	2022/23	2023/24	2024/25
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 2022/23	Estimate 2023/24	Forecast 2024/25
Commercial Property Net Income	£3.154m	£2.560m	£2.460
Net Return	1.13%	1.23%	1.18%

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.

Analysis of Movement in Investment Properties	2021/22	2022/23
	£000	**£000**
Balance at 1 April	**275,442**	**271,065**
Additions	113	61
Disposals	0	0
Net gains/(losses) from fair value adjustments	(2587)	(15,198)
Transfers:		
(to)/from Property, Plant and Equipment	(1,903)	(17,493)
Balance at 31 March	**271,065**	**238,425**

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

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

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

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

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

Proportionality

The Council 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

	2022/23 Actual
Gross expenditure on provision of services	£653.157m
Net Investment income	£3.154m
Proportion	0.48%

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:

1. 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 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 2024/25

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, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, 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 on loans that are investments for commercial purposes, 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. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Authority's view is consistent with the current regulations.

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 changed its policy with effect from 01/04/2021 such that MRP can be 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 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	**5.25**	**5.25**	**5.25**	**5.25**	**5.00**	**4.75**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.00**	**3.00**
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	**5.40**	**5.40**	**5.40**	**5.30**	**5.15**	**4.80**	**4.30**	**4.10**	**3.80**	**3.50**	**3.25**	**3.05**	**3.05**
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	**4.28**	**4.35**	**4.30**	**4.25**	**4.10**	**4.00**	**3.75**	**3.50**	**3.40**	**3.30**	**3.30**	**3.30**	**3.35**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.32**	**4.40**	**4.35**	**4.30**	**4.25**	**4.15**	**4.00**	**3.80**	**3.75**	**3.65**	**3.60**	**3.65**	**3.70**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.78**	**4.70**	**4.65**	**4.55**	**4.45**	**4.35**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.38**	**4.30**	**4.25**	**4.20**	**4.15**	**4.15**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B - Existing Investment and Debt Portfolio Position

	30 Sept 2023 Actual Portfolio £m	30 Sept 2023 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	395.5	2.73
Short Term Borrowing	90.0	1.5
LOBO Loans	64.0	4.34
Long Term Borrowing	18.0	4.37
Total External Borrowing	**567.5**	**2.77**
Other Long Term Liabilities:		
PFI, Finance Leases and other liabilities	94.	n/a
Other loans	19.0	n/a
Total Gross External Debt	**680.5**	
Investments:		
Managed in-house		
Short-term Money Market Funds	34.1	5.21
Other Short Term investments	1.0	2.00
Managed externally		
CCLA Pooled Funds	25	4.66
Other Pooled Funds	30.0	6.84
Total Investments	**90.1**	5.73
Net Debt	**590.40**	

Treasury Management Strategy 2024-25

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

Audit and Governance Committee

Date of meeting:	28 November 2023
Title of Report:	**Treasury Management Mid-Year Report 2023/24**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Lead Accountancy Manager for Capital & Treasury Management
Contact Email:	Wendy.eldridge@plymouth.gov.uk
Your Reference:	Finance/WE/TMMY 23-24
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's Strategy for 2023/24 was approved by full Council at its budget meeting on 27 February 2023.
This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six-month period ended 30 September 2023. It is a requirement of the CIPFA Code of Practice on Treasury Management that a mid- year report, as a minimum, should be presented to Full Council.

Recommendations and Reasons

That the Audit and Governance Committee:

1. Note the Mid-Year Treasury Management Report 2023/24.
   Reason: This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected

1. 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 applicab *If some/all of the information is confidential, you must indicat why it is not for publication by virtue of Part 1of Schedule 12 of the Local Government Act 1972 by ticking the relevant box*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Treasury Management Mid-Year Report 2023-24							

Background papers:

**Add rows as required to box below*

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

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

Sign off:

Fin	CH 20.11.23 1009	Leg	LS/2665/JP/201123	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
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 17/11/2023
Cabinet Member approval: *Councillor Mark Lowry approved via email* Date approved: 20/11/2023

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TREASURY MANAGEMENT MID YEAR REPORT 2023/24

PLYMOUTH CITY COUNCIL

1. Introduction

1.1 This report is to provide the Audit and Governance Committee and the Council with a mid-year review of the Council's treasury management activities for the first 6 months to 30 September 2023.

1.2 The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.3 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

1.4 The report includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators will be incorporated in the Authority's normal quarterly [revenue and capital monitoring] report.

1.5 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy and the Council's Treasury Management Strategy for 2023/24 were approved by full Council on 27 February 2023.

1.6 The Council contract with Arlingclose to provide Treasury Management advice which has been incorporated with external contexts below.

2. External Context October 2023

2.1 **Economic background:** UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

2.2 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

2.3 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

2.4 The Bank of England (BoE) Monetary Policy Committee (MPC) continued tightening monetary policy over most of the period, taking the Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain the Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

2.5 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that the higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.
Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

2.6 The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point. Higher rates will also impact business and survey data highlighted that the UK manufacturing and services sector contracted during the quarter, indicating contraction in the sectors.

2.7 Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline Consumer Price Index (CPI) fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. Gross Domestic Product (GDP) growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

3. Financial markets

3.1 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

3.2 Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

4. Credit review

4.1 Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues. In March, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

4.2 Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

5. Local Context

5.1 On 31st March 2023, the Authority had net borrowing of £559m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/23 Actual £m
General Fund CFR	879
Less: Other debt liabilities *	-175
Borrowing CFR	**704**
Less: Usable reserves	-115
Less: Working capital	-30
Net borrowing	**559**

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

5.2 At 31 March 2023 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £879m, with usable reserves £115m which is broken down in table below:

Useable reserve breakdown	£m
General Fund Balance	8
Earmarked General Fund	44
Capital Receipts reserve	17
Capital Grants Unapplied	46
Balance as at 31 March 2023	115

5.3 The treasury management position on 30th September 2023 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m	Average Rate %
PWLB – Fixed Rate	396	0	396	2.73
Short-term borrowing	75	15	90	1.50
LOBO Loans	64	0	64	4.34
Long Term Borrowing	24	0	24	4.37
Total borrowing	**559**	**15**	**574**	**2.77**
Short-term Money Market funds	28	6	34	5.21
Other Pooled Funds	55	0	55	6.12
Cash and cash equivalents	3	-2	1	2.00
Total investments	**86**	**4**	**90**	**5.73**
Net borrowing	**473**	**11**	**484**	

5.4 The Council has an increasing CFR over the next 5 years due to spending on the capital programme, but will maintain their investments and will therefore require borrowing of up to £50m over the current year based on capital monitoring as at 30 September 2023.

6. Borrowing

6.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

6.2 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity to retain its access to PWLB loans.

7. Borrowing Strategy

7.1 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

7.2 There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rates rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. The Bank Rate was 2% higher than at the end of September 2022.

7.3 UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10 year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

8. Borrowing activity to 30 September 2023

8.1 At 30 September the Authority held £574m of loans, an increase of £15m compared to 31st March 2023. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.23 Balance £m	**Net Movement £m**	**30.9.23 Balance £m**	**30.9.23 Weighted Average Rate %**
PWLB – Fixed Rate	396	0	396	2.73
Short-term borrowing	75	15	90	1.50
LOBO Loans	64	0	64	4.34
Long Term Borrowing	24	0	24	4.37
Total borrowing	**559**	**15**	**574**	**2.77**

8.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing; this reduces risk and keeps interest costs lower.

8.3 The Council has not changed its PWLB borrowing since April. However, it has £40m borrowed for 12 months reaching maturity in November with plans to replace this with short term borrowing subject to competitive rates being secured. This borrowing will hold a refinancing risk which is being included within its medium term financial plan for 2024/25.

8.4 The Council draws down collateral against the hedging arrangement when valuations allow, this was used to repay short-term borrowing maturing in the same month.

8.5 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

8.6 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

8.7 The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

8.8 LOBO loans: The Authority continues to hold £64m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarters ending 30 September 2023.

8.9 Other Debt Activity: Although not classed as borrowing, the Council also raises capital finance via Private Finance Initiative (PFI) and finance leases etc. As at 30 September 2023, the total debt was £113m including PFI £93m, Tamar Bridge and Torpoint Ferry (PCC's share) £19m and Finance leases £1m. The Council has raised no additional PFI borrowing during the period to 30 September 2023.

9. Investment Activity

9.1 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during business.

9.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

9.3 The investment position during the half year is shown in the table below.

Investment Activity

Table 4: Investment position

Investments	Balance 01/04/2023 £m	Movement £m	Balance 30/09/2023 £m	Weighted Average Rate %
Short Term Investments				
Banks and call accounts	3	-2	1	2.00
Money Market Fund	28	6	34	5.21
Long Term Investments				
CCLA Pooled Funds	25	0	25	4.66
Other Funds	30	0	30	6.84
TOTAL INVESTMENTS	**86**	**4**	**90**	**5.73**

9.4 Both the CIPFA Code and government guidance requires the Council to invest its 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 of receiving unsuitably low investment income.

9.5 As demonstrated by the liability benchmark (14.6) in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

9.6 The Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around

9.7 5.25% and 12-month rates to nearly 6%.

Externally Managed Pooled Funds

9.8 £55m of the Authority's investments is invested in externally managed strategic pooled [bond, equity, multi-asset and property] funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

9.9 Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets

9.10 The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of mega stocks and enthusiasm over artificial intelligence. However the global outlook was clouded by the slowdown in China. On a sectoral level, the energy sector was supported by higher oil prices and expectation of decreasing supply due to OPEC+ group agreeing on production cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4127 on 30/9/23 v 4157 on 31/3/23. The MSCI All Countries World Index was higher at 2853 on 30/9/23 v 2791 on 31/3/23.

9.11 For existing longer-term investors in fixed income securities, the prospect of a higher-for-longer rate environment weighed on sentiment. Yields rose in Q2 2023 on the expectation that central banks would continue hiking rates but fell in August as investors grew confident that policy rates were close to their peak, then rose again in September as oil prices climbed above $90/barrel. There was also some effect from quantitative tightening by the Bank of England.

9.12 Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

9.13 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year minimum period total returns will exceed cash interest rates.

9.14 Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

10. Budgeted Income and Outturn

The Council's investment income for the year has increased due to increasing Bank of England base rates, however, the fall in the financial markets has increased the cost of borrowing. The Council is currently anticipating delivering savings on its Treasury Management budget with a 2023/24 target of £0.500m by the year-end due to higher return from investments and minimising interest rate risk through the rate swap.

Table 5. Treasury Management Forecast 2023/24

	2023/24 Budget	2023/24 Forecast	Variance
	£m	£m	£m
Interest Payable	16.159		
LOBO and other long term loans		3.562	
PWLB (Public Works Loan Board)		10.219	
Temporary loans		1.814	
Other Interest and charges		1.688	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)	(17.207)	(16.777)	
Total Interest Payable	**(1.048)**	**0.506**	**1.554**
Interest Receivable	(3.311)		
Pool Funds		(3.320)	
Money Market Fund		(0.786)	
Other Interest		(0.276)	
Total Interest Receivable	**(3.311)**	**(4.382)**	**(1.071)**
Other Payments	0.372	0.174	
Debt Management	0.500	0.160	
Transfer to Reserves	1.928	1.928	
Amortised Premiums	0.500	0.544	
Total Other Charges	**3.300**	**2.806**	**(0.494)**
Provision for Borrowing within budget setting contained within interest payable	**0.591**	**0**	**(0.591)**
Minimum Revenue Provision	**17.940**	**18.072**	**0.132**
TOTAL	**17.472**	**17.002**	**(0.470)**

11. Non-Treasury Investments

11.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Governments Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

11.2 The Council also holds £200m+ of investments in directly owned property as part of the Property Regeneration Fund as at 30th September 2023.

11.3 The non-treasury investments in the Property Regeneration Fund are forecast to generate £2.550m of investment income for the Council after taking account of direct costs and service borrowing, representing a rate of return of 1.22%.

12. Compliance with Prudential Indicators

12.1 Prudential Indicators 2023/24

The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

12.2 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.

