

# Public Document Pack



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## **AUDIT COMMITTEE**

**DATE: FRIDAY 11 DECEMBER, 2009**

**TIME: 10.00 A.M.**

**PLACE: COUNCIL HOUSE, PLYMOUTH (NEXT TO THE CIVIC CENTRE)**

### **Members –**

Councillor Sam Leaves, Chair.  
Councillor Vincent, Vice-Chair.  
Councillors Stark, Thompson and Tuohy.

### **Independent Members –**

Mr. R. Clarke, Ms. L. Myles and Mr. I. Stewart.

### **Substitutes -**

Any Members other than a Member of the Cabinet may act as a substitute member provided that they do not have a personal and prejudicial interest in the matter under review.

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

***Members and Officers are requested to sign the attendance list at the meeting.***

BARRY KEEL  
CHIEF EXECUTIVE

**AUDIT COMMITTEE**  
**PART I (PUBLIC 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 - 6)**

To confirm the minutes of the meeting held on 25 September, 2009.

**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. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT**

**(Pages 7 - 14)**

The Director for Corporate Support will submit an update report on Operational Risk Management.

**6. OPERATIONAL RISK MANAGEMENT - COMMUNITY SERVICES DIRECTORATE**

The Director for Community Services will provide a verbal update on Operational Risk Management.

**7. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) TRANSITION PROJECT - PROGRESS REPORT**

**(Pages 15 - 20)**

The Director for Corporate Support will submit a progress report on the IFRS Transition Project.

**8. AUDIT COMMITTEE WORK PROGRAMME**

**(Pages 21 - 24)**

The Assistant Head of Devon Audit Partnership will submit the Audit Committee's Work Programme for 2009/10.

**9. ANNUAL AUDIT LETTER 2008/09**

**(Pages 25 - 44)**

The City Council's External Auditor, Grant Thornton, will submit the Annual Audit Letter.

**10. USE OF RESOURCES 2009 - FINDINGS AND CONCLUSIONS (Pages 45 - 100)**

The City Council's External Auditor, Grant Thornton, will submit the Use of Resources Report for 2009.

**11. PLYMOUTH CITY COUNCIL'S USE OF RESOURCES ACTION PLAN**

The Director for Corporate Support will present the Use of Resources Action Plan.

**12. AUDIT PLAN - PROGRESS REPORT (Pages 101 - 102)**

The City Council's External Auditor, Grant Thornton, will submit a progress report on the Audit Plan.

**13. PROJECT MANAGEMENT ARRANGEMENTS (To Follow)**

The City Council's External Auditor, Grant Thornton, will report on Project Management Arrangements.

**14. EXEMPT BUSINESS**

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

**PART II (PRIVATE COMMITTEE)**

**AGENDA**

**MEMBERS OF THE PUBLIC TO NOTE**

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

**15. INTERNAL AUDIT - 6-MONTHLY PROGRESS REPORT (Pages 103 - 126) (E3)**

The Assistant Head of Devon Audit Partnership will submit the 6-monthly Internal Audit Progress Report.

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## Audit Committee

Friday 25 September 2009

### PRESENT:

Councillor Sam Leaves, in the Chair.

Councillor Vincent, Vice Chair.

Councillors Martin Leaves (Substitute for Councillor Stark), Thompson and Tuohy.

Independent Members: Mr R Clarke, Ms L Myles and Mr I Stewart.

Apology for absence: Councillor Stark.

The meeting started at 10.00 am and finished at 12.35 pm.

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

### 12. DECLARATIONS OF INTEREST

The following declarations of interest were made in accordance with the Code of Conduct –

Name	Minute No. and Subject	Reason	Interest
Councillor Martin Leaves	Minute 16 Statement of Accounts 2008-09	Relative employed by Plymouth City Bus Ltd	Personal
Councillor Sam Leaves	Minute 16 Statement of Accounts 2008-09	Relative employed by Plymouth City Bus Ltd	Personal
Councillor Vincent	Minute 16 Statement of Accounts 2008-09	Relative employed by Plymouth City Bus Ltd	Personal

### 13. MINUTES

Resolved that the minutes of the meeting held on 25 September 2009 are confirmed as a correct record.

### 14. CHAIR'S URGENT BUSINESS

There were no items of Chair's urgent business.

### 15. PLYMOUTH CITY COUNCIL AUDIT OF ACCOUNTS 2008-09 - ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE

The City Council's external Auditor, Grant Thornton, submitted a report highlighting the key issues affecting the results of the Council and the preparation of its financial statements for the year ended 31 March 2009. The Committee was advised that –

- (i) the audit was substantially completed although procedures were being finalised in the following areas –

- (a) audit of the Group accounts, to include reviewing the responses from the external auditors of group organisations, which have been requested to be received before 18 September 2009;
  - (b) receipt and review of the letter of representations;
  - (c) review of the final version of the statement of accounts;
  - (d) updating the post balance sheet events review to the date of signing the accounts;
- (ii) with regard to (i) a. above, the Group accounts included organisations that the Council had significant interest in which included the Tamar Bridge and Torpoint Ferries, the Theatre Royal and Plymouth City Bus Ltd; the Group accounts were unable to be signed off until confirmation had been received that their accounts were fair and accurate;
- (iii) the external auditor for Plymouth City Bus Ltd, PricewaterhouseCoopers, had a number of concerns that had currently not been addressed and until such time as these were, Grant Thornton would be unable to provide an opinion on the Group accounts; this may result in the statutory deadline of 30 September 2009 for signing off the accounts being missed (the Audit Commission had been made aware of this position);
- (iv) officers had only been made aware of this position at a very late stage; in order to prevent this situation from arising in future years, work would be undertaken with the subsidiary organisations to ensure any delays were notified in a timely manner.

In response to their questions, the Committee were advised that –

- (a) a risk review of senior officers' expenses had been undertaken;
- (b) credit ratings of those companies the Council had investments in were monitored on a daily basis; the Treasury Management Board met on a weekly basis, in order to respond to changes more promptly; information on the credit ratings could be made available to Committee Members;
- (c) it was possible that the Council's late submission of its accounts, due to the information awaited from Plymouth City Bus Ltd, may have an impact on its assessment scores;
- (d) there were no concerns relating to the accounts of Plymouth City Bus Ltd but the information awaited would demonstrate whether the organisation was a going concern;
- (e) although in previous years there had been problems with the provision of information from Plymouth City Bus Ltd, a meeting had been held in January 2009, where clear expectations had been set out;
- (f) although usage records of vans were kept, the Council was currently investigating the purchase of a tracker system;
- (g) an action plan on the Use of Resources would be submitted to a future Committee meeting.

Resolved that Grant Thornton's report on Plymouth City Council's Audit of Accounts 2008-09 Annual Report to those Charged with Governance is noted.

16. **STATEMENT OF ACCOUNTS 2008/09**

The Director for Corporate Support submitted a report outlining the amendments made to the Statement of Accounts for 2008-09 which had previously been approved by the Committee at its meeting on 26 June 2009. The Committee was advised that the minor changes were in relation to –

- Debtors/Creditors
- Government Grants Deferred Account
- Icelandic Bank Investments
- Pension Liability
- Post Balance Sheet Event

Resolved that –

- (1) subject to Grant Thornton receiving confirmation from Plymouth City Bus Ltd's external auditors that they were able to provide an unqualified opinion on Plymouth City Bus Ltd's financial statement, the Audit Committee delegate authority to the Director for Corporate Support in consultation with the Chair and Vice Chair to approve Plymouth City Council's Statement of Accounts 2008-09;
- (2) if Grant Thornton received a qualified opinion on Plymouth City Bus Ltd's financial statement, the Audit Committee would re-convene prior to the authorizations of Plymouth City Council's Statement of Accounts 2008-09.

17. **PROGRESS REPORT - INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) TRANSITION PROJECT**

The Director for Corporate Support submitted an update report on the transition project to produce the statutory accounts on an International Financial Reporting Standards (IFRS) basis.

Arising from a question from the Chair, it was reported that the subsidiary companies were not required to produce accounts under the International Financial Reporting Standards (IFRS). Although, the format for these accounts would need to be amended to comply with IFRS as part of the City Council's accounts.

Resolved that the progress to date of the International Financial Reporting (IFRS) Transition Project is noted.

18. **2008-09 AUDIT PLAN PROGRESS REPORT**

Grant Thornton submitted a report detailing the progress on the external audit 2009-10.

Resolved that the report is noted.

19. **OPERATIONAL RISK MANAGEMENT UPDATE REPORT**

The Director for Corporate Support submitted a report outlining the progress being made across services in delivering Operational Risk Registers based on the new approach.

The Committee recognised the work undertaken by Julie Hosking, Risk Management and Insurance Officer during the Corporate Risk Manager's recent absence.

In response to their questions, the Committee was advised that –

- (i) the minutes of the Operational Risk Management Group were submitted to the senior and council management teams;
- (ii) by inviting Directors to attend future Committee meetings, this would provide a perspective of what was happening at ground level and also demonstrate that the Committee took this matter seriously.

Resolved that –

- (1) the progress made with the development of the new approach to operational risk management is noted;
- (2) copies of the Operational Risk Management Group's minutes are circulated to Committee Members;
- (3) Directors are requested to attend future meetings of the Audit Committee to provide feedback on the operational risk management within their departments.

## 20. **STRATEGIC RISK REGISTER MONITORING REPORT**

The Director for Corporate Support submitted a report summarising details of the latest formal monitoring exercise completed for the Risk Register for the period March 2009 to August 2009.

Resolved that the report is noted and the current position is endorsed.

## 21. **RISK MANAGEMENT - ANNUAL REPORT**

The Director of Corporate Resources submitted the Risk Management Annual Report. The report –

- (i) summarised the work carried out during 2008/09 to develop the Council's approach to risk management and covered -
  - Corporate and Operational Risk Management Groups
  - Risk Registers
  - Performance Management and Business Planning
  - Code of Corporate Governance
  - Statement on Internal Control/Annual Governance Statement
  - CPA Use of Resources Assessment
  - Comprehensive Area Assessment
- (ii) provided information on the focus of proposed risk management activity over the next twelve months following the transition from Comprehensive Performance Assessment of local government to Comprehensive Area Assessment in April 2009.

Following comments from the Chair relating to the 'ePerform' system, it was suggested that a member of the Policy and Performance unit be invited to a future meeting of the Committee to demonstrate the system and assist Members understanding.

Resolved that –

- (1) the report is noted;
- (2) a member of the Policy and Performance unit is invited to attend a future Committee meeting to demonstrate the 'ePerform' system.

## 22. **WORK PROGRAMME 2009-10**

Resolved that the work plan -

- (1) for December 2009 to September 2010 is noted;
- (2) includes the following items for the January 2010 meeting –
  - (a) how the Audit Committee links to the decision-making process of the



Council;

(b) the provision of training.

23. **EXEMPT BUSINESS**

There were no items of exempt business.

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**CITY OF PLYMOUTH**

**Subject:** Operational Risk Management Update Report

**Committee:** Audit Committee

**Date:** 11<sup>th</sup> December 2009

**Cabinet Member:** Cllr Bowyer

**CMT Member:** Director of Corporate Support

**Author:** Mike Hocking, Corporate Risk Manager

**Contact:** [mike.hocking@plymouth.gov.uk](mailto:mike.hocking@plymouth.gov.uk)  
Tel : 01752 - 304967

**Ref:** CRM/MJH

**Part:** I

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**Executive Summary:**

At the meeting of the Audit Committee on 18<sup>th</sup> December 2008, I reported that Services were engaged in a revision to their Operational Risk Registers in order to identify and align risks with their Business Plans in accordance with new guidelines on operational risk management introduced as part of the 2008/9 Business Planning guidance document "Striving for Excellence".

This revised approach, together with a supporting guide for managers, "Risk Management and Business Planning", was endorsed and approved by this Committee on 25<sup>th</sup> January 2008.