Investment Limits

	30.9.23 Actual	2023/24 Limit	Complied
Any group of funds under the same management	£25m	£25m	✓
Investments held in a broker's nominee account	£0	£25m	✓
Foreign countries	£0	£0m	✓
Registered Providers	£0	£10m	✓
Unsecured investments with Building Societies	£0m	£10m	✓
Loans to unrated corporates	£0m	£20m	✓
Money Market Funds (maximum held)	£19m	unlimited	✓

13. Debt Limits

13.1 The Operational Boundary for external debt is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Operational Boundary	30.09.23 Actual £m	2023/24 Limit £m	Complied
Borrowing	568	950	✓
Other long-term liabilities	113	145	✓
Total Debt	681	1095	✓

The Council confirms that during 2023/24 the Operational Boundary has not been breached.

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

Authorised Limit	30.09.23 Actual £m	2023/24 Limit £m	Complied
Borrowing	568	985	✓
Other long-term liabilities	113	145	✓
Total Debt	681	1130	✓

Total debt as at 30/9/2023 was £681m. The Council confirms that during 2023/24 the Authorised Limit was not breached at any time.

14. Treasury Management Indicators

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

14.1 **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.

	30.09.23 Actual	2023/24 Target	Complied
Portfolio average credit rating	A	A	✓

14.2 **Liquidity**

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments.

During 2022/23 through securing additional PWLB borrowing to replace short-term borrowing as it matured the council held higher than normal amounts of cash in advance of repayment dates.

14.3 **Interest Rate Exposures:**

This indicator is set to control the Authority's exposure to interest rate risk. Bank Rate rose by 1.25% from 4.25% on 1st April to 5.25% by 30th September. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.09.23 Actual	2023/24 Target	Complied
Upper limit on fixed interest rate exposure	77%	80%	✓
Upper limit on variable interest rate exposure	23%	50%	✓

The Council continued with decisions to reduce its exposure to interest rate risk during 2022/23 and 2023/24 by continuing to use fixed rate borrowing arrangements through PWLB where rates compared competitively to other local authorities.

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.

14.4 **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 were:

	30.09.23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	23%	50%	20%	✓
12 months and within 24 months	0%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	4%	25%	0%	✓
10 years and above	64%	80%	5%	✓

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

14.5 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

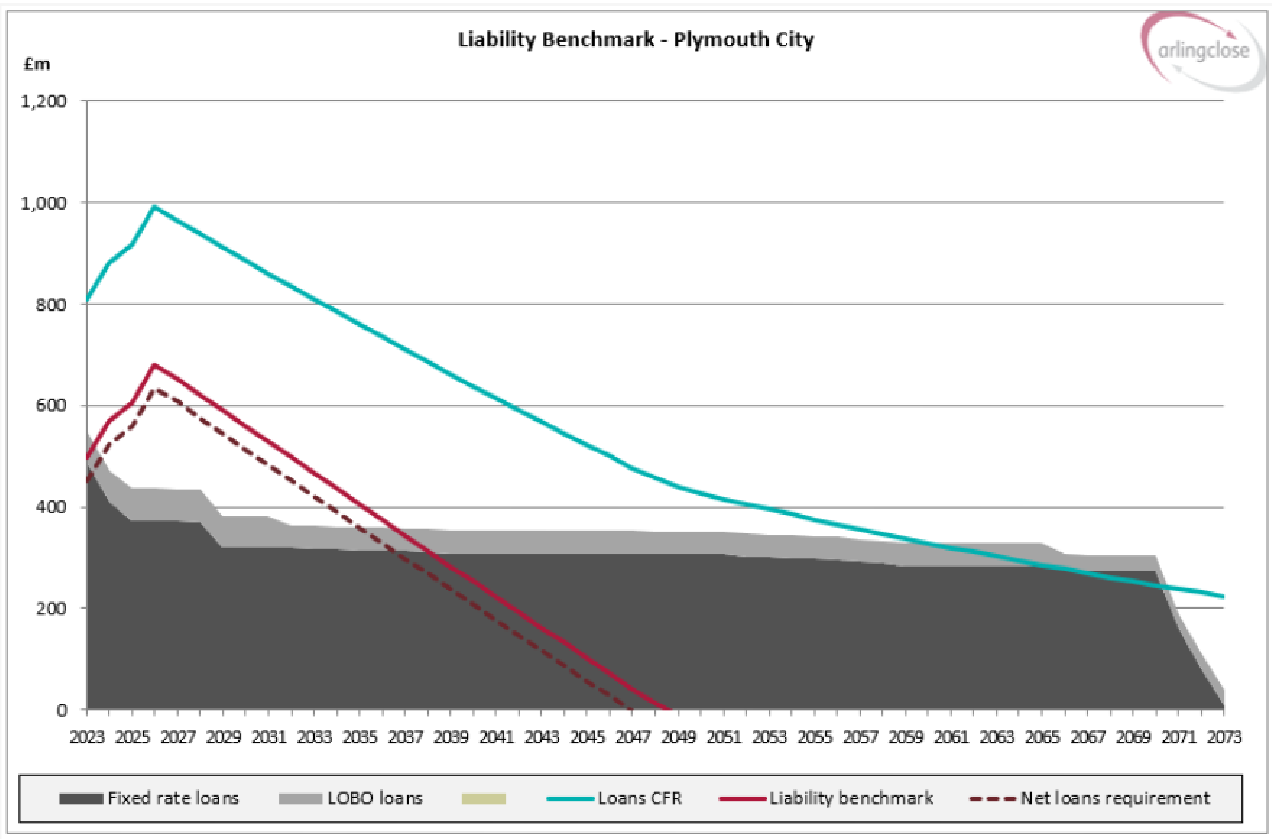
	30.09.23 Actual	Maximum Target	Complied
Limit on principal invested beyond year end	£0m	£10m	✓

The Council does, however, has £27m invested in the CCLA Pooled Funds £25m in other pooled investment funds which the Council is holding the investment for the long term. However, these investments are classified as a short-term investment because it can be called upon at any point.

14.6 **Liability Benchmark:** This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £45m required to manage day-to-day cash flow.

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	809.7	879.9	916.7	991.5
Less: Balance sheet resources	357.4	357.4	357.3	357.3
Net loans requirement	452.3	552.5	559.4	634.2
Plus: Liquidity allowance	45.0	45.0	45.0	45.0
Liability benchmark	497.3	567.5	604.4	679.2
Existing Borrowing	565.0	485.0	450.0	450.0

Liability Benchmark chart



15. Investment Training

15.1 During the period to 30 September 2023 officers have attended the following Treasury Management training:

- Arlingclose Meetings – The Council's joint party Treasury Management Board Meetings with members and officers
- CIPFA – Treasury Management workshop
- Grant Thornton – Statement of Accounts closedown workshop
- Arlingclose weekly Treasury Management

16. Arlingclose's Economic Outlook for the remainder of 2023/24 as at 25 September 2023

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

16.1 Following action by the MPC to hold Bank Rate at 5.25% in September. Arlingclose believe this is the peak for the Bank Rate.

16.2 The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second round effects. Arlingclose see rate cuts from Q3 2024 to a low of around 3% by early 2026.

16.3 Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

Recommendations

1. To note the Treasury Management Mid-Year Report 2023/24.

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	28 November 2023
Title of Report:	**Capital Financing Strategy 2024/25**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Lead Accountancy Manager for Capital and Treasury Management
Contact Email:	Wendy.eldridge@plymouth.gov.uk
Your Reference:	Finance/WE/CFS 24-25
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report sets out the Capital Financing Strategy for 2024/25 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

That the Audit and Governance Committee recommends the Capital Financing Strategy to the Council for Approval.

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

Alternative options considered and rejected

1. 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 strategies which provide a holistic view of the Councils financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

Financial Risks

There is an inherent risk to any capital financing activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved strategy, and keeping the capital programme 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 capital programme is key to ensuring a successful delivery of our Medium Term Financial Strategy and ensuring the Council can achieve its objectives to be a Pioneering, Growing Caring and Confident City.

Appendices

**Add rows as required to box below*

Ref.	**Title of Appendix**	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Capital Financing Strategy 2024-25							

Background papers:

**Add rows as required to box below*

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

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

Sign off:

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Originating Senior Leadership Team member: David Northey											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 17/11/2023											
Cabinet Member approval: Approved by email Date approved: 20/11/2023											

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CAPITAL FINANCING STRATEGY 2024/25

PLYMOUTH
CITY COUNCIL

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. 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 Southwest Devon Joint Local Plan.

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

In February 2023 the Council approved a budget which contained an uplift to the revenue budget of £4.190m 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 2024/25. 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 in 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 signoffs, are published in the Executive Decision along with the Leaders decision.

Work has been completed on an updated governance process for the Capital Programme. This will provide members with further confidence that the schemes meet the expected requirements in line with the strategic direction of the city and be a baseline for capital reviews.

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 refers 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 ringfenced 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 borrowing etc.

With the increased cost of borrowing, additional challenge is required on projects with service and corporate borrowing implications. This is to ensure that the approved Capital Programme (with allowances for reprofiling) remain within the financial constraints of the 2024/25 treasury management budget.

CAPITAL PROGRAMME

Once approved, schemes are added to the Capital Programme for delivery.

The table below details the Capital Programme as at 30 September 2023 which is due to be reported to Cabinet and then Full Council 20 November 2023.

If any adverse variances are identified to approved schemes, there is a requirement for the schemes to identify the funding and to seek further approval. This is to enable authorisation for the increased expenditure and provides details of the variance.

<u>Five Year Capital Programme by Directorate</u>

Directorate	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
Childrens Services	3.547	0.225	0.130	0	0	**3.902**
People	11.192	12.933	0.105	0.750	0	**24.980**
Place: Economic Development	29.921	60.524	24.532	14.734	10.407	**140.118**
Place: Strategic Planning and Infrastructure	63.676	62.803	2.127	0.066	0.608	**129.280**
Place: Street Services	29.273	17.666	1.712	0.103	0.042	**48.796**
Customer & Corporate Services	5.911	4.928	1.256	0	0	**12.095**
Office for Director of Public Health	10.822	3.772	0	0	0	**14.594**
Total	**154.342**	**162.851**	**29.862**	**15.653**	**11.057**	**373.765**
Financed by:						
Capital Receipts	5.470	2.428	0.811	0.777	0.571	10.057
Grant funding	67.899	52.759	1.436	0.023	0.023	122.140
Corporate funded borrowing	44.080	45.707	6.134	0.276	0.072	96.269
Service dept. supported borrowing	31.758	54.634	21.199	14.487	10.373	132.451
Developer contributions	4.023	7.190	0.196	0.047	0.018	11.474
Other contributions	1.112	0.133	0.086	0.043	0	1.374
Total Financing	**154.342**	**162.851**	**29.862**	**15.653**	**11.057**	**373.765**