This report now outlines the continuing progress being made across Services in delivering Operational Risk Registers based on this approach.

The total number of operational risks now reported across all services is 127, comprising 2 high (red) risk, 75 medium (amber) risks and 50 low (green) risks.

Commentary on the high risk areas is included in the report together with details of control actions/mitigation in place.

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**Corporate Plan 2009/12:**

Operational Risk Registers are now being aligned to Business Plan objectives which are in turn linked to the Corporate Plan and Corporate Improvement Priorities. This ensures that appropriate links are identified with individual risks where control action contributes to the delivery of a key corporate objective.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land:**

None arising specifically from this report but control measures identified in risk registers could have financial or resource implications.

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equality Impact Assessment etc.**

None arising specifically from this report but community safety and health and safety risks are taken into account in the preparation of risk registers.

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**Recommendations & Reasons for recommended action:**

The Audit Committee is recommended to:

- Note the current position with regard to operational risk management.
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**Alternative options considered and reasons for recommended action:**

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.

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**Background papers:**

Plymouth City Council Risk Management Strategy and Policy Statement  
Operational Risk Registers and associated working papers  
“Risk Management and Business Planning” Guidance Note, January 2008  
Previous reports on risk management to Audit Committee

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**Sign off:**

Head of Fin	SW	Head of Leg	DVS 1076	Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member : David Shepperd, Head of Legal Services											

**Report of Director of Corporate Support to Audit Committee  
11<sup>th</sup> December 2009**

**Operational Risk Management Update Report**

**1. Introduction**

- 1.1 At the meeting of the Audit Committee on 18 December 2008, I reported that Services were engaged in a revision to their Operational Risk Registers in order to identify and align risks with their Business Plans in accordance with new guidelines on operational risk management introduced as part of the 2008/9 Business Planning guidance document “Striving for Excellence”.
- 1.2 This revised approach, together with a supporting guide for managers, “Risk Management and Business Planning”, was endorsed and approved by this Committee on 25<sup>th</sup> January 2008.
- 1.3 This report now outlines the continuing progress being made across Services in delivering Operational Risk Registers.
- 1.4 The total number of operational risks now being reported across all services is 127, comprising 2 high (red) risks 75 medium (amber) risks and 50 low (green) risks.
- 1.5 The report includes commentary on the high risk areas identified together with details of control actions/mitigation.

**2. Background**

- 2.1 The Council’s approach to risk management is judged annually through the Use of Resources assessment as part of its Comprehensive Area Assessment (CAA).
- 2.2 Key Line of Enquiry 4.1 of the Use of Resources assessment (“The Council manages its significant business risks”) includes at Level 4:  
  
*“The Council can demonstrate that it has embedded risk management in its business processes, including strategic planning and policy making and review...”*
- 2.3 As this KLOE will be a mandatory Level 3 requirement (down from 4) in future Use of Resources assessments, it is important that operational risks in departmental Business Plans are identified and linked to key Service objectives if the Council is to retain its current score.
- 2.4 The good progress made towards this objective outlined in this report should provide Members with assurance that operational risks are now being

identified effectively, mitigation actions put in place and Operational Risk Registers monitored routinely alongside the delivery of Business Plan objectives.

### **3. Operational Risk Registers and Analysis of Risks Identified**

**3.1** Departmental Risk Champions have made good progress embedding the risk management process to enable service level Operational Risk Registers to be brought in line with the new guidance "Risk Management and Business Planning".

**3.2** In drawing up their Business Plans, Heads of Service are now asked to identify risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis at management team meetings, will be tracking the effectiveness of mitigation controls.

**3.3** As the risk identification process includes quantification through a probability/impact assessment, Services should also be able to identify key risks and prioritise resources more effectively.

**3.4** Risks are also being linked where appropriate with the 13 Corporate Improvement Priorities and in this way monitoring of operational business risks will be directly contributing to the delivery of corporate objectives.

**3.5** Risks will need to be reviewed in those areas that are affected by the senior management re-structure.

**3.6** All Services have therefore now either completed new Operational Risk Registers or, where affected by the Management re-structure, are reporting work in progress in line with development of their Business Plans.

**3.7** An update across directorates is provided below:

- **Children's Services**

The Business Plan for Children's Services is the "Children's and Young People's Trust Plan" (CYP Trust). An Operational Risk Register has been drawn up which identifies significant risks to the delivery of the 10 priorities under the "Every Child Matters" outcomes identified in the Plan. The Register is divided into four main categories of risk – Lifelong Learning / Commissioning, Policy and Performance, Learner and Family Support and Children's Social Care.

Risks are reviewed quarterly by DMT with a yearly review to ensure the Register continues to identify relevant risks to the delivery of the CYP Trust Plan objectives.

- **Development**

Following the recent restructure within the department a review is now taking place of the new performance reporting mechanism to DMT. Members of DMT have risks “bookmarked” in the performance management system – ePerform so that they can review risks at any time. DMT has reviewed all risks including those relating to the Corporate Improvement Priorities. The Department are beginning to look at ways of working across services where risks are identified as having a cross-cutting role.

- **Community Services**

Key operational risks are integrated into the directorate’s Business Plan Monitoring Framework and risks are linked where appropriate to the Corporate Improvement Priorities and are reviewed in each Service area as a standard six monthly agenda item on SMT meetings which the Department Risk Champion attends to ensure the process is embedded. The recent restructure and transfer of Housing Stock to Plymouth Community Homes has resulted in a reduction in the number of risks recorded.

- **Assistant Chief Executive**

Whilst Business Plans have been drawn up for individual Services, existing operational risks have not been fully aligned with key service objectives. Further work is being undertaken to fully embed the Risk Management process in the Department following changes to functional responsibilities resulting from the senior management restructure.

- **Corporate Support**

Operational Risk Registers for Revenues and Benefits and Legal Services, have been reviewed and refreshed in line with 2009/10 Business Plans, threats to the delivery of key service objectives have been identified and links made with the Corporate Improvement Priorities. Risks will be reviewed regularly at DMTs as part of the monitoring of the delivery of Business Plans. The Finance Service register links risks to core business activities and key priorities for the Finance Service. The Risk Champion meets individually with risk owners to review core business risks and their mitigating actions, review the relevancy of previous risks and inform of any emerging risks. All risks are then reviewed quarterly at Finance Management Team (FMT). Human Resources and ICT maintain and monitor operational risk registers but further work is ongoing to fully align risks with business plans.

**3.8** The table below shows the total number of risks now identified in operational risk registers across the Council and shows the comparison with the last monitoring period:

<b>Risk Category</b>	<b>No. of Risks – June 2009</b>	<b>No. of Risks – Dec 2009</b>
Red (High)	1	2
Amber (Medium)	74	75
Green (Low)	106	50
<b>Total</b>	<b>181</b>	<b>127</b>

**3.9** The reduction in the total number of risks is primarily due to the transfer of the Housing Stock to Plymouth Community Homes.

#### **4. Red Risks**

**4.1** The “red” risk identified in June 09 has now been reduced to “amber” and information on this and the 2 new red risks is given below:

<b>Department</b>	<b>Potential Risk</b>	<b>Mitigation</b>
<b>AMBER RISK (formerly Red)</b>  Community Services – Parks	Condition of Hoe Foreshore – further capital investment needed to carry out additional health and safety improvements.	Scrutiny Panel appointed. Updated Risk Assessment and action plan has been drawn up with the H & S team and £406,000 of work implemented to carry out Health & Safety improvements. Tinside Diving Stage to be demolished.

<b>Department</b>	<b>Potential Risk</b>	<b>Mitigation</b>
<b>NEW RED RISK</b>  Community Services – Safer Communities	Reduction/withdrawal of grant funding for Community Safety commissioning.	Investigating other sources of funding.
<b>NEW RED RISK</b>  Children’s Services	Inability of Carefirst to meet business requirements in terms of changes to service provision.	Project plan initiated which will scope the full impact of Carefirst. Detailed project risk register in place.

#### **5. Risk Register Information**

**5.1** Risk Registers include mitigation actions/controls for all risks identified together with a named risk owner in each case in order to aid monitoring which is being built into the business plan monitoring framework in each service.

**5.2** Risk information is being recorded on the corporate performance management system, ePerform, using the risk management reporting module and the quality of the data has improved over the past 12 months.

**5.3** More detailed information on individual Services’ risk registers can be obtained from departmental risk champions, Heads of Service or the Corporate Risk Manager.



**6. Update of Risk Management Strategy**

- 6.1 Work is underway to revise the current Risk Management Strategy to ensure that it continues to reflect current structures and processes.
- 6.2 A revised draft has been discussed and agreed by the Operational Risk Management Group and is now being consulted on with key stakeholders prior to presentation to the next meeting of this Committee.

**7. Directorate Presentations on Management of Operational Risk**

- 7.1 Following a proposal which was discussed and agreed at Audit Committee on 25<sup>th</sup> September 2009, directorate representatives will be invited to attend this Committee on a rotational basis to present on how risk management is being embedded within their Department.
- 7.2 The Department for Community Services will be presenting their approach at today's meeting.

**8. Risks and the Budget & Performance Report**

- 8.1 Department Risk Champions have been asked to provide a completed register template on emerging red risks within their department to the Corporate Risk Manager as soon as information is available so that the detail can be included in the bi-monthly Budget & Performance report, rather than wait until the 6 monthly formal monitoring.
- 8.2 This is to ensure that any budgetary implications can be identified at an early stage.

**9. Conclusion**

- 9.1 The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 9.2 The new approach to operational risk management now being developed is very much focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business Plans – this in turn should in time impact positively on outcomes for citizens and, if fully implemented as a routine business practice, will go a long way towards meeting the risk management requirements of the new inspection framework for Comprehensive Area Assessment.
- 9.3 One of the roles of the Audit Committee is to seek and receive assurances that the Council has an effective internal control framework in place which includes arrangements for the management of risk at both strategic and

operational level.

**9.4** This update report confirms that operational risks are now being identified across Services with much clearer links to Business Plan objectives.

**9.5** The Operational Risk Management Group is continuing to work with departmental Risk Champions to maintain the good progress to date and to further develop consistent application of risk management considerations in core business processes.

**9.6** A further progress report will be brought to Audit Committee in June 2010.

**10. Recommendation**

**10.1** Members of the Audit Committee are invited to note the current position with regard to operational risk management.

**CITY OF PLYMOUTH**

**Subject:** Progress Report – International Financial Reporting Standards (IFRS) Transition Project

**Committee:** Audit Committee

**Date:** 11 December 2009

**Cabinet Member:** Portfolio Holder for Budget & Asset Management, Revenues & Benefits, People and Governance

**Author:** Claire Fisher

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**Ref:** ACCT/CJF

**Part:** 1

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**Executive Summary:**

This report provides a further update on the IFRS transition project as at December 2009.

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**Corporate Plan 2009- 2012**

The Council's expenditure and income forms the basis on which the Corporate Plan can be delivered. Delivering quality, IFRS compliant accounts will be assessed under the new Use of Resources Assessment and the project therefore falls under CIP14, Value for Money.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including Finance, Human IT and Land:**

The implementation of IFRS requires considerable time and resources, which will continue over the medium term. Whilst the majority of the work will be undertaken within existing resources, there may be a need for specialist support which will be identified as the project progresses.

Work continues to be undertaken by the public sector professional accountancy body (CIPFA) in order that accounting issues that might impact adversely on the Councils' finances are identified and potential solutions developed as early as possible. The Department for Communities and Local Government have issued a draft regulation for consultation which proposes mitigating action for authorities affected by the new accounting requirements in respect of employee benefits, PFI and lease reclassifications.

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety etc:**

N/A

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**Recommendations & Reasons for recommended action:**

Audit Committee note the progress on the IFRS Transition Project as at December 2009.

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**Alternative options considered and reasons for recommended action:**

None – Statutory requirement to produce the Statement of Accounts using the relevant codes of practice.

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**Background papers:**

Various articles, guidance and literature published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and accountancy firms PricewaterhouseCoopers and Grant Thornton.

IFRS reports to Audit Committee– 18 December 2008, 24 June 2009 and 25 September 2009

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**Sign off:**

Fin	Mc CorpF90 0007	Leg	n/a	HR	n/a	Corp Prop		IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

## Progress Report – IFRS Transition Project

### 1. Introduction

- 1.1 This report provides an update on the work undertaken during the period September to December to ensure the Council will be able to produce its statutory accounts on an IFRS basis from 2011/12.

### 2. Progress during the period

- 2.1 Detailed Impact assessments have now been completed for each of the International Reporting Standards. These assessments set out the implications on the authority's finances, processes, systems and people. The key issues identified as a result remain in line with those outlined in the initial high-level review undertaken earlier in the year as follows:-

- IAS 8 Accounting Policies
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 19 Employee Benefits
- IFRS 1 First-time adoption of IFRS
- IFRIC 12 PFI & PPP

- 2.2 Work currently in progress includes:

- reviewing and updating the accounting policies based on the new CIPFA Code of Practice
- preparing the opening IFRS Balance Sheet to reflect the position as at 1 April 2009 on an IFRS basis
- restating the Income and Expenditure Account and Balance Sheet into the new IFRS format
- initial work to update Council's financial system for the revised 'chart of accounts'.

### 2.3 PFI Contracts

New requirements for accounting for PFI contracts comes into effect for the 2009/10 accounts. The Council currently has one PFI scheme encompassing the schools at Woodview and Riverside primary. This scheme has been assessed as meeting the requirements to be accounted for 'on balance sheet' with effect 1 April 2009. Although initial work to identify all the factors which will need to be taken into account has been completed, this area is a highly specialist and complex technical area and Officers are currently seeking external support to complete the financial modelling necessary to enable the relevant restatement of the accounts. It is proposed that officers work with the advisors in order to gain knowledge in this area to enable future the PFI accounting entries to be undertaken internally.

### **3. The IFRS Code of Practice**

3.1 The initial consultation on the draft IFRS Code of Practice ended on 11 September 2009. The main changes that have been made to the draft Code have been confirmed as:

- the provision of additional clarification and / or guidance for various aspects of the Code; and
- the addition of two sections relating to accounting for Government Grants and Borrowing Costs.

3.2 Formal publication of the final Code is expected in the next few days, although the more detailed practitioner guidance notes will not be available until the spring of 2010.

### **4. Mitigation of financial implications of IFRS**

4.1 Following representations by CIPFA, the Department for Communities and Local Government have issued draft regulations outlining proposals to mitigate any financial impact resulting from the move to IFRS based accounting on Council tax payers. In particular, the draft regulations outline proposals to mitigate:

- the financial impact from the requirement to include accrued holiday and other employee benefits on the balance sheet
- any financial implications as a result of the inclusion of PFI schemes on the balance sheet
- any adverse implications from lease reclassifications, allowing income from leases reclassified from operating to finance leases to continue to be treated as revenue income providing the lease was entered into prior to the issue of the draft regulations.

4.2 The final regulations will be issued by 31 March 2010 to allow the impact of PFI schemes to be offset in the 2009/10 accounts.

### **5. Officer Training and Raising Awareness of IFRS**

5.1 Officers continue to attend relevant training events, mainly organised by CIPFA's Finance Advisory Network, which focus on the more technical issues surrounding IFRS and provide the opportunity to network with other authorities.

5.2 Plymouth hosted a seminar at the end of October entitled 'IFRS and local authority accounts' which was arranged as part of the CIPFA Wales and West of England regional activities. The seminar was well attended and received and included presentations from CIPFA's Local Government Accounting Technical Manager and Grant Thornton. As well as providing the chance to network with other authorities and discuss key issues this also provided the opportunity for officers within the authority to learn more about IFRS.

5.3 Officers are meeting with a representative from Plymouth PCT this month to discuss IFRS from a practical perspective. The NHS are required to produce their 2009/10 accounts on an IFRS basis. The aim is to learn from the NHS experience to date to assist with our preparations.

- 5.4 In terms of raising awareness of IFRS on a wider basis within the authority, the Project Manager will be briefing officers within the finance teams, not currently involved in any of the working groups, over the next few weeks. In addition, the Corporate Accountancy Section are aiming to develop an advanced budget manager training programme which will incorporate an overview of IFRS and the implications for the authority. It is hoped that this will be rolled out in the first few months of 2010.

## **6. External Audit involvement**

- 6.1 Officers are now in a position to ask the external auditor to review the initial work undertaken and to discuss the areas which will require changes to accounting treatment, valuation techniques, systems and processes, etc. and the plans to address these issues in order to be IFRS compliant for the 2010/11 accounts. Regular liaison with the external auditor is essential in order to ensure the proposals to address the areas requiring change are satisfactory from an audit perspective and therefore minimise the likelihood of major issues arising at a later date.
- 6.2 Officers were recently required to complete an Audit Commission IFRS survey in conjunction with the external auditor. The survey covered issues such as governance arrangements, project timetables, resources and the anticipated financial impact of IFRS. In addition authorities were also asked to rate their progress on the key IFRS issues (see paragraph 2.1 above for details) and provide an overall assessment of their progress to date and the key risks to success. The results of the survey are due to be published by the Audit Commission in March 2010, however, Officers can report that discussions with Grant Thornton on the survey resulted in both parties agreeing that, currently, our overall position would be reported as 'amber'.

## **7. Recommendations**

- 7.1 Audit Committee note the progress on the IFRS Transition Project as at the end of December 2009.

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**PLYMOUTH CITY COUNCIL**

**AUDIT COMMITTEE**

**WORK PROGRAMME**  
**January 2010 - December 2010**

**Work Plan 2010**

		2010											
	Cabinet Member / Lead Officer	J*	F	M	A*	M	J*	J	A	S*	O	N	D*
<b>Additional Provisional Meetings</b>		<b>22</b>			<b>9</b>								
Annual Governance Report (ISA 260)	External Auditors									24			
2008/09 Annual Audit and Inspection (Management) Letter	External Auditors			26									
External Audit - Progress Report	External Auditors			26			28			24			10
Internal Audit - Annual Plan	Cllr Bowyer / DfCS			26									
Internal Audit - 6 Monthly Progress Report	Cllr Bowyer / DfCS												10
Internal Audit Annual Report	Cllr Bowyer / DfCS						28						
Audit Committee Forward Work Plan	Chief Auditor			26			28			24			10

**Work Plan 2010**

		2010											
	Cabinet Member / Lead Officer	J*	F	M	A*	M	J*	J	A	S*	O	N	D
Review of Whistleblowing Policy	Cllr Bowyer / DfCS			26									
Operational Risk Register - Update Report	Cllr Bowyer / DfCS						28						10
Strategic Risk Register-Monitoring Report	Cllr Bowyer / DfCS			26						24			
Risk Management - Annual Report	Cllr Bowyer / DfCS						28						
2009/10 Accounts Audit - Interim Report	External Auditors			26									
Statement of Accounts 2009/10	Cllr Bowyer / DfCS						28			24			
Annual Governance Statement	Cllr Bowyer / DfCS						28						
Draft Audit & Inspection Plan 2010/11	External Auditors			26									

<b>Work Plan 2010</b>
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		2010											
	Cabinet Member / Lead Officer	J*	F	M	A*	M	J*	J	A	S*	O	N	D
External/Internal Audit Protocol	External Auditors			26									
UoR Report	Cllr Bowyer / DfCS												10
International Financial Reporting Standards (IFRS) Transition Project - Progress Report	Cllr Bowyer / DfCS			26			28			24			10

\* **Audit Committee dates to be confirmed**



**Plymouth City Council**

**Annual Audit Letter 2008-09**

November 2009

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# 1 Introduction and key messages

## **Purpose of this letter**

- 1.1 This annual audit letter summarises the key issues arising from the work that we have carried out at Plymouth City Council ('the Council') during our 2008-09 audit. The letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission. Our work considers the Council's key risks when reaching our Code of Audit Practice conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **What this letter covers**

- 1.6 This letter covers our 2008-09 Code audit, including key messages and conclusions from our work in:
- auditing the 2008-09 financial statements (section 2);
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (section 3);
  - PAYE and Employment Tax review, and
  - certification work on grant claims and returns.
- 1.7 We have not repeated the recommendations agreed with the Council during the year in this letter. A list of the reports that contain these recommendations can be found at appendix A.

## Key messages for the Council

- 1.8 We issued an unqualified audit opinion on the Council's financial statements dated 30 September 2009. The financial statements and the working papers supporting the statements had improved considerably from the prior year and were of good quality. But there remains scope to further improve working with subsidiary organisations to ensure that Group Accounts can be prepared and audited in line with the Council's timetable. The Council is also making reasonable progress against its plans for the implementation of International Financial Reporting Standards and has worked closely with us during the year to discuss emerging accounting and technical issues. However, we would urge the Council to closely monitor the delivery of this project against its plans to ensure that there are no slippages against an already tight timescale.
- 1.9 We issued an unqualified audit opinion on the Council's arrangements to secure value for money. For 2009-10, the Council needs to build on its use of resources scores and increase the focus on demonstrating clear outcomes. The following actions should be considered to improve arrangements further in 2009-10:
- The Council should continue to manage its costs, performance and productivity closely to challenge why and how it provides services and whether, with partners, there are alternative options;
  - The Council should implement a robust process for validating the accuracy of data supporting all performance indicators; and
  - The Council should actively consider the social and environmental impact of all decisions.
- 1.10 The context for these key messages can be found in this letter and management has agreed to implement our recommendations in these areas.



## 2 Audit of accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008-09 accounts on 30 September 2009, in accordance with statutory timescales. Our opinion confirms that the accounts for the Council and its Group present fairly, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 2.2 Prior to giving our opinion on the accounts, we were required to report significant matters arising from the audit to "those charged with governance" (which is the Audit Committee at the Council). We presented our annual report to those charged with governance to the Audit Committee on 25 September 2009 and summarise only the key messages in this letter.

### Audit of the accounts

- 2.3 The Council prepared good quality financial statements, in line with statutory requirements. A small number of audit adjustments were required to the accounts, in particular relating to the amortisation of a government grants received to fund capital assets and the identification of year-end adjustments. The aggregate impact of adjusted misstatement resulted in a decrease on the overall deficit on the Income and Expenditure account of £314,130. The key action identified from our work is set out below:
- two subsidiaries within the Council's group did not have their accounts approved by their Board within the agreed timetable. This resulted in the approval of the Council's Group accounts being deferred from the 25 September 2009 to the 30 September 2009, under delegated arrangements. Plans are in place to ensure that all subsidiaries accounts have been appropriately approved within an agreed timetable in future years.
- 2.4 Our annual report to those charged with governance reported one unadjusted item, which did not materially affect the accounts. This related to the valuation of the net pension assets undertaken by the Actuary that was estimated by the auditors of the pension fund to be £2.6m higher than those assumed by the Council's actuarial report. We were satisfied that differences in this area are likely to occur, due to the timing of producing the draft and final versions of the accounts. As such, and due to the value of the item, we were satisfied that this item need not be adjusted within the final audited version of the accounts.

## Financial performance

- 2.5 The Council has managed a challenging financial position during 2008-09 with the economic decline impacting on income levels right across the Council's budget. The Council delivered its General Fund service plans for a total net cost of £189.9million, representing an overspend of £786,000 against the revised budget of £189,1 million, a variance of 0.42% to the original budget. This overspend was funded by transfers from the general fund.
- 2.6 The Council was awarded £796,000 additional Local Authority Business Growth Incentive (LABGI) grant relating to the 2007-08 financial year. This was transferred to the General Fund Balance as at 31 March 2009, resulting in an increase in the Council's General fund balance from £11.73m to £11.74m, after these transfers.
- 2.7 Our review of the latest joint finance and performance report, as at the end of July 2009, shows the Council is forecasting an overspend of £3.3m against a net revenue budget of £196.5m (1.7%). The main variances relate to the increased pressure in children looked after cases and in adult social care. Robust action plans are currently been drawn up by the Council to address the deficit forecast. We will continue to monitor the Council's financial standing and its performance against budgets throughout the year.
- 2.8 Our ongoing discussions with the Council indicate the challenging nature of future spending commitments and plans as a result of the current economic environment. We will continue to assess how the Council is responding to these pressures in its development of robust budgets and savings plans for the short and medium term.