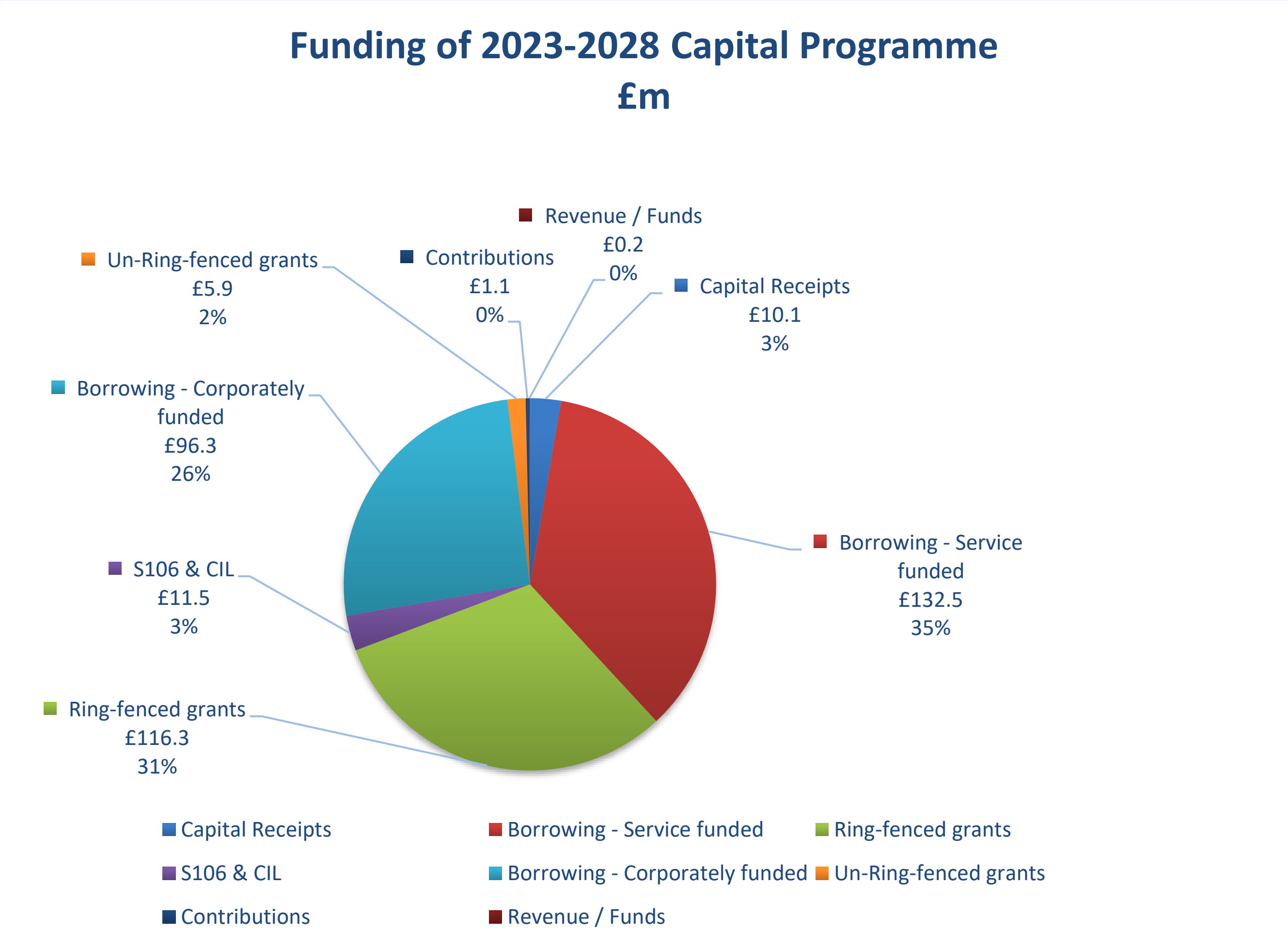
CAPITAL EXPENDITURE AND FINANCING

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. This requires directorate efficiencies and as shown in funding chart below service borrowing is the highest proportion of the capital programme funding across the next 5 years at 35%.

The Capital Programme is £373.765m. This 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 the 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 the 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 signoffs. In addition, verification of the 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 2024/25.

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 its 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 for Finance is a qualified accountant with over 35 years' experience.

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

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 their 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.

CONCLUSION

The Capital Strategy sets the context and framework for formulating the capital programme. It has been written to meet the requirements of CIPFA's Prudential Code and recommended best practice. The financial implications of this report will be fully detailed throughout the Revenue and Capital Budget 2024/25 when presented to Full Council for approval in February 2024.

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities (published by the Chartered Institute of Public Finance and Accountancy, CIPFA) when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. The Prudential Code requires local authorities to: "have in place a capital strategy that sets out the long-term context in which capital expenditure, borrowing and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes."

The Audit and Governance Committee is asked to agree the Capital Strategy, setting out the Council's priorities for capital investment and providing a framework for formulating the capital programme for approval by Full Council in February. It is an important part of the framework underpinning the budget setting process.

Audit and Governance Committee

Date of meeting:	28 November 2023
Title of Report:	Risk and Opportunity Management Strategy 2023-2025
Lead Member:	Councillor Mark Lowry
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Ross Jago (Head of Governance, Performance and Risk
Contact Email:	Ross.jago@plymouth.gov.uk
Your Reference:	RS/RMS2023
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

The Risk Management Strategy (Appendix A) outlines our approach to Risk Management and is refreshed annually. The Strategy covers the period 2023 to 2025.

Risk Review

Following the annual review in 2022 we have made further changes to our procedural approach to Risk Management. The Strategy is broadly similar to previous years with amendments to sections to improve accessibility and moving guidance to appendices so managers may quickly access process advice.

The risk strategy will be supported by –

- Greater emphasis on Team Plymouth colleagues (3rd tier managers) to address developing risks and opportunities directly with their service areas.
- Improved process for collation and amendments to risks alongside an improved reporting function.
- New SharePoint site to access live departmental registers, register risks and access information and training.
- Automated processes to reduce administrative burden.
- A Health and Safety Risk process which is referenced in the document. Health and Safety Risks are monitored through the SHE Assure system which enables managers to access a Health and Safety Risk Profile to guide their decision making.
- Further workshops for Senior Leadership Teams and which will focus on the impact of Risk Appetite on the organisation's decision making.

Other changes to formatting and pagination have been made to ensure that a step by step process for the identification and treatment of risk is easily accessible for staff.

Recommendations and Reasons
That Audit and Governance Committee:

- Note the Risk and Opportunity Management Strategy 2023-2025.

Reason: As part of the Committee's responsibility for monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.

Alternative options considered and rejected
Effective risk management 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 risk management enables the council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

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

Financial Risks

Financial risks are included on risk registers.

Carbon Footprint (Environmental) Implications:
Failure to deliver against actions in the Climate Emergency Action Plan and Corporate Carbon Reduction Plan are included on risk registers.

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

Appendices
**Add rows as required to box below*

Ref.	**Title of Appendix**	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Risk and Opportunity Management Strategy 2023-2025							

Background papers:

**Add rows as required to box below*

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

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

Sign off:

Fin	CH 20.11.23 1015	Leg	LS/2667/JP/20 1123	Mon Off		HR		Assets		Strat Proc	
Originating Senior Leadership Team member: Giles Perritt											
Please confirm the Strategic Director(s) has agreed the report? Yes 07/11/2023											
Cabinet Member approval: *Councillor Mark Lowry authorised by email* Date approved: 08/11/2023											

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RISK AND OPPORTUNITY MANAGEMENT STRATEGY 2023-2025

PLYMOUTH CITY COUNCIL

Contents

INTRODUCTION

We live in very challenging times, where the city and its citizens face significant risks but also where innovation is critical. We are a large, complex organisation and need to continuously look at how we can safeguard and support our communities in challenging financial circumstances.

Risk and opportunity management is both a statutory requirement and an indispensable element of good corporate governance and good management. It has never been more important to have an effective Risk and Opportunity Management Strategy in place to ensure we are able to discharge our various functions and deliver public services efficiently and cost effectively.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. Successful risk management is about ensuring that we have the correct level of control in place to provide, as far as reasonably practicable, sufficient protection from harm without stifling our development.

The Council will record the significant risks identified as potential threats to the delivery of its objectives within Risk and Opportunity Registers and incorporate mitigation controls within action plans to include details of any opportunities that may arise from the successful management of each risk. Strategic Risks will be monitored every three months and Operational Risks every six months. Findings will be reported via the Council's formal reporting process.

The benefits gained with a Risk and Opportunity Management Framework are improved strategic, operational and financial management, better decision making, improved compliance and, most importantly, improved customer service delivery and better outcomes for the citizens of Plymouth.

We embrace risk and opportunity management to support the delivery of our vision for the city and to enable the provision of high quality services to the citizens of Plymouth.

Cllr Mark Lowry	Tracey Lee	Giles Perritt
Cabinet Member for Finance	Chief Executive	Assistant Chief Executive

RISK AND OPPORTUNITY MANAGEMENT STRATEGY

What is a Risk?

Risk is commonly understood as something to be avoided but it has another face – that of opportunity. Improving public services requires innovation – seizing new opportunities and managing the risks involved. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat of actions and events. It is the combination of likelihood and impact, including perceived importance.

What is Risk and Opportunity Management?

Risk and opportunity management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to an organisation achieving its objectives and delivering services to the community.

This Strategy is intended to reaffirm and improve effective risk and opportunity management in Plymouth, comply with good practice and in doing so, effectively manage potential opportunities and threats to the Council achieving its objectives.

Risk and Opportunity Management Policy Statement

Plymouth City Council is aware that, as a large organisation, it is exposed to a very wide range of risks to the delivery of key services to the community it serves.

The Council recognises that it has a responsibility to identify, evaluate and manage risk whilst still creating a fertile climate for innovation. It therefore supports a structured approach to risk and opportunity management through this corporate Risk and Opportunity Management Strategy, the aims and objectives of which are described below:

The aims of the Risk and Opportunity Management Strategy are to:

- Integrate and raise awareness of risk and opportunity management for all those connected with the delivery of Council services;
- Embed risk and opportunity management as an integral part of our organisational culture and project planning and policy making processes;
- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing;
- Provide a process for identifying threats or drawbacks that also includes finding and considering opportunities;
- Provide a robust and transparent framework for managing risk and supporting decision making;
- Support well thought-through risk taking, which enables a risk aware organisation that takes well-managed risks;
- Anticipate and respond to changing external and internal environment;
- Embed risk and opportunity management as an integral part of delivering and aligning successful partnerships and enabling organisational objectives and business planning processes.

The objectives of the Risk and Opportunity Management Strategy are:

- To embed Risk and Opportunity Management as part of the Council's culture of governance

- To provide a robust and systematic framework for identifying, managing and responding to risk
- To provide a robust and transparent track record of managing, communicating and responding to risk
- To encourage staff to think creatively about ways to work better, simpler and more effectively.

Types of risk

Strategic and Operational

Strategic risks affect or are created by our business strategy and strategic objectives. They can be defined as the uncertainties and untapped opportunities embedded in strategic intent. As such, they are key matters for our political and managerial leadership and impact on the whole organisation. Inclusion of a risk in the strategic risk and opportunity register indicates that it is one of a number of risks that the Council (particularly elected members and senior managers) need to be aware of and ensure appropriate management arrangements are in place to manage/mitigate them.

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems whether within the "business as usual" of the Council or through change management programmes, new protocols ways of working, new structures and new technologies. All major risks facing the service and to other services and partners resulting from the consequences of a service's plans should be recorded with brief mitigation and potential outcome.

Programme Risks

Risks that relate to a specific programme are likely to comprise of a mixture of the most serious project risks **and** cross-cutting risks that could affect two or more of the projects within the programme. All major programmes must have a risk register, owned by the programme manager. It should be reviewed by the programme board and at the most senior level of the directorate in question. HSW risks must be considered alongside every programme and documented on SHE Assure.

Project Risks

Risks relating to or that flow from a specific project. A project risk has the potential to impact on the project's scope, outcomes, budget or timescales. Where the risk could impact on other projects or objectives, or the project is considered a high priority and the level of risk is such that it could lead to a failure to deliver project objectives, the risk should be escalated to the programme level. HSW risks must be considered alongside every project and documented on SHE Assure.

Partnership Risks

Plymouth City Council has recognised the need to include "Partnership working" within this risk management framework. Partnership working presents a number of new risks -

- Partner organisations will have different aims and objectives;
- Often Partnerships are innovative, and there is no proven track record for the work they are undertaking;
- By definition, they involve different organisations, with different cultures and systems;
- It is likely each organisation will have a different approach to the management of risk;
- Organisations will have differing risk appetites.

It is essential that the Partnership manages risks (and maximises opportunities) that can impact upon the aims and objectives of the Partnership as a whole.

Equally, Partner organisations need to understand the nature and extent of the risk they face individually through Partnership working.

As part of the development of the Council's Risk and Opportunity strategy a common approach to managing risk in partnership will be developed that enables the joint assessment of risk against partnership objectives to be made and managed through shared risk registers.

Risk management responsibilities

Risk and opportunity management is the responsibility of all employees, working together within teams and management structures to ensure timely consideration and control at the appropriate level.

Any risks to health, safety or wellbeing (HSW) of our employees or others affected by our operations are compiled into the HSW risk register held on SHE Assure and risks rated high will be additionally monitored by the HSW Steering Group on a quarterly basis. This may result in additional assurance being required to ensure controls are reducing risk to as low as reasonably practicable. The HSW Team support service areas to ensure risk assessments are suitable and sufficient. Risks reviewed at the HSW Steering Group may be escalated to the Strategic Risk Register if they meet the relevant criteria (see Risk Tolerance section)

APPROACH

All risks recorded on our Risk Register are discussed by Departmental Management Teams (DMT) monthly and by the Corporate Management Team on a quarterly basis. HSW risks rated high are discussed at JCC / HSW Committees at every meeting and at HSW Steering Group quarterly and may be escalated as per risk tolerance section.