## Financial systems

- 2.9 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any issues around the design or operation of controls that present a material risk to the accuracy of the financial statements.
- 2.10 We completed a full review of the Council's Internal Audit Service in 2007-08, to assess its overall level of compliance against the CIPFA internal audit standards. We have revisited our findings this year to assess the progress made in responding to recommendations made last year. Overall, we concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2008-09 accounts. The Council has changed its arrangements for the delivery of Internal Audit services from 1 April 2009, moving to a shared service arrangement with some of the other Council's within Devon. As a result, we will undertake a further full review of the service as part of our audit next year.
- 2.11 Our information systems specialist performed a high level review of the general IT control environment, as part of our assessment of the overall internal control system and concluded that there were no significant weaknesses which could adversely impact on the Council's financial statements.

- 2.12 We found that the Council's processes and controls for financial reporting were generally sound with only minor weaknesses identified regarding journals and the clearance of suspense accounts.
- 2.13 We have followed up the action plan arising from the 2007-08 interim and final accounts audits and concluded that progress had been made in addressing previous audit recommendations.

## Annual Governance Statement

- 2.14 We have reviewed the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Our review has confirmed the statement to be satisfactory with only a small number of adjustments required to the presentation of the AGS.

## Rights of the public

- 2.15 Members of the public and other relevant interested stakeholders in the financial affairs of the City Council have the right to raise issues with ourselves, as the external auditor and, if necessary, raise objections in relation to items within the accounts.
- 2.16 We have received a number of queries from interested parties throughout the year and have considered these and, where appropriate, made comments back to the Council. Where there have been issues identified that warrant improvement in the Council's underlying arrangements, these have been discussed and accepted by officers and we will continue to monitor the implementation of these. We did not receive any objections in relation to the 2008-09 accounts. In addition, the District Auditor formally concluded his investigation from previous years and has certified previous years' accounts audits as closed and we have certified that the accounts audit for 2007-08 and 2008-09 as closed.

## PAYE and Employment Tax review

- 2.17 As part of our added value offering to the Council, we asked our taxation and PAYE experts to review the Council's underlying arrangements of PAYE, expenses and benefits at the Council. In particular;
- payroll, where we considered the aggregation of multiple jobs for PAYE purposes, payments in lieu of notice, PAYE settlement agreements/dispensations and expenses,
  - vehicles, where we considered company van usage, pooled cars arrangements and the fixed profit car schemes; and
  - procedures for dealing with the Construction Industry Scheme (CIS).

- 2.18 We concluded that the overall arrangements are generally sound, with effective processes in place. Some areas for improvement were identified and an action plan has been agreed with management to drive improvements forward.

## **Certification of Grant Claims**

- 2.20 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:
- claims below £100,000 are not subject to certification;
  - claims between £100,000 and £500,000 are subject to a reduced, 'light – touch' certification; and
  - claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims
- 2.21 We have already completed the certification of a number of claims for the Council relating to the 2008-09 financial year and have met all government department deadlines set under these arrangements. Our certification work is expected to be complete by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

## 3 Use of resources

### Introduction

- 3.1 We issued our annual Value for Money conclusion on 30 September 2009, at the same time as our accounts opinion, in line with statutory requirements. We concluded that, for 2008-09, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### 2008-09 Value for money conclusion and use of resources assessment

- 3.2 Auditors inform and limit their value for money conclusion by reference to relevant criteria under the Audit Commission Code of Audit Practice. These criteria cover particular areas of audited bodies' arrangements specified by the Audit Commission under the Code of Audit Practice. From 2008-09, the key lines of enquiries for the scored use of resources assessment also form the criteria for the value for money conclusion. Failure to achieve an 'adequate' assessment in any one or more area results in either an "except for" or "adverse" overall conclusion, in respect of those specific areas.
- 3.3 We assessed the Council as achieving level two or above in all of the areas covered by our use of resources assessment. This enabled us to issue 'adequate' conclusions for all of the relevant criteria within our overall value for money conclusion.
- 3.4 These assessments, and their impact on the overall 2008-09 conclusion for the Council, are summarised in table 1 overleaf.

**Table 1: Components of value for money conclusion 2008-09**

Area	Source of evidence	Use of resources Score	Arrangements adequate?
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	KLoE 1.1	3	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	KLoE 1.2	3	Yes
Is the organisation's financial reporting timely, reliable and does it meet the of internal users, stakeholders and local people?	KLoE 1.3	2	Yes
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	KLoE 2.1	2	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	KLoE 2.2	2	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	KLoE 2.3	3	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	KLoE 2.4	3	Yes
Does the organisation make effective use of natural resources?	KLoE 3.1	2	Yes
Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	KLoE 3.2	3	Yes

Key for KLoE scores:  
 1 - Below minimum requirements - inadequate performance  
 2 - Meets minimum requirements – performs adequately  
 3 - Exceeds minimum requirements – performs well  
 4 - Significantly exceeds minimum requirements – performing excellently

Note that KLoE 3.1 'Managing natural resources' and KLoE 3.2 'Managing assets' were not applicable to the Council for 2008-09

3.5 The Council's use of resources scores in the three themes, drawn from the scores above, are summarised in table 2.

**Table 2: Use of resources scores**

Theme	2009
1 Managing finances	3
2 Governing the business	2
3 Managing resources	2

- 3.6 Overall, we have assessed the Council as having sound arrangements in place across all areas, with particularly strong performance in the 'managing finances' theme. We found good practice in many areas and, looking forward, the Council is in a strong position to build upon these to secure an improved assessment once sustainable outcomes can be demonstrated across all of the Council's activities.
- 3.7 The scores achieved by Plymouth City Council are fairly strong when compared to the assessments of Council's nationally and reflects positively on the progress being made by the Council in both improving its underlying arrangements as well as delivering sustainable outcomes that meet the needs of the local community. The Council's strong performance needs to be considered against the backdrop of the new assessment criteria which has been designed to be more demanding, with an emphasis on demonstrating improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed councils to achieve higher assessment ratings in the past.
- 3.8 The key actions for the Council arising from our assessment include the following:
- continue to manage its costs, performance and productivity closely to challenge why and how it provides services and whether, with partners, there are alternative options;
  - implement a robust process for validating the accuracy of data supporting all performance indicators; and
  - clearly demonstrate how it has considered the social and environmental impact of its decisions.
- 3.9 We have agreed an action plan with management to implement these and our other detailed recommendations and we will follow-up the progress of action against these as part of our 2009-10 audit.
- 3.10 A summary of our detailed findings for each theme area is provided in the following paragraphs. This highlights the key areas, or characteristics, where the Council is performing well as well as those areas where it needs to focus in order for it to improve its arrangements which should lead to a improved assessment.

### **Links to Comprehensive Area Assessment**

- 3.11 The findings from our work are also considered by the Audit Commission's Comprehensive Area Assessment (CAA) Lead along with their own work on 'Managing Performance' to determine the overall Organisational Assessment. This assessment then feeds into the CAA for the area as a whole. The CAA work is reported separately by the Audit Commission and, as such, is not repeated within this report. However, we have held discussions with the CAA Lead to ensure that our work and judgements are consistent with their own and represent a full and fair reflection of the Council.

## Managing finances

- 3.12 This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the Council and awarded an overall theme score of three, concluding that it is performing well.
- 3.13 The Council has an integrated financial and strategic planning process that links to its 14 corporate improvement priorities (CIPs) and is underpinned by a medium term financial strategy (MTFS) and other service delivery and corporate plans. The financial strategy, encompassing Corporate Plan, MTFS and budget, is communicated through presentations to various groups including the LSP, local MPs and trade unions. A range of sensitivity analysis and scenario modelling are used to underpin the budget process and ensure that resources are focussed on high priority and high risk areas.
- 3.14 The Council operates sound governance mechanisms and committees. There is bi-monthly reporting, combining key financial and performance issues, enabling close monitoring of progress against targets and objectives. The annual budget and capital programme are set in good time and linked to the CIPs and both earmarked and general fund reserves are managed actively.
- 3.15 The Treasury Management strategy, which is approved annually, meets all of the requirements of the CIPFA Code of Practice. Underlying this, the Council has effective arrangements for actively managing its surplus cash balance and has revised its investment policy in light of the recent national problems with financial institutions. Whilst the Council had a number of investments in Icelandic Banks, these were made prior to the down-grading in their risk rating and were long-term in nature.
- 3.16 There are sound arrangements in place for managing and improving VfM, principally through the VfM "challenge" process. The Council has been actively reviewing the costs of delivering its services and can demonstrate a good understanding of its cost base, with clear links through to the performance for all key services. In 2007-08, five key areas were subject to a detailed review to identify the value for money and service efficiency opportunities that were available. Subsequently, the Council has been able to demonstrate improved use of its resources in 2008-09 through a number of specific initiatives arising from these reviews, including, for example, a reduction in expensive out-of-area placements and Learning Disability commissioning and procurement costs.
- 3.17 For all significant capital projects, the Council uses whole life costing, supported by a full options appraisal, to ensure that all initial and ongoing costs are identified and evaluated prior to taking the final decision to proceed. The Council has set, and exceeded, its Annual Efficiency Savings (AES) three-year target, demonstrating the robust arrangements in place in identifying and delivering planned efficiency savings whilst maintaining and, in some key areas, improving service performance.



- 3.18 The Council has a strong and effective accounts closedown process with information being made available on a timely basis. It consistently prepares accounts which are approved, submitted and published in accordance with statutory requirements and supported by clear and comprehensive working papers. Our audit in the last two years has only identified a small number of non-trivial errors in the accounts, demonstrating the Council's strong achievement in this area, although it needs to ensure that it has consistently robust arrangements over the programme of its subsidiaries that form the group accounts.

## **Governing the business**

- 3.19 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. This is supported by an assessment of the quality of the data, and the underlying arrangements to ensure that this is of a high standard, that is used in decision making and the arrangements for identifying and managing risks and internal control. We have assessed the Council as performing adequately, level two, for the theme as a whole, but found particular good arrangements in place around governance, risk management and internal control.
- 3.20 The Plymouth area has a local strategic partnership (LSP) which brings many organisations and groups together to make, or contribute to, the decisions necessary to achieve the locality vision for 2020. The locality-wide strategy recognises the impact that its health and well-being proposals will have on a number of other local plans. As part of the local vision, the Council has in place a number of its own key strategies and plans and these are focussed on driving change within the services it provides. In particular, it has begun to focus on the customer experience, initiating a number of internal changes aimed at improving the way that customers and taxpayers interact with the Council. The Council has identified its key partnerships and has established formal partnership agreements for these, but demonstrable outcomes are not yet fully evident across all areas.
- 3.21 The Council recognises the importance that relevant and reliable data has in underpinning decision-making and performance management. It has established objectives for data quality and a range of systems and processes for the collection, recording and analysis of performance data. Responsibility and accountability for data quality is formally defined at corporate level and some data sharing protocols have been developed with key LSP partners. However, further work is required to ensure the robustness, consistency and accuracy of data from all sources.
- 3.22 The Council has sound arrangements in place for promoting and demonstrating good governance. The corporate Scheme of Delegation, Financial Regulations and Constitution detail the roles and responsibilities of those involved in governance and there is a code of conduct for members, though a code of conduct for officers has been delayed pending central guidance. The Standards Committee is operating effectively, hospitality and gift registers are in use, are actively managed and compliance is reviewed. A whistle-blowing policy is also in place which is publicised

on the corporate website and we have identified that there is a high level of awareness of the policy amongst members and officers. Effective governance arrangements are also in place for the LSP.

- 3.23 The Council has effective arrangements for the management of risk and for maintaining a sound system of internal control. A risk management strategy is in place and risk management arrangements link to the delivery of key corporate and strategic objectives. The Council has strategic and operational risk management groups and risks, including those relating to key partnerships, are recorded on the corporate risk management system.
- 3.24 The Constitution sets out sound arrangements for audit committee functions, internal audit, the assurance framework, standing orders and standing financial instructions, compliance with laws and regulations and key financial systems controls. The Council has a business continuity plan which is reviewed and regularly tested. The membership of the Audit Committee was reviewed in the year to address concerns over focus and impact. We found that the arrangements put in place during this transition and the new Audit Committee that is now in place continues to provide effective and robust challenge.

## Other resources

- 3.25 This theme focuses on the effective management of natural resources, assets and people. It is concerned with whether the Council understands, and can quantify its use of, natural resources and whether it is managing performance to reduce its impact on the environment. It also focuses on whether the Council has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes and manages its asset base to ensure that assets are fit for purpose and provide value for money.
- 3.26 This is the first time that these areas have been assessed in such detail and, whilst we assessed the council as performing adequately (level 2) across the two areas, we found strong arrangements in place around the management of assets.
- 3.27 The Council continues to develop its arrangements for understanding and quantifying the use of natural resources. There are a number of strategies, plans and processes that focus its approach to the use of natural resources, both internally and with partners. The Council has developed robust baseline data which enables it to predict usage and to calculate the financial impact and it is undertaking a mapping exercise in order to identify any data gaps. The Council has a carbon management plan, developed in partnership with the Carbon Trust, and has undertaken work to identify which of its operations produces the most carbon, using the Carbon Trust Baseline Toolkit. It is in the process of developing a five-year carbon budget and is also engaging a number of businesses in the development of individual carbon management plans.
- 3.28 'Sustainability impact assessments' are undertaken for all major schemes and staff are being trained to undertake these for business planning and project management purposes. There is an increasing focus on ensuring that supplier contracts include sustainability issues and collaborative working is developing with the private sector..

- 3.29 The Council has a strategic approach to capital management and its capital development programme is linked to the 14 corporate priorities. The Capital Programme Board has an overview of all capital programmes and approval of projects is based on a scored appraisal system. The Council is actively reviewing service delivery locations against those of partners such as the PCT and police, seeking to co-locate where possible, providing joint service delivery centres to meet community needs, though there is as yet insufficient evidence of clear outcomes across all areas of the Council. Significant asset decisions are based on a thorough option appraisal process incorporating whole life costing and the Council actively engages with a benchmarking club of similar councils for asset and construction information. The Council should now actively pursue the opportunities identified for co-location and demonstrate clear outcomes for its communities from this.

## Local risk based reviews

- 3.30 During the year we undertook a number of specific reviews based upon areas identified as representing specific risks, or issues, for Plymouth City Council. Specifically, we have reviewed the project management arrangements, focussing on management of the corporate improvement priorities (CIPs) and the Building Schools for the Future (BSF) initiative; compliance with equalities legislation in respect of age; progress with development and implementation of the corporate performance management arrangements; and a review of the competency-based framework.
- 3.31 Our review of project management has identified sound programme and project arrangements in place for management of the CIPs and of the BSF initiative. We have identified some opportunities for improvements, including the clearer identification and management of CIP project risks, and ensuring that CIP project managers are sufficiently trained and knowledgeable. We have no specific recommendations in respect of the BSF initiative, though, in respect of the broader management of capital schemes, we consider that the Council would benefit from monitoring the extent to which its capital schemes are coming in on time and on budget.
- 3.32 Our review of compliance with equalities legislation in respect of age of employees has not identified any significant issues. Our work is on-going but, at this stage, we have identified that the Council has a corporate equalities plan covering the period 2007-10, and a range of policies relating to equalities, including a specific Working Beyond Retirement Age policy which includes a statutory "duty to consider" procedure. Its Corporate Equalities group is active in promoting and implementing a range of equalities. The Council has a positive policy towards employees who seek to work beyond 65, and, at the time of our review, had over 150 employees over the age of retirement. At this stage of our review we have no specific recommendations to make.
- 3.33 Our work on reviewing progress with the corporate performance management arrangements and a review of the competency-based framework are ongoing and we have no issues to report at this stage.

## 4 Closing remarks

- 4.1 This letter was discussed and agreed with the Council's Senior Management Team on 27 November 2009, and is now presented for members' consideration at Audit Committee.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

**Grant Thornton UK LLP**  
**November 2009**

## Appendix A 2008-09 reports issued

<b>Report</b>	<b>Date issued</b>
Audit plan	June 2008
Interim report	March 2009
Annual report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for Money Conclusion	September 2009
Use of Resources report	November 2009
Local Risk Projects	December 2009
Annual audit letter	November 2009
Grants report	Anticipated - December 2009

## Appendix B Audit and other fees 2008-09

<b>Audit area</b>	<b>Budget 2008-09 (£)</b>	<b>Actual 2008-09 (£)</b>
Financial statements	204,350	204,350
VFM conclusion / Use of resources	117,750	117,750
<b>Total Audit fee</b>	<b>322,100</b>	<b>322,100</b>
<b>Other services (paid to the Audit Commission)</b>	<b>54,630</b>	<b>54,630</b>
<b>Certification of grant claims and returns</b>	<b>100,000</b>	<b>Ongoing</b>



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## Use of Resources 2009 - findings and conclusions

Plymouth City Council

10th November 2009

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# 1 Key messages

## 1.1 Context

Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether Plymouth City Council (the Council) has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the "VFM conclusion"). This report presents the results of our value for money and use of resources work in 2008-09. We have separately issued our annual report to those charged with governance (ISA260). The key messages from both of these reports will be summarised in the annual audit letter.

We described in our Audit Plan (May 2008) the areas of audit work that provide us with the assurance that contributes to our annual VFM conclusion. This report sets out our findings from these pieces of work:

- our assessment of the Council Use of Resources (UoR), using the three themes within the Audit Commission's new assessment framework themes and Key Lines of Enquiry ('KLoE');
- specific work on locally identified audit risks, which contribute to our VFM conclusion by feeding into our UoR assessment scores; and
- risk-based spot-check work to assess the quality of data underlying a small sample of key performance indicators.

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources (UoR) assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises *outcomes* over *processes*, and brings new areas into the assessment such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily indicate changes in performance. Further detail about the new framework and the link to Comprehensive Area Assessment (CAA) is set out in appendix B.

## 1.2 Key messages

The new use of resources assessment considers how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes that focus on sound and strategic financial management; strategic commissioning and good governance; and the management of natural resources, assets and people.

The Council's UoR scores in these three themes are summarised in the table below. A score of 1 indicates inadequate performance, and a score of 4 indicates excellent performance. For a full explanation of scoring criteria, please see appendix C.

**Table 1: UoR scores**

Theme	2008-09 score
1 Managing finances	3
2 Governing the business	2
3 Managing resources	2

We have therefore assessed the Council as performing well in the management of its finances. We have also assessed as adequate its performance in the areas of governing the business and managing its resources. However, within these two categories we have also identified many areas of good performance, as we highlight later in the report.

Overall the Council has very sound arrangements for managing its finances. It has established 14 corporate improvement priorities (CIPs) as part of its strategic vision to the year 2020, and these are underpinned by integrated financial and strategic planning processes, a medium-term financial strategy (MTFS), and links to other corporate plans. The overall financial strategy, encompassing the Corporate Plan, the MTFS and the budget, is widely communicated and corporate resources are focussed on those areas that the Council has assessed as high priority and high risk. As well as having sound plans, the Council also has a good understanding of the costs and performance of all its key services.

There are also sound arrangements for managing and improving value for money (VfM), principally through the corporate VfM "challenge" process. Improved use of resources is being achieved in a number of key services, for example in reducing expensive out-of-area placements and reducing learning disability commissioning and procurement costs. However, there is still a need for the Council to develop an increased focus on social and environmental costs in its decision-making processes.

The Council has a strong and effective accounts closedown process with information available on a timely basis. It consistently prepares accounts which are approved, submitted and published in accordance with statutory requirements.

Corporate governance arrangements are appropriate. The Constitution sets out sound arrangements for audit committee functions, internal audit, the assurance framework, Standing Orders and Standing Financial Instructions (SFIs), compliance with laws and regulations and key financial systems controls. The Scheme of Delegation, Financial Regulations and the Constitution detail the roles and responsibilities of those involved in governance. There is a code of conduct for members and the Standards Committee and the Audit Committee are, in the main, operating effectively. Where necessary, the Council has acted promptly to address instances where specific improvements have been required. Going forward, the Council needs to ensure that robust member involvement is maintained and that members are fully trained for the roles expected of them, with clear development plans in place to address gaps in skills.

The Council continues to develop its arrangements for understanding and quantifying the use of natural resources and it has developed robust baseline data which enables it to predict usage and to calculate the financial impact. The Council has a carbon management plan, developed in partnership with the Carbon Trust, and has undertaken work to identify which of its operations produces the most carbon. Moving forward, the Council needs to be able to demonstrate the impact that these arrangements are having and the consequent improvement in its use of natural resources, such as lower consumption and better utilisation.

The Council has a strategic approach to capital management and capital development that is linked to its 14 corporate priorities. The Council is actively reviewing service delivery locations against those of partners, such as the PCT and police, seeking to co-locate where possible. It should now pursue these opportunities in order to make real change in the use of its assets.

There are a number of examples where the Council has demonstrated key improvements as a result of partnership working, in the public sector and in the private and voluntary sectors. The Council actively engages with a benchmarking club of similar councils for asset and construction information. It should continue to pursue all opportunities for benchmarking in order to drive improvements in service delivery and value for money.

Our judgements in the "Governing the Business" theme have been informed by the results of our data quality spot-checking work. We reviewed four performance indicators, covering VfM, social care, public transport and CO<sup>2</sup> savings. Whilst our review did not identify any serious concerns over the integrity of the data or weaknesses in the underlying arrangements in these areas, we found a number of significant issues in relation to the underlying data supporting payment of housing benefits. These are now being addressed by management.

The key actions for the Council arising from our assessment are included in the Action Plan but include the following:

- **The Council should continue to manage its costs, performance and productivity closely to challenge why and how it provides services and whether, with partners, there are alternative options;**
- **The Council should implement a robust process for validating the accuracy of data supporting all performance indicators; and**
- **The Council should actively consider the social and environmental impact of all decisions.**

Further details of work to support our 2009 Use of Resources assessment are given in section two.

### **1.3 Next steps**

We will continue to work with the Council during the year to help prepare for the 2009-10 Use of Resources assessment. For further details on next year's assessment, please see appendix D.

The recommendations arising from our review are set out in appendix A and we would like to take the opportunity to remind the Audit Committee of the need to monitor implementation of these.

## **1.4 Use of this report**

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person.

This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

## **1.5 Acknowledgements**

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and non-executives during the course of our audit.

## 2 VfM Conclusion

### 2.1 Introduction

In carrying out our audit work we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code). The Code requires us to issue a conclusion on whether Plymouth City Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources (the "VfM conclusion"). The UoR assessment forms the backbone of this process.

The UoR Key Lines of Enquiry (KLoEs) are prescribed by the Audit Commission and applied at all councils, police forces, fire authorities and NHS PCTs. However, as our audits are tailored to local risks, we specifically identify and consider certain areas of greater audit risk for each organisation, as part of the UoR assessment. For the Council, we identified a number of areas for further consideration in our Audit Plan and these are set out in the table below. A separate report will be produced for each of these areas.