All risks will accompanied with the following information:-

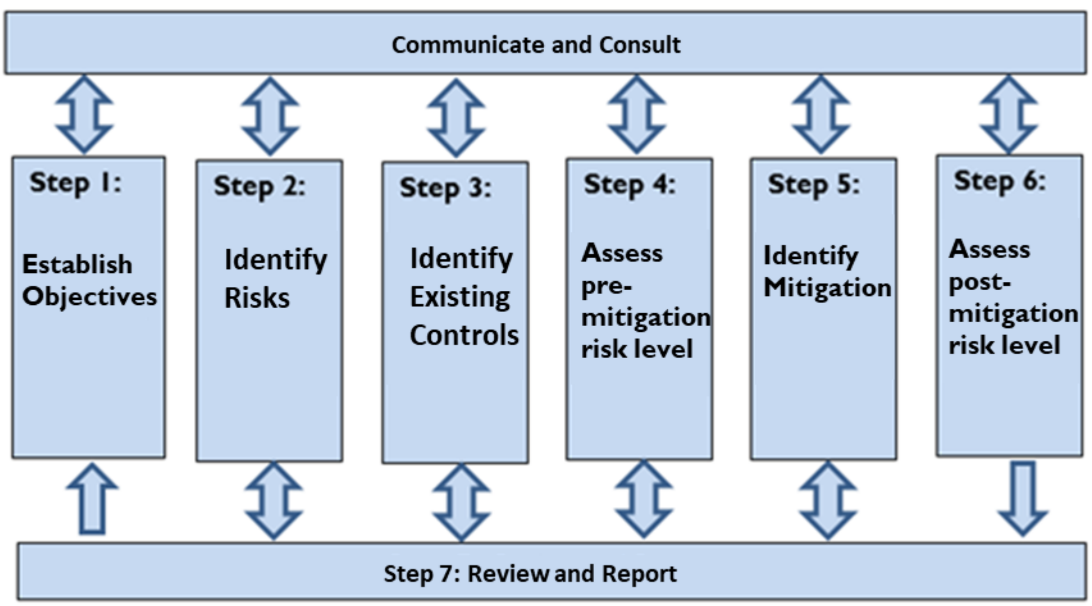
- possible consequences of the risks identified, both negative (risks and threats) and positive (opportunities);
- potential impact and likelihood of the risk identified;
- existing controls in place to mitigate the risks;
- actions planned to mitigate the risks with relevant timescales and the responsible officers.

For a number of years the Council has been working towards a comprehensive and integrated approach to risk management where:

- staff are clear about what risk management is intended to achieve;
- significant risks are being identified and managed effectively;
- training and guidance on risk management are easily accessible;
- a consistent corporate approach is followed using a common 'risk language'; and
- It is seen as an integral part of good corporate governance.

This section details the agreed arrangements that are needed to ensure the effective management of all risk (with the exception of HSW risks) across the organisation. The Council's approach to risk management is based on best practice and involves a number of key steps as outlined in the figure below:-

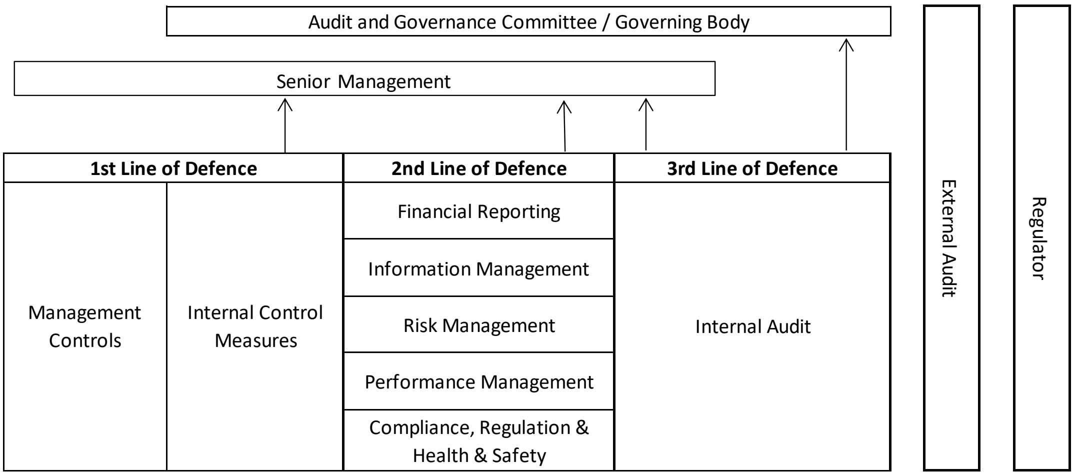
Note – for HSW risk assessment please refer to the process detailed in HSPS01 – Risk Assessment



Integrated Assurance has resulted in risk management being formally aligned and working alongside other compliance functions to promote a joined-up approach to all aspects of corporate governance.

Three Lines of Defence

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



First Line of Defence – Management Controls and Internal Control Measures

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

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

Second Line of Defence – Oversight Functions

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

Second Line of Defence – Financial Reporting

Financial Regulations provide the framework for managing the Council's financial affairs. They apply to every member, committee, school governing body, department, officer, partner, employee of the Council, and anyone acting on behalf of the Council. The Responsible Finance Officer (Section 151 Officer) carries out the statutory duties in relation to the financial administration and stewardship of the Council. Departmental finance managers are required to bring the Responsible Finance Officer's attention to any section 151 issue they are unable to resolve.

Second Line of Defence – Information Management

Like its people, information is a key Council asset. Information management is how our information is collected, used, evaluated, protected and distributed. Information must be obtained, handled, retained and disposed of in line with organisation guidelines.

Information practices must help to improve the efficiency of the services offered by the Council.

Second Line of Defence – Performance Management

Managing employee or system performance and aligning their objectives facilitates the effective delivery of strategic and operational goals and maintains transparency. Effective performance management by using performance indicators to monitor performance of action plans and risk mitigation can also provide an early warning indicator so that issues can be resolved before they become a risk to the achievement of objectives.

Second Line of Defence – Compliance, Regulation and Health and Safety

Adequate compliance monitoring is required to ensure we are working within applicable laws and regulations in areas such as health and safety, supply chain, business continuity, civil protection, statutory complaints, environmental, anti-fraud, legal, safeguarding, HR and equalities.

Third Line of Defence – Internal Audit

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

External Auditors and Regulators

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

Audit and Governance Committee

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

Step by Step

There are a number of different types of risks that an organisation may face including financial loss, failure of service delivery, risks to people and damage to reputation. The process involves managers and their teams identifying what outcomes are expected from planned activities and what factors might hinder their delivery.

Step 1: Core purpose / outcomes
Before we can identify our risks, we need to establish the context by looking at what we are trying to achieve and what our proposed outcomes are. Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents, including the following: • Corporate Plan (for core purpose, priorities and outcomes) • Business Plans (for directorate/departments aims, priorities and actions) • Project Plans (for project aims and objectives) • Partnership Agreements (for partnership aims and objectives)
Step 2: Identify risks
To identify and articulate potential risks, managers and teams should consider their objectives and consider what factors may hinder delivery. The detail of any such factors should be explored to ensure that the underlying causes relating to potential risks are appropriately articulated. Risk is a key element of developing business cases for implementation of new programmes, projects or policy changes. Risks, particularly financial, are identified in reports to committees and out treatment of risk is public, open and transparent. Describing the Risk - The risks and opportunities identified need to be recorded in a structured format. A description covering the Cause, Event and Effect is used to scope a risk or opportunity. Guidance is appended to this strategy to assist in the development of the Risk Description.
Step 3: Identify existing risk controls / actions
Existing controls and actions, which are helping to eliminate or minimise the likelihood and/or impact of the risk occurring, are identified for each risk. These actions are specifically those already in place or completed. If there are no controls in place, this should be dealt with through mitigating actions. These controls and actions form part of the recorded risk when considered through the governance process.
Step 4: Assess pre-mitigation risk level
To ensure resources are focussed on the most significant risks, the Council's approach to risk management is to assess the risks in terms of both the potential likelihood and impact so that actions can be prioritised.

The risk management process requires each new risk to be assessed twice – pre-mitigation and post-mitigation.

When undertaking the first assessment, the operation of key controls (above) should be considered. If key controls are likely to be ineffective this should be reflected in the initial risk score.

Risk scoring guidance is appended to this strategy.

Step 5: Identify Mitigation

Not all risks can be managed all of the time, so having assessed the identified risks, cost effective action needs to be taken to manage those risks.

When considering the application of mitigation, officers should consider –

- What actions are required?
- When must these actions be accomplished?
- Who is responsible for taking action?
- What resources are needed?
- How will the action reduce the risk's probability or severity?

Step 6: Assess pre-mitigation risk level

The second assessment (the residual or net level) re-evaluates the risk, taking into consideration the effectiveness of the identified existing/mitigating actions.

In considering the post-mitigation risk score the same criteria and matrix for assessing the pre-mitigation risk level is used.

It is the risk owner's responsibility to ensure the agreed post-mitigation risk level for each risk is an accurate reflection of the likelihood and impact measures.

Step 7 – Review and report

The Risk Register is dynamic and the associated dashboard must be regularly reviewed and amended. Risks will be formally monitored every month by departmental management teams (DMTs).

The questions asked during monitoring are:

- Is the risk still relevant?

- Is there any movement in the risk score?
- Are the controls still in place and operating effectively?
- Has anything occurred which might change its impact and/or likelihood?
- Have potential opportunities been considered and maximised?
- Have any significant control failures or weaknesses occurred since the last monitoring exercise?
- If so, does this indicate whether the risk is increasing or decreasing?
- If the risk is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some existing controls?
- Are controls/actions built into appropriate documented action plans?
- Are there any new or emerging risks?
- Have any of the existing risks ceased to be an issue (and can therefore be archived?)

When considering departmental risks, DMTs will consider the Council's agreed Risk Appetite and Risk Tolerance, before making decisions on the application of risk treatments as defined in the appendix.

Quarterly monitoring reports are presented for consideration by the Corporate Management Team prior to final ratification by the Audit and Governance Committee.

The Council's scrutiny function will play an increasingly important, open and transparent role in risk management. Scrutiny committees now consider risks pertinent to the terms of reference of the committee. This approach allows for detailed review of risk, its cause and mitigation, in the wider context of associated policy, performance and financial considerations.

RISK APPETITE

Risk appetite is the amount of risk, on a broad level, that Plymouth City Council is willing to accept in pursuit of value. It is strategic and reflects the organisations risk management philosophy, and in turn influences the organisation's culture and operating style. Risk appetite guides resource allocation and provides the infrastructure necessary to effectively respond to and monitor risks.

Risk appetite is an important tool for effective risk monitoring and provides the following benefits:-

- Forms an integral part of corporate governance
- Guides the allocation of resources
- Guides an organisations infrastructure, supporting its activities related to identifying, assessing, responding to and monitoring risks in pursuit of organisational objectives
- Is multi-dimensional, including when applied to the pursuit of value in the short term and the longer term of the strategic planning cycle
- Requires effective monitoring of the risk itself

Our aim is to consider all options to respond to risk appropriately and make informed decisions that are most likely to result in successful delivery of benefits whilst also providing an acceptable level of value for money.

Risk Appetite Statements

Compliance, Regulation and Safeguarding	No appetite for risk	The Council recognises the need to place high importance on compliance, health, safety and wellbeing, regulation, and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud. It is not acceptable for any hazard, risk or safety incident to be ignored by any member of our workforce and the Council will ensure that systems and processes exist to identify and mitigate risk as well as for reporting, investigating and learning from incidents when they do occur. All health, safety and wellbeing risks should be managed as per absolute duties cited in relevant regulations or to as low as reasonably practicable irrespective of risk score.
Operational/Service Delivery	Medium appetite for risk	The Council accepts a medium to high level of risk arising from the nature of the Council's business operations and service delivery to deliver an appropriate level of service at value for money, whilst minimising any negative reputational impact.
Financial	Low appetite for risk	The Council acknowledges the responsibility it has for administration of public funds and wishes to emphasise to both the public and its employees the importance it places upon probity, financial control and honest administration.