**Table 2: Consideration of local risks in our work**

Local VfM risk identified in our Audit Plan	Where considered
Update review of the Single Status arrangements	Separate report
Update review of performance management arrangements	Separate report
Review of project management arrangements	Separate report
Review of compliance with equalities legislation	Separate report

### 2.2 Approach to the audit

The use of resources work was undertaken between March and July 2009, based on the KLoE framework prescribed by the Audit Commission. Our work was based on a review of the Council's initial self assessment and supporting evidence as well as discussions with senior management and officers. We presented our provisional assessment to management at the Council in July 2009, providing an opportunity for any further evidence, based on these preliminary discussions, to be made available to us prior to forming our final judgements in August 2009.

### 2.3 2008-09 UoR assessment

The individual KLoE and theme scores for 2008-09 are shown in the table below.

**Table 3: UoR theme and KLoE scores**

Theme / KLoE		Score
<b>Theme 1 - Managing finances</b>		<b>3</b>
1.1	Financial planning	3
1.2	Understanding costs	3
1.3	Financial reporting	2
<b>Theme 2 - Governing the business</b>		<b>2</b>
2.1	Commissioning and procurement	2
2.2	Use of data	2
2.3	Good governance	3
2.4	Internal control	3
<b>Theme 3 - Other resources</b>		<b>2</b>
3.1	Use of natural resources	2
3.2	Asset management	3
3.3	Workforce management	Not assessed

Please note:

- Some KLoEs have an overriding impact on theme scores - see Appendix C for more details of scoring criteria and arrangements; and
- Different KLoEs are specified for assessment each year and across types of organisation. See appendix D for details.

### 2.4 2008-09 VfM conclusion

Under the Code of Audit Practice (the Code), auditors have a responsibility to conclude whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This conclusion is the value for money (VfM) conclusion. Section 3 of the Code sets out the scope of these arrangements and the way in which auditors will undertake their work.

Auditors inform and limit their VfM conclusion by reference to relevant criteria. These criteria cover particular areas of audited bodies' arrangements, specified by the Commission under the Code. From 2008-09, the KLoE for the scored use of resources assessment also form the criteria for the VfM conclusion. The Commission will specify each year which of the use of resources KLoE will form the relevant criteria for the VfM conclusion at each type of audited body.

Auditors address a 'yes' or 'no' question for each criterion – that is the audited body either has proper arrangements or it does not. A 'no' judgement will be equivalent to level 1 performance for the use of resources assessment, and a 'yes' judgement will be equivalent to level 2 performance or above. Criteria with a 'no' judgement will automatically be reassessed in the following year regardless of whether or not they are specified.



For bodies subject to a scored use of resources assessment for CAA, the KLoE forming the relevant criteria for the 2008-09 and 2009-10 VfM conclusion are those specified at Appendix D.

On the basis of the KLoE scores assessed in 2008-09 for Plymouth City Council, we gave an unqualified use of resources conclusion at the 30 September 2009.

The key findings in each of the KLoEs, and areas for improvement, are set out in the sections 3 to 5.

### 3 Managing Finances

#### **Theme summary**

##### ***What is this theme about?***

This theme focuses on sound strategic and financial management, that is, whether the Council plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.

##### ***Our summary findings***

We have assessed the Council as performing well (level 3) in this area. The Council has an integrated financial and strategic planning process that links to its 14 corporate improvement priorities (CIPs) and is underpinned by a medium term financial strategy (MTFS) and other service delivery and corporate plans. The financial strategy, encompassing Corporate Plan, MTFS and budget, is communicated through presentations to various groups including the LSP, local MPs and trade unions. A range of sensitivity analysis and scenario modelling are used to underpin the budget process and ensure that resources are focussed on high priority and high risk areas.

The Council operates sound governance mechanisms and committees. There is bi-monthly reporting, combining key financial and performance issues, enabling close monitoring of progress against targets and objectives. The annual budget and capital programme are set in good time and linked to the CIPs and both earmarked and general fund reserves are managed actively.

The Treasury Management strategy, which is approved annually, meets all of the requirements of the CIPFA Code of Practice. Underlying this, the Council has effective arrangements for actively managing its surplus cash balance and has revised its investment policy in light of the recent national problems with financial institutions. Whilst the Council had a number of investments in Icelandic Banks, these were made prior to the down-grading in their risk rating and were long-term in nature.

There are sound arrangements in place for managing and improving VfM, principally through the VfM "challenge" process. The Council has been actively reviewing the costs of delivering its services and can demonstrate a good understanding of its cost base, with clear links through to the performance for all key services. In 2007-08, five key areas were subject to a detailed review to identify the value for money and service efficiency opportunities that were available. Subsequently, the Council has been able to demonstrate improved use of its resources in 2008-09 through a number of specific initiatives arising from these reviews, including, for example, a reduction in expensive out-of-area placements and Learning Disability commissioning and procurement costs.

For all significant capital projects, the Council uses whole life costing, supported by a full options appraisal, to ensure that all initial and ongoing costs are identified and evaluated prior to taking the final decision to proceed. The Council has set, and exceeded, its Annual Efficiency Savings (AES) three-year target, demonstrating the robust arrangements in place in identifying and delivering

planned efficiency savings whilst maintaining and, in some key areas, improving service performance.

The Council has a strong and effective accounts closedown process with information being made available on a timely basis. It consistently prepares accounts which are approved, submitted and published in accordance with statutory requirements and supported by clear and comprehensive working papers. Our audit in the last two years has only identified a small number of non-trivial errors in the accounts, demonstrating the Council's strong achievement in this area, although it needs to ensure that it has consistently robust arrangements over the programme of its subsidiaries that form the group accounts.

Further details on each KLoE area are provided in the following sections.

### **KLoE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?**

This KLoE seeks to establish whether the Council integrates its financial planning with its strategic and service planning processes on a medium to long-term basis, whether it engages local communities and other stakeholders in the financial planning process, how it manages spending within available resources and whether it is financially sound over the medium term. It also seeks to establish whether the Council recognises individual and collective responsibilities for financial management and values and is developing appropriate financial skills.

The Council has now developed good arrangements for financial planning to enable it to deliver its strategic objectives. It has a stable financial environment in place for service planning and delivering outcomes and the medium-term financial planning arrangements are integrated with strategic planning through the 14 corporate improvement priorities (CIPs). The Council actively manages and reviews progress against these CIPs, addressing under-performance on a timely basis. Sensitivity analysis and scenario modelling are used to underpin the budget allocation process and corporate resources are focussed on high priority and high risk areas. The annual budget and capital programmes for 2008-09 were set in good time, on 2 March 2008.

Services monitor their individual budgets effectively and the outcomes feed into the reporting process on key financial and performance indicators for Corporate Management Team (CMT) and Member review, held every two months. Members are engaged in the financial planning and monitoring arrangements and provide challenge throughout the budget setting process. The corporate financial strategy is communicated through presentations to staff groups (on a service basis) and to the LSP, local MPs, the JCC, trade unions, councillors and the senior management team.

There has been regular corporate challenge of service value-for-money (VfM) and improved performance has been achieved through diverting resources into priority areas. In 2008-09 about £7m of revenue was transferred from service budgets into corporate priority areas, including disabled facility grants (with a subsequent reduction in waiting times and an increase in major adaptations) and in older peoples services. In addition, following benchmarking, funding has been transferred from planning services, with no subsequent detrimental impact on service performance. Demonstrable improvements in VfM are also evident in children's services, learning disabilities, supported employment and waste management. The Council should now extend these arrangements to review value for money across all of its services, and work with its partners to establish how local services can be provided in the most cost effective way.

Corporate reserves have been managed effectively on a risk basis, resulting in significant improvements to working balances, which had previously been considered as too low. The Council has ensured ownership of, and engagement with, the financial planning and charging policies through a variety of stakeholders. For example, there has been member engagement in the prioritising of capital expenditure and in funding corporate improvement priorities, engagement of the Chamber of Commerce, LSP and Youth Parliament in deciding capital and revenue priorities, and the involvement of "area committees" to help clarify, redraft and prioritise CIPs. Increased community participation has also been achieved through delegating funding to the local tenants federation. Arrangements for obtaining customer feedback are in place on a three year cycle and was last undertaken in 2007. The Council should now extend its arrangements for consultation and involvement to all of its communities.

The Council operates a treasury management strategy that complies with CIPFA code-of-practice and is approved annually and monitored alongside the budget. The daily monitoring of cash balances and requirements informs investment and funding decisions. Following the problems in a number of financial institutions, including the failure of a number of Icelandic Banks, a new treasury management board has been introduced that meets three times a week to review the performance and direction of treasury management activity. As a result the Council has moved away from riskier investments into Government vehicles such as Debt Management Office. A review of the investments in Icelandic banks confirmed that the previous policy had been adhered to and no investments were made after the risk rating of the affected institutions had been down-graded.

A member development committee has been established to address training issues and members are engaged in a programme of training. Attendance at training is recorded and is being used to assess the extent of member involvement and to address any issues arising. The Council has put in place Personal Development Plans (PDPs) for members on a trial basis and these are now being rolled out more fully. It is important that the Council continues to ensure that its members are well trained and fully aware of the roles expected of them, including in respect of resource prioritisation.

We have previously commended the quality and role of the Audit Committee and it continues to operate effectively. Whilst there were some in-year challenges in respect of specific areas, the Council has taken a range of positive measures and the Committee continues to effectively scrutinise the progress against internal and external audit plans, other areas of assurance and governance, and the implementation of recommendations arising from internal and external auditor reports.

### Recommendations

1. Extend the process of challenging how resources are used across all service areas and decide, with partners, the best options for service provision to the local population.
2. Consult more widely with local people on significant priorities and spending decisions.
3. Ensure that robust member involvement in resource prioritisation continues to develop and that members have received appropriate training in order to effectively discharge their duties.

**KLoE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?**

This KLoE focuses on whether the Council understands its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance, together with how this information is taken into account in decision-making and commissioning. It also seeks to establish whether the Council has identified the scope for making efficiencies and is on track to achieve its planned efficiencies.

We found that the Council maintains strong arrangements for understanding the costs and performance of its key services, as well as the key drivers and influencing factors on these services. It has set three-year VfM targets, having undertaken a comprehensive benchmark challenge process across all core services. Different benchmarking groups have been used and the process has included benchmarking annual efficiency savings against a peer group as well as against stronger performing councils. The outcome of this process has enabled the Council to focus its attention on five key service areas: children's social care, learning disability residential placements, waste collection, older peoples social care and supported employment. Improved value for money outcomes have been achieved through, for example, reducing expensive out-of-area placements, reducing learning disability commissioning and procurement costs and changing working patterns and re-zoning in waste collection services. Going forward, the Council needs to challenge costs, performance and productivity across the whole range of its services and should include the key issues of social and environmental costs.

The corporate improvement priorities have been defined by the Council and it has focussed on those areas that have been significantly underperforming, or where it has to meet new challenges or considers that it needs to perform better as a whole. The corporate emphasis has therefore been on what needs to be done better. The Council has also focused on improving processes relating to customer interaction and is demonstrating a wide range of other achievements and outcomes from this, including increased in-year tax collection rates, reduction in turnaround time for benefits claims, increased customer satisfaction rates, improving standards in residential care, increased numbers of vulnerable people achieving independent living, increased take-up of unclaimed welfare benefits and delivery of new affordable homes.

For all significant capital projects (for example, the Life Centre) the Council has developed whole life costing, with full options appraisal, to ensure that the total, ongoing, cost of investment decisions are clear at the outset. There is a clearly defined "prioritisation metric" (the Capital Bid List), to ensure that investments are meeting the most important needs and strategic priorities.

Total resources available through key partners have been identified and are being used to support demonstrable outcomes, such as the positive community feedback on local community regeneration and renewal projects.

The Council has reported an overachievement against its AES three-year target, deriving cash releasing Gershon savings of £17.5m to 2007-08 against a target of £16m. In 2008-09 the Council reported, through NI179, efficiency savings of £5.096m against a target of £7.9m. The difference is due to an error in the original selection of areas included in the target rather than planned savings not being achieved (that is, all planned savings were achieved but a number of areas have been identified as not meeting the requirements of NI179).

### Recommendations

4. Continue to develop a sound understanding of costs and performance across all of the Council's services and seek improved value for money from this.
5. Demonstrate more active consideration of the social and environmental impact of decision-making processes.
6. Seek to demonstrate improved productivity across the whole range of its services.

### **KLoE 1.3 - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?**

This KLoE focuses on whether the Council produces relevant, timely and reliable financial monitoring and forecasting information and uses wide-ranging performance information for in-year decision-making and monitoring. It seeks to establish the extent to which financial reports are clear and support strategic decision making and whether the Council's accounts meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position. It also focuses on whether the Council publishes reports that provide an objective, balanced and understandable assessment of its performance in the year.

Our review has identified that the Council has reasonable arrangements in place for financial monitoring and forecasting information. There is monthly monitoring of expenditure against profiled budgets and the position is reported to CMT and to Cabinet through the two-monthly reporting process which allows for monitoring of both the financial and the performance positions against key targets linked to the 14 CIPs, throughout the year. Action plans are developed in a timely fashion to address significant variances and are monitored by CMT, Cabinet and Resources and Performance Overview and Scrutiny Panel, as necessary.

Budget holders have live access to the General Ledger accounting and performance management system and produce action plans to address emerging issues on a timely basis, with the higher risk and more significant variances being included in the two-monthly reports for Corporate Management Team and member review. Where required, reserves are utilised to smooth out the impact of adverse variances on service provision.

There is an annual internal audit review of budgetary control as part of its audit of the main accounting system and findings indicate that budget holders are confident in their role and have a good understanding of their requirements and the financial information provided to them. The internal audit review confirmed that budget holders and committee members understand financial budgeting and monitoring information.

The Council has a strong and effective accounts closedown process with information available on a timely basis. The Council consistently prepares accounts which are approved, submitted and published in accordance with statutory requirements, though not in advance of these. Working papers are clear and comprehensive and our audit has only identified a small number of non-trivial errors. Overall, management responses to audit queries and requests for additional information were prompt in the majority of cases and we are working with management to address those areas where there are minor exceptions. There continue to be difficulties in obtaining third party information on a timely basis for the group accounts, despite management introducing a process in the past year to

address this. These arrangements need to be strengthened further to ensure that entities within the group submit their signed final accounts to the Council on a timely basis.

The Council's most recent published accounts and annual audit letter are made available to the public on the website on a timely basis and in a variety of accessible formats that reflect the needs of the local community. Summary financial statements have been produced in a clear and understandable manner with good use of graphical representation of key figures. The Council has, for several years, attempted to engage the local community in how to better present the accounts in a more informative way. However, low responses to these historically passive requests have led to a more proactive approach being adopted for 2009-10.

The published information does not currently include details of sustainable environmental or social information to put the Council's overall performance in its use of resources into context. This is an area requiring further development and is closely linked to the engagement with the local community on the information about the Council that they want published.

We consider that if the Council can address the issues identified above, then this will be a further area of strength and assessed accordingly.

#### Recommendations

7. Ensure that its external reporting includes robust sustainable development and social information.
8. Consider whether annual reporting of accounts might be undertaken across specific communities as a means of engaging with those communities, in addition to a single corporate report.
9. Improve arrangements to ensure that all entities within the group submit their final signed accounts to the Council on a timely basis.



## 4 Governing the business

### **Theme summary**

#### *What is this theme about*

This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people

#### *Our summary findings*

The Plymouth area has a local strategic partnership (LSP) which brings many organisations and groups together to make, or contribute to, the decisions necessary to achieve the locality vision for 2020. The locality-wide strategy recognises the impact that its health and well-being proposals will have on a number of other local plans. As part of the local vision, the Council has in place a number of its own key strategies and plans and these are focussed on driving change within the services it provides. In particular, it has begun to focus on the customer experience, initiating a number of internal changes aimed at improving the way that customers and tax-payers interact with the Council. The Council has identified its key partnerships and has established formal partnership agreements for these, but demonstrable outcomes are not yet fully evident across all areas.

The Council recognises the importance that relevant and reliable data has in underpinning decision-making and performance management. It has established objectives for data quality and a range of systems and processes for the collection, recording and analysis of performance data. Responsibility and accountability for data quality is formally defined at corporate level and some data sharing protocols have been developed with key LSP partners. However, further work is required to ensure the robustness, consistency and accuracy of data from all sources.

The Council has sound arrangements in place for promoting and demonstrating good governance. The corporate Scheme of Delegation, Financial Regulations and Constitution detail the roles and responsibilities of those involved in governance and there is a code of conduct for members, though a code of conduct for officers has been delayed pending central guidance. The Standards Committee is operating effectively, hospitality and gift registers are in use, are actively managed and compliance is reviewed. A whistle-blowing policy is also in place which is publicised on the corporate website and we have identified that there is a high level of awareness of the policy amongst members and officers. Effective governance arrangements are also in place for the LSP.

The Council has effective arrangements for the management of risk and for maintaining a sound system of internal control. A risk management strategy is in place and risk management arrangements link to the delivery of key corporate and strategic objectives. The Council has strategic and operational risk management groups and risks, including those relating to key partnerships, are recorded on the corporate risk management system.

The Constitution sets out sound arrangements for audit committee functions, internal audit, the assurance framework, standing orders and standing financial instructions, compliance with laws and



regulations and key financial systems controls. The Council has a business continuity plan which is reviewed and regularly tested. The Audit Committee is once again operating effectively, following some challenges during the year.

### **KLoE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?**

This KLoE is concerned with whether the Council has a clear vision of intended outcomes for local people that shapes its commissioning and procurement, and whether it is based on an ongoing analysis and understanding of needs. It also seeks to establish whether the Council understands, and seeks to influence and develop, the supply market and whether it reviews service competitiveness and achieves value for money.

Plymouth has a Local Strategic Partnership (LSP), branded as Plymouth 2020, and this has defined the strategic vision for the Council and partners over the next few years. The Strategy recognises the influence that its proposed work on health and well-being will have on a number of local plans, including the LAA, NHS plans and the Council's Corporate Plan. The Strategy also includes a joint strategic needs assessment, developed in consultation with the voluntary sector, service users and local people. The Council has developed a sustainable community strategy, which includes strategies on climate change, the economy and transport, and sets out the key priorities for change and action in coming years.

Work is being undertaken by the LSP to improve the health and well-being of local citizens and this is expressed through the "Sustainable Community Strategy", covering the period 2008 to 2020. The Strategy, which is wide-ranging, is underpinned by four separate theme groups that have responsibility for developing and prioritising actions, defining the resources required for delivery and identifying what needs to change in order to meet the stated objectives. As a result, the Council is engaging, directly or indirectly, with a wide range of stakeholders to inform and drive the future vision for the locality.

One of the Council's corporate priorities is to improve customer services and it has initially focussed on customer access to front-line services. As a result, specific improvements have been made to the corporate website, to front-line desk arrangements and to "back office" services. The Council has also introduced new interactive touch-screens so that customers can provide instant feedback. This feedback data is collated, analysed and then distributed to local service managers so that they can take appropriate remedial action where required.

The Council adopted a sustainable procurement strategy in 2008, which builds on previous strategies, and which recognises the need for all options to be considered when procuring goods and services. The Council has adopted what it describes as a "socially responsible" approach to procurement, which it defines as assessing the social, environmental and economic impact of its decision-making. The Council has effective arrangements for specifying and monitoring contracts and there is a well defined contract management process. The corporate website is a sound source of information and advice for those seeking to contract with the Council and to understand the corporate principles that it seeks to be adopted with all those who have dealings with it.

The Council can demonstrate the benefits that have been accrued through joint commissioning arrangements (specifically with the Supporting People programme) as well as some improvements in outcomes for service users through service redesign, for example, in the processing of benefit

claims. We therefore consider that the Council has, with other interested parties, sound strategies and plans in place to develop the 2020 vision, though a number of these were only produced in 2008-09. There is also increasing engagement with communities across Plymouth. However, at this stage, the Council has not demonstrated a wide range of clear outcomes across all areas of its work.

### Recommendations

10. Seek to understand its supply market, particularly in the third sector, and shape it, where necessary, by developing new suppliers and other sources of capability.
11. Seek to engage its communities at each stage of the commissioning cycle across all service areas, particularly in assessing needs and defining services.
12. Challenge why, and how, its services are provided on a prioritised basis, across the whole range of its services.
13. Demonstrate clear outcomes from procurement and commissioning across the range of the Councils services.

### **KLoE 2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?**

This KLoE focuses on whether the Council understands the needs of its decision makers and produces, with partners, relevant, good quality and reliable data to support decision making and performance monitoring. It is also concerned with whether the Council has arrangements to monitor performance and to ensure data security and compliance with relevant statutory requirements.

A corporate data quality framework is in place with clear objectives for the management of data quality. The corporate commitment to data quality is actively promoted and data quality objectives are embedded within the Corporate Plan and Business Plan. Responsibility and accountability for data quality is formally defined at corporate level and includes a nominated Cabinet member. In addition, the impact of poor data quality is identified as a key risk issue in the Strategic Risk Register.

There is a range of systems and processes for collecting, recording and analysing performance data and security arrangements for those systems are reasonably robust. Data accuracy is encouraged by having data values set within certain parameters, making it more difficult for someone to key in erroneous data. The accuracy of data is checked through undertaking practice runs and by monitoring individual performance indicators (PIs). Any issues concerning data accuracy are investigated and weaknesses identified are addressed. Whilst these processes are strong, we have established that these arrangements have yet to be fully embedded across all areas of the Council.

Reporting of corporate performance data is undertaken through the corporate performance management system (PMS) and this has control mechanisms in place that send email alerts to relevant officers where information is missing, in order to trigger appropriate checks and approvals. The collection, recording and analysis of data is also undertaken on other departmental systems. However, we have identified that systems within and across departments are not currently linked for reporting corporate performance information, which means that interrelated data on key issues may not be identified and reported effectively.

ICT security policies and access controls are in place for all Council systems and access rights are controlled centrally. The Data Quality Project Group meets regularly to review systems issues and system functionality. Any variance in service performance, as indicated by the PIs, is investigated by the CMT to determine if it is a data quality issue or a change in performance.

Data sharing protocols are in place between the Council and key LSP partners and there is some progress towards sharing data in real-time, that is, an integrated performance management system accessible by all partners. However, we have identified that there are no formal data sharing agreements in place between the Council and other key partners. Consequently, for those corporate performance indicators where the Council is reliant on third party source data, the collection of this data is based on a 'loose' voluntary arrangement. Partners, as yet, are unable to access the Council's corporate systems.

Internal Audit review the controls on all material financial systems and reports are submitted to the relevant head of service. Specific reports indicate that the HR system and CareFirst have appropriate access controls. However, some concern has been raised by Internal Audit on the security of the Council's IT infrastructure.

The annual budget proposals are approved by Council and individual directors have responsibility for their own budgets. There is a corporate commitment to improving service performance and to achieving greater efficiency in the way services are run and we have identified a number of measures that have been introduced to improve service efficiency. In particular, the Council has engaged in a detailed challenge/internal service review process that has, amongst other things, included comparisons of how Council services compare with a relevant benchmark group, including stronger performing councils. The process focuses on outcomes, improvements, reengineering, and ensuring that user perspectives and stakeholder involvement are included. Officers regularly consider budget monitoring and performance, and have been actively involved in the challenge/transformational change work.