		Financial Regulations provide the framework for managing the Council's financial affairs and should be adhered to at all times. Finance Business Partners are an integral part of Department Management Teams and should be consulted when planning any new project.
Reputation	Low appetite for risk	It is regarded as essential that the Council preserves a high reputation and hence it has set a low appetite for risk in the conduct of any of its activities that puts its reputation in jeopardy through any adverse publicity.
Strategic Change	High appetite for risk	The environment the Council works in is continually changing through both its internal operations and the services it provides. Change projects provide the Council with an opportunity to move forward and develop and establish benefits for the longer term. The Council recognises that this may require increased levels of risk and is comfortable accepting the risk subject to always ensuring that risks are appropriately managed.
Development and Regeneration	High appetite for risk	The Council has a continuing obligation to invest in the development and regeneration of the city. To continue to be progressive and innovative in the work performed the Council is willing to accept a higher risk appetite whilst ensuring that benefits are assessed and risks are fully scrutinised and appropriately mitigated in both economic terms but also social and environmental terms before developments are authorised. People and Culture
People and Culture	High appetite for risk	The Council recognises that staff are critical to achieving its objectives and therefore the support, development and wellbeing of staff is key to making the Council an inspiring and safe place to work. It has moderate to high appetite for decisions that involve staffing or culture to support transformational change and ensure the Council is continually improving.

The Council's Risk Appetite Statements will be continually monitored to ensure it supports the organisation's risk and opportunity management strategy.

RISK TOLERANCE

Risk tolerance is the level of risk the Council is willing to take on in terms of individual risks. When determining our risk tolerance the Council recognises that each risk is unique in nature.

The risk tolerance table below helps to align risk exposure with management and escalation activities. An event or risk is assessed and assigned a risk score by multiplying the impact and likelihood scores. Ranges of risk scores are then associated with different levels of management attention.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate risk are established before decisions are made.

Residual Risk Score		1-4	5-10	10 - 15	15-20	20-25
Risk Category	Compliance, Regulation & Safeguarding (including Health, Safety & Wellbeing)	Accept	Accept but monitor	Management effort worthwhile	Management effort required	Extensive management essential
	Financial	Accept	Accept but monitor	Management effort worthwhile	Management effort required	Extensive management essential
	Reputation	Accept	Accept but monitor	Manage effort worthwhile	Management effort required	Extensive management essential
	Operational/Service Delivery	Management effort to identify opportunities	Accept but monitor	Manage & monitor	Management effort worthwhile	Extensive management essential
	Strategic Change	Management effort to identify opportunities	Accept but monitor	Manage & monitor	Management effort worthwhile	Extensive management essential
	Development & Regeneration	Management effort to identify opportunities	Accept but monitor	Manage & monitor	Management effort worthwhile	Extensive management essential
	People & Culture	Management effort to identify opportunities	Accept but monitor	Manage & monitor	Management effort worthwhile	Extensive management essential

Evaluating Key Controls

A framework exists to performance measure effectiveness of key controls aligned to the Council's risk appetite. Risks where we have a lower appetite for risk taking are treated with a higher level of management activity and oversight.

Examples of key controls

Preventative key controls	Detective key controls	Corrective key controls
Policies and procedures	Review of performance	Business continuity plans

Authorisation and approval Verifications Staff training	Reconciliations Audit and investigations Data analysis Monitoring	Insurance Disaster recovery plans Variance reports Case reviews

Managers should contact the Performance and Risk Team for further advice on setting up key control performance measures for risks categorised under compliance, regulation, safeguarding, financial and reputation.

OPPORTUNITIES

Opportunities can also be identified by giving consideration to those that have been neglected because of perceived, but unexamined risk. These include:-

- Learning from the past – whilst past experience cannot necessarily be a predictor for future performance, signals that were ignored and missed opportunities can provide insight into organisational blind spots.
- Customer sensitivity – trying to understand customer needs and creating systems to exploit this information can lead to great gains.
- Learning from others – exploring and sharing best practice with other organisations can lead to benefits.
- Scenario planning – can be a powerful tool for generating new ideas.

Once the opportunity has been identified it should be described to include the expected benefits, contributions to business objectives and stakeholders.

Opportunity Types (not exhaustive list)	Opportunity response
Shared resource/technology/infrastructure, Improved designs	**Share** – An opportunity is shared with a partner or supplier to maximise the benefits
Economic/financial/market e.g. new and emerging markets, positive changes in exchange rates or interest rates	**Exploit** – A project could be adjusted to take advantage of a change in technology or a new market
Strategic/commercial opportunities such as new partnerships, new capital investment, new promoters	**Enhance** – Action is taken to increase the likelihood of the opportunity occurring or the positive impact it could have
*Contingency plans may be put in place should the opportunity occur. Political or environmental e.g. new transport links, change of government bringing positive changes in policy/opportunities for lobbying etc.	**Reject** – Here no action is taken and the chance to gain from the opportunity is rejected

HEALTH, SAFETY AND WELLBEING

The Council's HSW Policy and associated Health and Safety Performance Standards (HSPS) must be regarded as the standard that each department, service unit and team is expected to achieve and against which health and safety performance will be monitored and audited.

Refer to HSPS01 – Risk Assessment for the management of health and safety risks at the Council..

Risk assessments follow Health and Safety Executive (HSE) guidance and scoring methodology.

Any significant hazard requires risk control measures to be put into place in order to minimise risk to an acceptable level either by reducing the likelihood of an adverse event or the severity of its consequence, or both.

HSW Risk Escalation

Generally actions relating to risk assessments can be managed locally at team level, however, it may be necessary to escalate a health, safety and wellbeing risk to the departments Operational Risk Register in order to achieve a higher degree of management oversight. Examples of escalation criteria are:-

- Treatment of the risk requires decisions/actions, e.g. expenditures that are beyond what the budget holder is authorised to decide;
- risk controls cannot be implemented within appropriate timescales (as identified in consultation with a HSW Advisor);
- the risk is widespread beyond local area span of control;
- the risk is assessed to be significant - one in which staff, members of the public or facilities may be subject to legal, media or other interest and where, if not managed effectively, the risk could result in loss of life or significant loss of the council's assets or reputation;
- addressing the risk requires corporate changes to policy;
- Grievances from stakeholders have been received to which the risk owner cannot impartially and/or effectively respond.

HSW risks rated high will be reviewed at the HSW Steering Group and may be escalated to the Strategic Risk Register according to the Risk Tolerance criteria.

Fraud Risk Controls

Fraud is a major drain on the public purse and it is therefore imperative that all staff prevent fraudulent activity and understand the threats and risks. The Anti-Fraud, Bribery and Corruption Strategy and Policy will assist the Council in becoming more resilient to fraud risks. The aim is to minimise fraudulent activity with a zero tolerance approach to those who commit criminal acts of fraud against Plymouth City Council whether the threat is from outside or internally within the Council.

Guidance and Assistance

The Chief Executive Office, through the Head of Governance, Performance and Risk and the Performance and Risk Team, will promote and monitor good practice, provide guidance, support, advice and information and organise training. A Risk Management eLearning module is available on the Staff Room Page of the intranet within the Learning Zone.

Advice and guidance related to HSW risks can be sought by contacting the HSW Team.

APPENDIX I

Risk Categories

Category of Risk	Risk Examples
Compliance, Regulation and Safeguarding	▪ Legislation and internal policies/regulations ▪ Health, safety and wellbeing ▪ Grant funding conditions ▪ Legal challenges, legal powers, judicial reviews or public interest reports ▪ Change in government policy
Operational/Service Delivery	▪ Emergency preparedness/business continuity ▪ Poor quality/reduced service delivery ▪ Health and safety ▪ Information security and retention accuracy ▪ ICT integrity and availability ▪ Damage to physical assets ▪ Changing needs and expectations of customers – poor communication/consultation
Financial	▪ Budgetary pressures ▪ Loss of/reduction in income/funding, increase in energy costs ▪ Cost of living, interest rates, inflation etc. ▪ Financial management arrangements ▪ Investment decisions, sustainable economic growth ▪ Affordability models and financial checks ▪ Inadequate insurance cover ▪ System/procedure weaknesses that could lead to fraud
Reputation	▪ Negative publicity (local and national) ▪ Image ▪ Increase in complaints ▪ Brand building ▪ Fines
Strategic Change	▪ New initiatives, new ways of working, new policies and procedures ▪ New relationships – accountability issues/unclear roles and responsibilities ▪ Monitoring arrangements ▪ Managing change

	▪ Add value or improve customer experience/satisfaction ▪ Reduce waste and inefficiency ▪ Improve staff skills/morale ▪ Business alignment ▪ New operating models and revenue streams ▪ Market needs/growing competition ▪ New technologies
Development and Regeneration	▪ Demographics ▪ Economic downturn – prosperity of local businesses/local communities ▪ Impact of planning or transportation policies ▪ Environmental, landscape, countryside, historic environment, open space ▪ Property, land, buildings and equipment
People & Culture	▪ Political personalities ▪ Member support/approval ▪ New political arrangements ▪ Loss of key staff, recruitment and retention issues ▪ Training issues ▪ Lack of/or inadequate management support ▪ Poor communication/consultation ▪ Capacity issues – availability, sickness and absence etc.

Risk Description

Cause	Event	Effect
Because of …. As a result of …. Due to ….	<an uncertain event i.e. risk or opportunity> may occur	which would lead to <effect on objective(s)>
Event	**Cause**	**Effect**
Risk of …. Failure to …. Failure of …. Lack of …. Loss of …. Uncertainty of …. Delay in …. Inability to …. Inadequate …. Partnership with …. Development of / Opportunity to ….	…. due to ….	…. leads to …. and/or …. result in ….

Example of risk description – Risk of being unable to deliver Council services within the envelope of the resources provided in (year) which would lead to a negative impact on budgets, loss of reputation, negative impact on front line services and a negative opinion from external audit.

Risk Analysis and Scoring Guidance

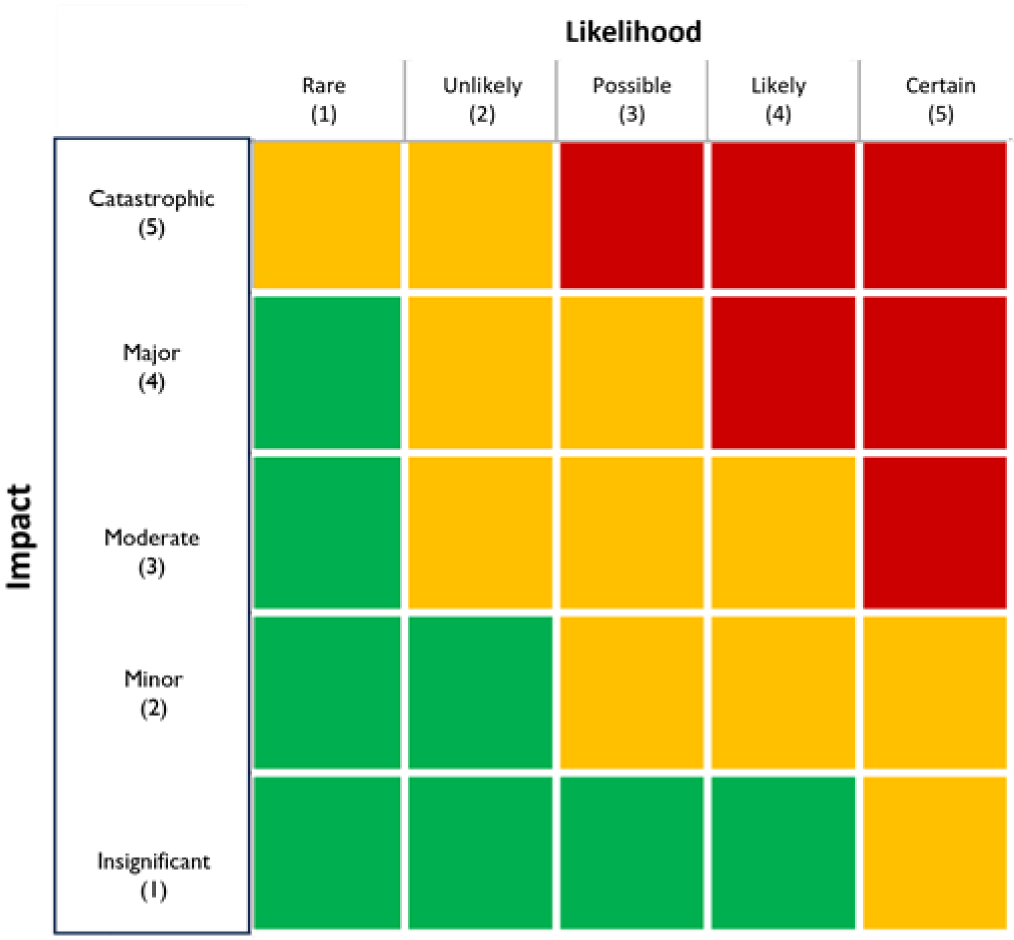
Note: refer to HSPS01 – Risk Assessment for Health, Safety and Wellbeing risks

Score	Likelihood	Threat / Risk
5	Almost Certain (81-100%)	• Is expected to occur within twelve months in most circumstances • Imminent/near miss
4	Likely (51-80%)	• Will probably occur in many circumstances • Will probably happen, but not a persistent issue e.g. once in three years • Has happened in the past
3	Possible (26-50%)	• Could occur in certain circumstances • May happen occasionally, e.g. once in 10 years • Has happened elsewhere
2	Unlikely (11-25%)	• May occur only in exceptional circumstances • Not expected to happen, but is possible e.g. once in 25 years • Not known in this activity • happening
1	Rare (0-10%)	• Is never likely to occur • Very unlikely this will ever happen e.g. once in 100 years
Risk Impact (Severity)		
Score	Impact	Threat / Risk
5	Catastrophic Risk	Risks which can have a catastrophic effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public. Examples:- • Unable to function without the aid of government or other external Agency • Inability to fulfil obligations • Medium – long term damage to service capability • Severe financial loss – supplementary estimate needed which will have a catastrophic impact on the Council's financial plan and resources are unlikely to be available • Death (single or multiple) or work related diagnosis leading to death

		• Adverse national publicity – highly damaging, severe loss of public confidence • Very significant exposure of public funds with funding being managed across organisations and complex reporting • Very complex stakeholder community with new partnerships, collaborations and suppliers/stakeholder environment volatile or with significant external change factors
4	Major Risk	Risks which can have a major effect on the operation of the Council or service. This may result in major financial loss, major service disruption or a significant impact on the public. Examples:- • Significant impact on service objectives • Short–medium term impairment to service capability • Major financial loss – supplementary estimate needed which will have a major impact on the Council's financial plan • Extensive injuries, major permanent harm, long term sick • Permanent/significant disability • Major adverse local publicity, major loss of confidence
3	Moderate Risk	Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget. Examples:- • Service objectives partially achievable • Short term disruption to service capability • Significant financial loss – supplementary estimate needed which will have an impact on the Council's financial plan • RIDDOR (Reporting of injuries, diseases and dangerous occurrences regulations) or major injury • Medical treatment required, semi-permanent harm up to one year • Some adverse publicity, needs careful public relations • High potential for complaint, litigation possible • Breaches of law punishable by fines only
2	Minor Risk	Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences they will have a negligible effect on service provision. If action is not taken, then such risks may have a more significant cumulative effect. Examples: • Minor impact on service objectives • No significant disruption to service capability • Moderate financial loss – can be accommodated at head of service level • Three day + injury • First aid treatment, non-permanent harm up to one month • Some public embarrassment, no damage to reputation

		• May result in complaints/litigation • Breaches of regulations/standards • Budget within delegation
I	Insignificant Risk	Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. If action is not taken, then such risks may have a more significant cumulative effect. Examples:- • Minimal impact, no service disruption • Negligible impact on service capability • Minimal loss – can be accommodated at senior technical accounting level • First aid injury • Unlikely to cause any adverse publicity, internal only • Breaches of local procedures/standards • Budget within delegation and relatively small or within operational costs

Risk Matrix Table



Risk Tolerance

Risk Tolerance		
Red (High Risk)	20 - 25	Must be managed down urgently.
Amber (Med/High Risk) Amber (Medium Risk)	12 - 16	Seek to influence medium term/monitor (as per risk appetite escalation)
Green (Low Risk)	6 - 10	Acceptable – continue to monitor if circumstances are subject to change, if not, remove from register
Yellow (Very low risk)	1 - 5	Can be removed from register and managed locally within team but consider adding to risk register if controls are likely to change

Risk Tolerance Actions

Tolerance Level	Escalation / Action Required
Extensive management essential	Escalate to Strategic Risk Register and brief Portfolio Holder. Monthly review at Senior Leadership Team level. Programme/project risks - Programme Board escalate to Strategic Risk Register. Quarterly review at Corporate Management Team. Risk owner to review monthly. Consider use of performance indicators to monitor performance of action plans and key risk controls.
Considerable management required	Consider escalation to Strategic Risk Register and brief Portfolio Holder. Monthly review at Department Management Team level. Programme/project risks - Programme Board consider escalation to Strategic Risk Register. Quarterly review at Corporate Management Team. Risk owner to review monthly. Consider use of performance indicators to monitor performance of action plans and key risk controls.
Management effort required	Add to Operational Risk Register and review at least quarterly at Department Management Team level (consider escalation to Strategic Risk Register if risk cannot be mitigated at department level and ensure Portfolio Holder is briefed).

	Programme/project risks - Programme Board oversight and consider escalation to Directorate Operational Risk Register. Six month review by Corporate Management Team. Risk owner to review monthly. Consider use of performance indicators to monitor performance of action plans and key risk controls.
Management effort worthwhile	Add to Operational Risk Register and review quarterly at Department Management Team level. Risk owner to review at least quarterly. Consider use of performance indicators to monitor performance of action plans and key risk controls.
Manage and monitor	Add to Operational Risk Register. Risk owner to review at least quarterly.
Accept but monitor	Risk owner to review every six months.

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	28 November 2023
Title of Report:	**Risk Management Monitoring Report – November 2023**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Ross Jago, Head of Governance Performance and Risk
Contact Email:	Ross.jago@plymouth.gov.uk
Your Reference:	RS/RMNov23
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

The attached report provides an update on the Strategic risk register for the organisation.

Strategic Risk Register

During this review of the strategic risk register there has been significant movement across the risks registers due to change to processes. There are likely to be further such changes over the course of the next quarter.

The total strategic risks currently being managed is 19. Four of the risks are scored as severe, these are risks which may have a catastrophic impact and influences the organisation's overall risk status.

Changes have included –

- **Council's expenditure exceeds the resources available -** A reduction in risk probability score has been applied following the approval of a new Medium Term Financial Strategy reducing the overall score to 20.
- **Sustainable Urban Drainage Approval Body** – A reduction in risk probability score has been applied as required secondary legislation has not been laid before parliament reducing the overall score to 9 which will be monitored.
- **Homelessness** – There has been an overall increase in the risk score concerning Emergency Accommodation / Bed and Breakfast Budget Overspends. This risk is subject to detailed and regular review by Corporate Management Team and service area and is a key priority for the organisation. This risk is categorised as a financial risk, however the impact is much broader and the risk is being reviewed with this in mind.
- **Lack of Adult Social Care workforce** – This risk score has been reduced following mitigations implemented by the service.
- **Housing Delivery** – The risk score has been reduced following mitigation by the service.

- **Viability of Commercial Bus Operators** – The risk has been removed from the strategic register following endorsement of the Plymouth Bus Service Improvement Plan. The risk will continue to monitored as part of departmental risk registers.

Risk @ Scrutiny

Due to a mismatch in meeting cycles the scrutiny function is yet to review the updated risk register. This will be addressed by an amended committee schedule for the 2024 – 2025 municipal year. Despite this, the scrutiny function has reviewed risks and included items on the agenda as a result of the quarter one report. This has included –

- **Education and Childrens Social Care Overview and Scrutiny Committee** have reviewed the Local Area SEND inspection. This continues to be monitored at appropriate meetings of the committee.
- **Growth and Infrastructure Overview and Scrutiny Committee** reviewed and endorsed the Plymouth Bus Service Improvement Plan following consideration of a related risk earlier in the year.
- **Performance Finance and Customer Focus Overview and Scrutiny Committee** reviewed the risk *"Council having insufficient statutory senior leadership capacity and resilience to deliver the required to meet statutory obligations"* and received assurance from the Chief Executive and Interim Service Director for human resources and organisation development.

Recommendations and Reasons

The Audit and Governance Committee is recommended to note the current position with regard to the Strategic Risk Register.

Reason: As part of the Committee's responsibility for monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.

Alternative options considered and rejected

Effective risk management 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

The Strategic Risk and Opportunity Register includes links to the Corporate Plan priorities – monitoring of control action for strategic risks therefore contributes to the delivery of the council's core objectives.

Implications for the Medium Term Financial Plan and Resource Implications:

None arising specifically from this report but control measures identified in Directorate Operational Risk and Opportunity Registers could have financial or resource implications.

Financial Risks

None arising specifically from this report but control measures identified in Directorate Operational Risk and Opportunity Registers could have financial or resource implications.

Carbon Footprint (Environmental) Implications:

Failure to deliver against actions in the Climate Emergency Action Plan and Corporate Carbon Reduction Plan are included on risk registers.

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

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

The risk registers specifically supports the council's overall governance arrangements.

Appendices

**Add rows as required to box below*

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

Background papers:

**Add rows as required to box below*

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

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

Sign off:

Fin	CH 20.1 1.23 1400	Leg	LS/2 675/J P/20 1123	Mon Off		HR		Assets		Strat Proc	
Originating Senior Leadership Team member: Giles Perritt											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 07/11/2023											

Cabinet Member approval: Councillor Mark Lowry (Cabinet Member for Finance)

Date approved: 08/11/2023

Plymouth City Council - Risk Status

PLYMOUTH CITY COUNCIL

Overall Risk Status

Orange - Severe

Possibility of major or catastrophic impact

There are **4 severe risks** at Plymouth City Council

None of these risks are overdue updates.

Strategic 19

Impact	Likelihood: Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Certain (5)
Catastrophic (5)			1	3	
Major (4)		1	2	4	2
Moderate (3)			3	1	2
Minor (2)					
Insignificant (1)					

Plymouth City Council - Post Mitigation Risk Matrix

Impact \ Likelihood	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Certain (5)
Catastrophic (5)			1	3	
Major (4)		1	2	4	2
Moderate (3)			3	1	2
Minor (2)					
Insignificant (1)					

Plymouth City Council - Mitigation Analysis

Pre-mitigation Risk Matrix

Impact \ Likelihood	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Certain (5)
Catastrophic (5)				2	1
Major (4)		1	3	5	3
Moderate (3)			1	1	2
Minor (2)					
Insignificant (1)					

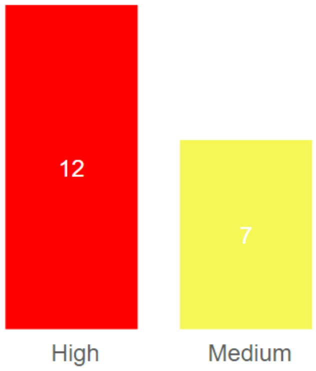
Post-mitigation Risk Matrix

Impact \ Likelihood	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Certain (5)
Catastrophic (5)			1	3	
Major (4)		1	2	4	2
Moderate (3)			3	1	2
Minor (2)					
Insignificant (1)					

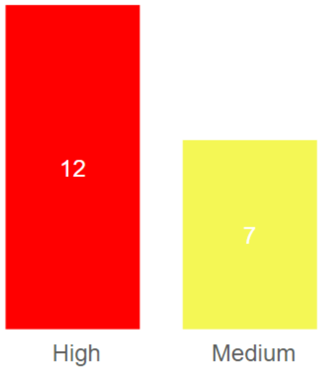
Risk Ranking Pre / Post Difference

Risk Ranking	Pre	Post	Difference	Diff %
25	1		-1	-100%
20	5	5	0	0%
16	5	4	-1	-20%
15	2	3	1	50%
12	4	3	-1	-25%
9	1	3	2	200%
8	1	1	0	0%

Pre Mitigation



Post Mitigation



Risk Group	Pre	Post	Diff	Diff %
	19	19	0	0.00%

Plymouth City Council - Strategic Risk Log - High Risks

Title	Owner	Type	Pre Mitigation	Mitigation	Post Mitigation
Council's expenditure exceeds the resources available	david.northey@plymouth.gov.uk	Strategic	25	System of monthly financial reporting to DMT's, CMT, and Cabinet and Quarterly to Full Council, with monthly consideration of directorate level financial issues at each Scrutiny Committee. In addition the Council has introduced a system of detailed monitoring of they delivery of savings targets so that a view is published monthly in Cabinet reports. The Council also holds an annual review of fees and charges and has annual and ongoing programmes of work to identify and understand potential savings opportunities. The governance system of the Council - as unpacked in the Annual Governance Statement comprise a rigorous system of financial control.	20
Cyber-attack	john.finch@plymouth.gov.uk	Strategic	20	LGA Cyber 360 review completed in March - review findings and recommendations due in April. Cyber 360 recommendations will be included in the Cyber improvements plan overseen by the Cyber Governance Board and Optimising our Assets Programme Board Cyber security briefing for SLT planned in April to raise awareness further of the threat and requirements of staff to reduce the risk of attack. Hackney Council are due to speak about their experience recovering from a major ransomeware attack Cyber security awareness week planned for May 23, including a business continuity exercise, Member awareness training and staff briefings Finance, Customer and Performance Scrutiny Panel reviewed PCC cyber security and readiness in February and have requested a further update (date TBC) IT Health check (previously PSN certification) testing to take place in March, remediation's to be included into the Cyber improvements plan	20
Emergency Accommodation Bed and Breakfast Budget overspends	matt.garrett@plymouth.gov.uk	Strategic	16	"Temporary Accommodation Plan. Housing Service Delivery Plan to provide further mitigation. Working with rough sleep strategy group to spend additional funding from MHCLG. New Homelessness action plan to be written Awaiting clarity around level of recourse to public funds following Brexit"	20
Failure to meet statutory duties	david.haley@plymouth.gov.uk	Strategic	20	Weekly reviews of unregulated placements and high risk children The sufficiency strategy is being reviewed and updated Edge of Care Team supporting young people on the edge of care and reunification. Ongoing rigour in decision making to manage demand via the weekly Children's Resource Panel chaired by the Service Director with a focus on all requests for Local authority care and/or the initiation of legal proceedings Ensuring action plan milestones are reached via monthly monitoring at Programme Board/Finance DMT. Financial and future demand forecasting is informing the change work necessary to balance the Medium-Term Financial Plan (MTFP), The implementation of the new targeted operating model will support earlier intervention and prevention of children coming into care wherever possible	20
IT supply chain constraints	john.finch@plymouth.gov.uk	Strategic	20	PCC to pre plan as far ahead as possible on any purchases of technical goods or services, notifying Delt during the planning phase of such work. Delt have been provided with the Capital plan for 2022/23 Delt engagement with current suppliers and escalation of any changes to current prices / lead times Assessment of alternative suppliers	20

Plymouth City Council - Strategic Risk Log

Title	Owner	Type	Pre Mitigation	Mitigation	Post Mitigation
Adult Social Care (ASC) Reforms	gary.walbridge@plymouth.gov.uk	Strategic	16	Charging and Liberty Protection Safeguards reforms have been pushed back by government. We will continue cost of care exercises locally, including working with our local care market to better understand impact on finance and resources. We will continue engagement with Local Government Agency and regional and national groups (such as ADASS) to determine approach to managing all reforms. We will continue to seek to understand impacts of all reforms through our established transformation programmes, and will consider potential use of Offers and Asks due to cost of new burdens on the service.	16
Failure to reduce Health Inequalities	ruth.harrell@plymouth.gov.uk	Strategic	16	Persistent action across the Council and the city is required at many levels to tackle inequalities by addressing the wider detriments of health, as embedded in the Plymouth Plan. Austerity, the pandemic, and the current economic downturn and cost of living crisis all serve to widen health inequalities. Thrive Plymouth continues, with a wide range of partners, and work to tackle child poverty and support people in need is ongoing but is unlikely to sufficiently mitigate the impact of the current risks to narrow HI.	16
Increased and sustained pressure on Adult Social Care budget	gary.walbridge@plymouth.gov.uk	Strategic	16	Real time management information Strong Reablement Offer Established Review Programme Commissioning Intentions through Market Sustainability Plans to develop new models of care Budget containment meetings in place Focus on reviews and reablement to right size packages of care including focused work on 18 to 64's	16
Insufficient economic performance	david.draffan@plymouth.gov.uk	Strategic	16	Alongside this we are seeking to maximise all opportunities to secure additional funding for economic initiatives including focussing on creating new jobs in the Blue and green economy. The initiatives include: The Plymouth and South Devon Freeport, National Marine Park. We will continue to maximise all funding opportunities for our city region.	16

Plymouth City Council - Strategic Risk Log

Title	Owner	Type	Pre Mitigation	Mitigation	Post Mitigation
Carbon reduction targets	paul.barnard@plymouth.gov.uk	Strategic	12	Year 1, 2 and 3 CCRPs and CEAPs have been prepared to date, covering the period 2020-2022. The focus of the CCRP is on the things in the direct control of the City Council; the focus of the CEAP is on the wider things the Council is able to influence as well as some of the climate actions of City partners. The Climate Emergency strategy and action plan process is currently under review, with a view to making revisions from 2023, providing a more strategic approach. Growth and Infrastructure Overview and Scrutiny Committee receive 6 monthly performance updates.	12
Government's Draft Environment Bill	philip.robinson@plymouth.gov.uk	Strategic	12	The Council have partnered with the Waste Industry body WRAP to jointly commission external support to assess the likely impacts and opportunities of the Environment Act. The funding for this work has been wholly met by DEFRA. The initial report was completed with broadly inconclusive findings. The scope of ongoing work is as follows: To understand the implications of, and ensure the Council meets, the government's requirements as proposed in the Resources & Waste Strategy To help inform the future design of the Council's household waste collection service and understand the implications in terms of reprocessing infrastructure To understand the likely impact that changes to the current household waste collection service will have on the Council's recycling performance To consider where operational efficiencies can be achieved whilst still delivering a service that meets the needs of its residents and allows the Council to maintain high levels of customer satisfaction To appraise whether existing waste management infrastructure and assets in Plymouth, and the surrounding area, are likely to be sufficient for future requirements; and if they are deemed not to be then to provide options to inform the Council's waste strategy and spatial planning.	12
Insufficient statutory senior leadership capacity	pamela.moffat@plymouth.gov.uk	Strategic	12	Current gaps in senior leadership positions will be addressed through interim appointments. Recruitment for Senior Manager Appointments are underway through appropriate executive search / recruitment agencies.	12

Plymouth City Council - Strategic Risk Log

Title	Owner	Type	Pre Mitigation	Mitigation	Post Mitigation
Housing Delivery	paul.barnard@plymouth.gov.uk	Strategic	12	Strategic Land Review completed and released 50 housing sites to the market. Established Housing Investment Fund in Plan for Homes 3 to support interventions to unlock housing delivery. Working with Homes England to develop a Placed Based Strategic Partnership to unlock and deliver a pipeline of housing sites, support City Centre renaissance and to help align Government funding with housing site opportunities. Proposal to establish a tripartite partnership between DLUHC, HE and PCC/S&WD with the vision to transform the pace and quality of housing provision to fully meet housing need including the 35% urban uplift. Work with Homes England has led to agreed solutions and Deeds of Variations on four legacy sites to unlock delivery. Launched the Plymouth Eco-Homes Programme to support building a pipeline of over 250 low-carbon and net-zero homes across Plymouth. Embarking on our Direct Delivery of new homes to drive up good design, quality and sustainable living, and identifying a pipeline of future sites to support our direct delivery ambitions. Developed two Housing Partnership Agreements with key Housing Association Partners to maximise their investment and delivery in the city. Considering site acquisitions and provided funding to help unlock stalled JLP sites. Reviews of JLP sites completed and monitored, with delivery strategies being implemented. Secured £2.2m Brownfield Land Release Funding to help unlock 325 affordable homes on PCC owned land. Ongoing innovation to improve the proactive and fast track approach to planning to deliver housing. Monitoring development activity in the construction sector to understand the effect of COVID-19 on housebuilding. We will manage the 5 year land supply position to ensure that decisions on sites are taken using a balanced and objective assessment of market conditions. We will work with DLUHC and Homes England. Continuing to bring long term empty homes back into use.	9
Response to Ofsted Focused Visit	david.haley@plymouth.gov.uk	Strategic	9	A new Improvement Board is in place for the Children's Services across the Plymouth (March 2023). Service Director chairs a fortnightly Improvement Board for the Front Door which has partner engagement (Feb 23). Improved capacity in management structures has been in place since January 2023. Review of processes and focus on performance improvement in place. Key metrics are reviewed alongside Audit activity to test quality of decision making.	9
Schedule 3 of the Flood and Water Management Act	paul.barnard@plymouth.gov.uk	Strategic	20	DEFRA has not begun the consultation announced in January 2023. Given proximity of General Election its likely Orders will not be laid before Parliament until at least Q3 when the risk will be reviewed.	9
Peninsula Transport Sub-National Transport Body	paul.barnard@plymouth.gov.uk	Strategic	8	The DfT has restated their commitment to ensure that the host authority for these positions will not be liable for all costs relating to these posts and any redundancies should they be required. Hold a meeting between the STB, DfT and PCC to understand whether DfT are able to honour their commitment to cover cost of salaries and underwrite cost of redundancies before commencing recruitment. Agreement of annual business plans with DfT and monitoring progress against the business plan. Monthly monitoring of income and expenditure as part of the Council's role as the Accountable Body and receiving funding directly from DfT.	8

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Grant Thornton

Plymouth City Council
Audit Progress Report and Sector Update

November 2023

Contents

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 Authority 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.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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

Progress at November 2023

Financial Statements Audit

2019-20

The audit of the 19/20 accounts remains incomplete. We have written to the Council formally reaffirming our position set out in the July progress report in respect of accounting for the pensions transactions. We noted in our progress report presented at the September Audit and Governance Committee that the Council had started the process of requesting a capitalisation direction from DLUHC. This process is still ongoing and we remain committed to engaging constructively with all parties to get this matter resolved. We will continue to work with management to get this issue resolved and will update members through our reporting at the Audit and Governance Committee.

2020-21

The 2020-21 Audit is still ongoing and we continue to have conversations with management about the completion of this work. We began our work on your draft financial statements in December 2022.

We presented the updated audit plan in November 2022 and the significant risks we identified within our plan were as follows:

- Management override of control
- Valuation of land and buildings including Investment properties
- Revenue Recognition – Government Grants
- Fraud in expenditure recognition
- Valuation of net pension fund liability
- Financial instrument disclosures
- Group accounts, consolidation and reporting where necessary

We have continued to assess the risks for the audit and have subsequently revised the significant risks. We no longer consider that the following are significant risks and have scoped our response accordingly:

- Revenue recognition – Government Grants as these are considered simple management decision with no estimation or subjectivity required
- Group accounts, consolidation and reporting where necessary as the Council do not have any subsidiaries that have been consolidated

All other significant risks remain the same and we continue to work on these areas. An update on progress against these is included within this report.

The Council are facing a unique and unprecedented set of challenges linked to the cost of living and the increase in inflation and interest rates and the ongoing backlog in audit requiring management time to respond to audit queries. The work is largely complete with the exception of substantive transaction testing and, in agreement with management, we paused the audit in November 2023, for a two week period to allow finance staff to review and respond to our sample queries. We continue to work through the samples to complete the audit and will report any findings with members.

We initially proposed a completion date for our audit fieldwork by November 2023. However, outstanding information, required to ensure our audit responsibilities are fully met our work will continue beyond the November 2023 Audit and Governance Committee date.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment)

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

Progress against significant risks 2022-23

Significant risk (from audit plan)	Progress to date
Management override of control Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this • obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo. • Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these. • reviewed manual journals within inflo to identify those deemed to be high risk to be selected for testing. We selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and completed our testing upon receipt of the supporting documentation. As in prior years we identified that posters are able to authorise their own journals. We have undertaking testing to address the identified risks and no issues have been identified. No further issues have been identified.
Valuation of the net pension fund liability The authority's pension fund net liability as reflected in the balance sheet as the net defined liability represents a significant estimate. 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. 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.	We have: • Updated our understanding of processes and controls put in place by management and evaluated the design of the associated controls • Evaluated the instructions issued by management to their management expert (the actuary) for the estimate and the scope of their work • Assessed the competence, capabilities and objectivity of the actuary • Tested 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 • Undertaken 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 • Obtained 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 No issues have been identified in relation to this area

Progress against significant risks 2022-23

Significant risk (from audit plan)	Progress to date
Valuation of land and buildings including Investment Properties 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. 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. **Energy from Waste Plant** 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. **Tamar Bridge** 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. **Investment Properties** The Council hold a large portfolio of investment properties which are valued each year in accordance with the CIPFA Code	We have: • Evaluated 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. • Evaluated the competence, capabilities and objectivity of the valuation experts used by the Council across all categories of assets • Written to the valuers to confirm the basis on which the valuations have been carried out. • Reviewed the data and assumptions made regarding the year end valuation of the Councils Investment property portfolio • Written to the auditors of Cornwall County Council for assurances over the valuation of the Tamar Bridge • Employed 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. • Challenged the information and assumptions used by the valuers to assess completeness and consistency with our own understanding • Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • Tested the year end closing balance for property, plant and equipment • Evaluated 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. • Evaluated the assumptions made for the valuation of investment properties, including data used and yield assumptions. • Evaluated of the impact of COVID-19 on valuations – particularly investment properties held by the Council. Our testing has identified issues in relation to: • No formal terms of engagement document has been issued for either internal or external valuers • No formal overriding valuation report has been provided to support the valuation process • Three cases where valuations have been applied to the wrong assets • An unregistered asset that further information has been requested for • Accumulated depreciation that has not been written out on revaluation • Reconciliation of the valuer's report to the FAR for a number of assets • Some assets for which floor plans have not been appropriately evidenced • Obsolescence factor not appropriately applied. Our work in this area is not yet finished we will report further on these issues in the Audit Findings Report along with any further issues identified

Progress against significant risks 2022-23

Significant risk (from audit plan)	Progress to date
Fraud in expenditure recognition 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. 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.	We have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected 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 • investigated 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. Our work in this area is still ongoing and we will report any findings to members in the Audit Findings Report
Financial Instrument 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. 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.	We have: • Reviewed the council's processes implemented to establish the correct valuations of all financial instruments held • Tested disclosures back to figures within the main financial statements • Tested the disclosures in accordance with the CIPFA Code and accounting and auditing guidance • Reviewed the work of the council's experts in this area. We will: • 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. We have employed an auditor's expert to review the transaction • Review the updated consideration provided by management's expert and the appropriateness of the interest rate swap Our work is still ongoing, including the review of management's expert review and we will report any findings to members in the Audit Findings Report. At this stage, we remain of the view that that matter should not be recorded under hedge accounting due to the hedge documentation not being in place until circa a year after taking out the swap.

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Progress at October 2023 (cont.)

Value for Money

The Value for Money work for 2020/21 and 2021/22 was reported in November 2022. The work for 2022/23 is ongoing.

We have commenced this 2022/23 work and have so far held meetings with Senior Management, with more to be completed, and undertaken a desktop review of documentation to support management's assessment and inform our overall judgement. The areas of potential significant weakness as:

- Financial sustainability and the risk that without robust management and a full consideration of all risks facing the Council that financial performance will deteriorate and there will be an over reliance on the use of reserves to meet shortfalls

We are working toward issuing the findings by the end of the Calendar year.

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2021/22 claim is now complete and work for 22/23 will start in February 2024.

Meetings

We met with Finance Officers in October and November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	November 2022	Completed
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	November 2023	Completed
Audit Findings Report The Audit Findings Report will be reported to the January Audit & Governance Committee.	January 2024	Not yet due
Auditors Report This includes the opinion on your financial statements.	January 2024	Not yet due
Auditor's Annual Report (2022/23) This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2024	Not yet due

2020/21 Audit-related Deliverables	Planned date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	September 2023	Completed

Sector Update

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

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

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

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

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

Public Sector

Local government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

an agreed approach to dealing with the backlog of local government audits

Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit & Governance Committees and auditors, and include a checklist for consideration by management and Audit & Governance Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]

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Current local audit deadline 'unachievable'- Grant Thornton

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

"Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies," the firm said.

In certain instances, audits are open as far back as 2017-18.

"Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

"This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable."

Current local audit deadline 'unachievable'- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show "significant failures in financial reporting and an unwillingness to improve".

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

"Unfortunately, the quality of too many financial statements and working papers are not adequate," Grant Thornton said.

"Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime."

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/

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DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit & Governance Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/

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Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/

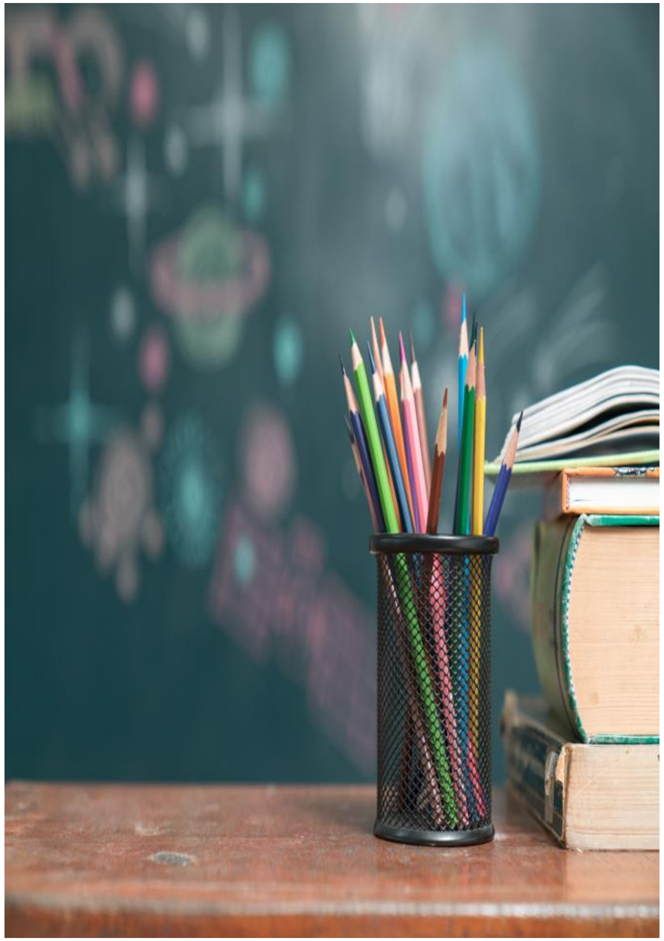
The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/



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LGPS valuation gives 'cause for optimism' – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)

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SEND deficits kept off budgets for another three years

The Government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before the announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".

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Audit and Governance Committee

Work Programme 2023/24

PLYMOUTH CITY COUNCIL

Please note that the work programme is a 'live' document and subject to change at short notice. The information in this work programme is intended to be of strategic relevance.

For general enquiries relating to the Council's Scrutiny function, including this Committee's work programme, please contact Hannah Whiting (Democratic Advisor) on 01752 305155.

Date of meeting	Agenda item	Reason for Consideration	Responsible Cabinet Member /Officer
25 July 2023	Internal Audit End of Year Report	To consider the work undertaken by Devon Audit Partnership during 2022/23, 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.	Brenda Davis
	Internal Audit Charter and Strategy	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.	Brenda Davis
	Counter Fraud Annual Report	To consider the work carried out during 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.	Ken Johnson
	Annual Governance Statement	To approve the Annual Governance Statement (statutory document required by Accounts and Audit Regulations).	Ross Jago
	Draft Statement of Accounts	The Draft Statement of Accounts 2022/23 are being presented for approval.	Carolyn Haynes

Date of meeting	Agenda item	Reason for Consideration	Responsible Cabinet Member /Officer
	TM Outturn report	To present the Treasury Management Outturn Report.	Wendy Eldridge
	Health, Safety and Wellbeing Annual Report 2022/23	To consider an annual report on Health, Safety and Wellbeing.	Di Saunders-Brewer
	External Audit - Progress Report	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.	Paul Dossett
	Risk Management Monitoring Report	To provide an update on the Council's Strategic and Operational Risks.	Ross Jago
	Report in the Public Interest – Thurrock Report	To provide a brief update on a report in the public interest – Thurrock Report.	David Northey
	Covid Grants for Business – DLUHC Report	To provide a brief update on the DLUHC response with regards to the covid grants for business.	David Northey
	Constitutional Review – Outline Plan	To present the outline plan.	Ross Jago
5 September 2023	Constitutional Review	To provide feedback from the sub-group to the Committee and to make recommendations onto City Council on 18 September 2023.	Ross Jago
26 September 2023	Internal Audit Progress Report	To note the findings in the report which provides Members with a position statement on audit work carried out.	Louise Clapton
	Annual Information Governance Statement		John Finch

Date of meeting	Agenda item	Reason for Consideration	Responsible Cabinet Member /Officer
	Impact of the Election Act 2022		Giles Perritt/ Glenda Favor-Ankersen
	Audit Actions Review	To provide the Committee with an update on the tracking of Audit recommendations from Grant Thornton and Devon Audit Partnership.	Caroline Haynes
	External Audit – Progress Report	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.	Paul Dossett
	Risk Management Strategy		Ross Jago
28 November 2023	Internal Audit Half Year Report	To consider the Council's Internal Audit Half Year Report.	Louise Clapton
	Counter Fraud Half Year Report	Half-year report to summarise the work carried out during the first 6 months of 2023/24 by the Counter Fraud Services Team.	Ken Johnson
	Treasury Management Strategy	To set out the Treasury Management Strategy and include the Annual Investment Strategy, the Non-Treasury Management Investment Strategy and the Minimum Revenue Provision Statement.	Wendy Eldridge
	Treasury Management Mid-Year Review		Wendy Eldridge

Date of meeting	Agenda item	Reason for Consideration	Responsible Cabinet Member /Officer
	Capital Finance Strategy	To set out the Capital Financing Strategy for 2024/25 (this is a requirement of The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.)	Wendy Eldridge
	Risk and Opportunity Management Strategy 2023-2025		Ross Jago
	Risk Management Monitoring Report November 2023		Ross Jago
	External Audit – Progress Report	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.	Paul Dossett
16 January 2024	External Audit – Auditor's Annual Report 22/23	To consider the Auditor's Annual Report 22/23 from the Council's external auditor, Grant Thornton.	Paul Dossett
	External Audit – Audit Plan 21/22	To consider the Auditor's Audit Plan 21/22 from the Council's external auditor, Grant Thornton.	Paul Dossett
12 March 2024	Internal Audit Plan 2024/25		Louise Clapton
	Whistleblowing Policy	To consider the Whistleblowing Policy.	Ken Johnson
	Treasury Management Practices & Procedures	A review produced annually of practices and principles used to conduct TM activities.	Wendy Eldridge
	External Audit – Progress Report	To consider the Audit Progress Report from the Council's external auditor, Grant Thornton.	Paul Dossett

Date of meeting	Agenda item	Reason for Consideration	Responsible Cabinet Member /Officer
	External Audit - Audit Findings Report 22/23	To consider the Audit Findings Report 22/23 from the Council's External Auditor – Grant Thornton.	Paul Dossett
Items to be scheduled 2023/24			
2023/24	Disclosure and Barring Checks for Councillor's – Policy	The Committee agreed that an addendum to the Disclosure and Barring Checks for Councillors Policy would be written to specify how the process for reviewing, discussing and managing DBS checks would take place – the addendum to the policy would be created in conjunction with the Audit and Governance Committee.	
2023/24	Consultation with Southhampton City Council results	Identified for consideration at the July 2023 meeting.	
Items to be scheduled for 2024/25			
2024/25			
2024/25			

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Audit and Governance Committee – Tracking Decisions 2023/24

Minute No.	Resolution	Date Due & Progress
Minute 4 **Chair's Urgent Business** 25 July 2023	The Committee agreed that officers should consult with Southampton City Council regarding the Electoral Cycle Consultation and Electoral Review and that the consultation is submitted to the Audit and Governance Committee prior to submission to Full Council.	**Date Due:** September 2023 **Progress:** An additional meeting will be held at the appropriate time.
Minute 5 **External Audit Report - Progress Report** 25 July 2023	The Committee agreed: 1. to note the External Audit Report – Progress Report; 2. recommended that the External Auditor set out their vision for the Council's outstanding audits at the September Audit and Governance Committee meeting detailing what work had been undertaken and what work was still left outstanding.	**Date Due:** September 2023 **Progress:** 1 – Complete 2 - Complete
Minute 27u **Assessment of the Impact of Voter ID on Plymouth residents and elections team** 26 September 2023	A report on the statistics showing the number of people refused a ballot because they had no ID, compared to those who were refused a ballot paper because they brought an invalid type of photo ID would be provided to the Committee.	**Date Due:** 30 November 2023 **Officer:** Glenda Favor-Ankersen **Progress:** Report requested.

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