#### **Data quality spot-check and housing benefits data quality results**

To support our judgements for KLoE 2.2 we undertook detailed spot-checks of a number of the Council's key performance indicators. Where we identified significant concerns around the quality of the underlying data which would be likely to lead to a material misstatement, we have reported findings to the Audit Commission. Our summary findings are set out in the table below;

**Table 5 - data quality spot-check results**

<b>Performance Indicator</b>	<b>Significant concerns?</b>
NI 179  Value for money - total net value of ongoing cash-releasing value for money gains that have impacted since the start of the 2008-09 financial year.	No
<b>Summary of findings</b>	
Prior to the July submission deadline, guidance was provided and a briefing session took place with all appropriate officers so that the requirements of NI 179 were understood. The data was then subject to central scrutiny before significant senior management review. The Communities and Local Government (CLG) Hub Forum was used to seek advice and the Council worked with public	

sector partners to agree a consistent approach. As a result of this detailed scrutiny, a significant number of identified efficiency savings were discarded and the draft total and year-end target of £7.923 million was reduced to £5.434 million. In addition, the unreported cumulative savings from prior years activity of £3.38 million was omitted from the final total resulting in an actual value of £5.096 million being submitted.

As such, a robust process was not in place for the October 2008 submission deadline, when the Council was required to report its forecast cumulative gains to the CLG. As a result, planned efficiency savings were not identified as non-compliant until the final submission date. Throughout the second part of the year, senior management and Members were informed that the Council was on target for this indicator and the opportunity to implement action plans to address this under-performance was missed.

As a result of not reaching the target, the Council has undertaken a detailed review of the current approach and further work is planned to strengthen the robustness of data supporting this indicator.

Performance Indicator	Significant concerns?
NI 130  Social Care clients receiving self directed support per 100,000 population	No
Summary of findings	
Strong management arrangements were in place throughout the year. Training and guidance was provided and relevant staff have been assessed against set data quality standards. Data issues have been identified and recorded. Appropriate action is taken to address these issues. An action group was put in place part way through the year to address under-performance. The outcome of this was that the team significantly exceeded their target.	

Performance Indicator	Significant concerns?
NI 177  Local bus and light rail passenger journeys originating in the authority area.	No
Summary of findings	
The data for this indicator is supplied from an external source, namely the bus companies. In 2006 the Council was aware that bus patronage may not be accurately recorded owing to the multi-journey ticketing, driver error and schedule adherence pressures. To address this, the Council undertakes an annual assessment of passenger under-recording and will continue to do so until the situation has stabilised. The results of the 2008-09 assessment showed no improvement on prior year assessments in the percentage of under-recording by the bus companies. The Council have applied a prudent uplift to the reported patronage of 4%. Whilst we do not have any specific concerns over the quality of data, we would expect the Council to be more proactive in working	

with the bus companies in trying to address this underlying issue.

Performance Indicator	Significant concerns?
Local indicator  Deliver 20,000 tonnes lifetime carbon dioxide savings.	No
Summary of findings	
<p>This indicator was identified as a key corporate performance indicator and was new for 2008-09. The indicator is dependent on data provided by external sources. There is no formal agreement/schedule in place with these parties and data is often not provided to the appropriate officer on a timely basis. As a result, the indicator that is reported to senior management and to Members is not always as up-to-date as it should be. The officer in charge of this data is required to undertake a considerable amount of checking to ensure data is accurate and complete. We recognise that lessons have been learnt from 2008-09, and these will be used to drive improvements to the underlying data from 2009-10.</p>	

In addition to the findings above, we have also considered the results of the data quality aspects of our work on housing benefits. From our testing we identified errors in 11 claims within our initial sample, representing an error rate of 13.75%. Throughout the year, the Council's Benefit team undertake quality control checks using an accuracy checklist. These checks are undertaken by six teams and each team maintains a data quality control spreadsheet though this data is not collated and no monitoring is undertaken to ensure that appropriate action is taken to address common errors identified. The process could be improved by monitoring the overall error rate across the Benefits team and reporting common errors in order that appropriate action can be taken and shared across all teams. Further improvement can be achieved by ensuring there are clear data quality standards and that all relevant staff are assessed against these.

Whilst we identified serious concerns with underlying data for the Benefits indicator, this is not one of the key corporate performance indicators. Therefore, we have exercised our discretion and assessed the Council as performing adequately for this KLoE. However, the Council must introduce improved arrangements to address the issues identified above, both for the housing benefits and other indicators, if we are to assess it as performing well in future years. In particular, it needs to demonstrate that data quality issues are identified throughout the year and are being addressed consistently across all services.

### Recommendations

14. Ensure that arrangements for checking data accuracy and addressing areas of weakness are fully embedded across the Council, and shared with partners where they are the source of the data.

15. Formal agreements and schedules are in place for the collection of third party source data for partners outside the LSP. This will help to ensure that data underlying key corporate performance information is up to date and accurate.

16. The Council should ensure that guidance is understood by all relevant officers for all of the national indicators at the start of the year. This could be done by adding a self certification within the audit checklist.

### **KLoE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?**

The focus for this KLoE is on assessing whether the Council has adopted, promotes and demonstrates the principles of good governance, maintains focus on its purpose and vision, demonstrates a strong ethical framework and culture and applies the principles and values of good governance to its partnership working.

The Scheme of Delegation, Financial Regulations and Constitution detail the roles and responsibilities of key governance committees, members, statutory officers and other senior officers. The Council has reorganised its senior management team structure to reflect changing management arrangements.

There is a code of conduct for members and, whilst a code of conduct for officers has been delayed while central guidance is awaited, the Constitution incorporates conduct issues for officers. The Council completed the Audit Commission's Ethical Governance Survey during the year and, whilst this identified a number of areas where action was required, the Council is clearly demonstrating that it is actively using the results of the survey to improve its underlying arrangements.

The Audit Committee is, once again, fully effective following decisive action to address recognised in-year performance issues. A member development committee oversees development opportunities for members. Member PDPs have been trialled in-year and are being rolled out to ensure all members maintain appropriate knowledge and skills and to enable evaluation of the effectiveness of the development programme. The Council should now ensure that the PDPs are fully embedded and having a demonstrable impact. Member training is continuously reviewed and monitored by a democratic support team, supported by member feedback. Bespoke training for members is also provided where emerging issues require a more detailed understanding. The Council also evaluates how successful any training has been through use of a post-training assessment pro-forma.

The Standards Committee continues to operate effectively, submitting quarterly returns to the Standards Board and referring cases as appropriate. The Ethical Governance Survey indicates members and officers have faith in the Chief Executive and the Leader to behave ethically. Hospitality and gift registers are in use and actively managed and Internal Audit has undertaken a review of gifts and hospitality as part of its 2008-09 audit plan, testing focusing on the maintenance of departmental registers and the extent of compliance with financial regulations and contract standing orders. Members expenses are well controlled, the policy having recently been reviewed and updated, and all expenses are published on the Council's website, having formally been included within the Annual Accounts. Internal Audit also pursues any queries regarding gifts and hospitality. A whistle-blowing policy is in place and is publicised on the corporate website and the Council ensures that awareness of this policy amongst members and officers is high. A number of incidents have been reported and followed-up during the year.

The Council has undertaken an exercise to identify its partnerships and formal agreements are in place for the partnerships that it has assessed as being significant. These agreements also incorporate



appropriate dispute resolution procedures. The Council works closely with key LSP partners, identifying shared objectives and how to deliver these. Governance arrangements are in place for the LSP and for the new LAA, and these build upon those previously in place in the Sustainable Community Strategy, and reflect the accountability arrangements between the City Council, the Plymouth 2020 Board and other partners. The Council also has a strategy for the third sector (that is, voluntary and community groups, social enterprises, charities, co-operatives and mutuals) which includes a framework for joint working. Work undertaken for the Plymouth community by independent consultants, published in March 2009, identified that there is a general need for stronger leadership in the third sector, in order that statutory partners have increased confidence, as well as the need to strengthen governance through the development of trustees' skills. This is an area that the Council must now address if it is to benefit from the involvement of the third sector.

The Council is engaged with a number of key partners in regenerating parts of Plymouth, and each scheme is at a different stage of development. Our on-site review work has identified sound management arrangements and some significant community improvements being achieved through the partnership arrangements.

#### Recommendations

17. Ensure that member PDPs are fully embedded and having an impact.
18. Work closely with the third sector and seek improvements in leadership and governance.
19. Ensure that the Audit Committee remains consistently effective.

#### **KLoE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?**

This KLoE considers whether the Council has effective risk management in place that covers partnership working, whether there is a clear strategy and effective working arrangements and processes to manage the risk of fraud and corruption. It also considers to what extent the Council has a sound system of internal control, including internal audit.

The Council's updated risk management strategy demonstrates links between the delivery of key corporate and strategic objectives and the underlying risk management arrangements. The Corporate Risk Management Group is responsible for the development and monitoring of the corporate strategic risk register. The Operational Risk Management Group is responsible for the delivery of the risk management strategy and management of service-level operational risk registers. All risks are recorded on the corporate performance management system and linked to corporate and service objectives and to key performance indicators as appropriate. There is detailed guidance to support risk assessment and management in partnerships and we have established that, for major partnerships such as the Southwest Waste PFI Partnership and Devonport Regeneration, risk management arrangements are in place and actively managed.

Internal Audit has undertaken a review of partnership arrangements with Cornwall County Council. This identified the lack of a strategic risk management process and the Council has been active in implementing and managing this. Major developments, such as the Life Centre, have their own risk register for detailed assessment of specific risks as well as being identified as a risk, as a whole, project, in the corporate risk register. Our review of the sale of Plymouth Citybus has demonstrated

strong arrangements for identifying, assessing, mitigating and monitoring risks and there are regular updates undertaken.

Risk champions are in place throughout the organisation and have received appropriate training to fulfil the role. Members have received specific risk management training, as part of finance workshops, and actively consider risks as part of their role. The Audit Committee considers and discusses current risk areas, supplemented by independent members with a background in risk management. A risk management leaflet, highlighting key facts from the revised strategy, has been provided to all staff.

The corporate anti-fraud and corruption policy includes an explanation of roles and responsibilities of managers and of elected members and outlines how cases of potential fraud and corruption are investigated. It also now includes a section on money laundering. Internal Audit has carried out fraud awareness training and included fraud issues, including whistle-blowing, email/internet misuse, reporting security incidents, NFI and HB fraud, through the medium of 'Audit Briefing' leaflets. Counter fraud and corruption work is included within the Internal Audit Annual Plan and is based on a formal risk assessment. The Council fully engages with the NFI process. There are working relationships in place with Devon and Cornwall Police and, for housing benefit fraud, with DWP. The Council also takes part in benchmarking as part of the West of England Chief Internal Auditors Fraud sub-group. The Internal Audit team has been active in investigating any irregularities, and during 2008-09 actively focused on IT misuse following an increase in the number of cases.

The Constitution, which has recently been reviewed and updated, sets out sound arrangements for audit committee functions, internal audit, the assurance framework, standing orders and standing financial instructions, compliance with laws and regulations and key financial systems controls. The Annual Governance Statement is an open and honest statement and documents actions taken, or required, to address areas of concern. There is a business continuity plan which is reviewed and regularly tested. Compliance with the Civil Contingencies Act 2004 is demonstrated and practical exercises are held with partners, including COBRA for major incident testing, to test the adequacy of emergency plans.

The Audit Committee monitors implementation of recommendations from internal and external audit, as well as other external, reports. It also monitors management of the corporate strategic risks and operational risks and have been active in requiring improvements to arrangements. However, there is an opportunity for the Council to be more proactive in demonstrating that its work is having a positive impact in providing effective challenge.

### Recommendations

20. The Audit Committee should seek to demonstrate that its work has a positive impact in providing effective challenge.



## 5 Other resources

### **Theme summary**

#### ***What is this theme about***

This theme focuses on the effective management of natural resources, assets and people. It is concerned with whether the Council understands, and can quantify its use of, natural resources and whether it is managing performance to reduce its impact on the environment. It also focuses on whether the Council has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes and manages its asset base to ensure that assets are fit for purpose and provide value for money. Finally it seeks to establish whether the Council has a productive and skilled workforce, knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this.

#### ***Our summary findings***

The Council continues to develop its arrangements for understanding and quantifying the use of natural resources. There are a number of strategies, plans and processes that focus its approach to the use of natural resources, both internally and with partners. The Council has developed robust baseline data which enables it to predict usage and to calculate the financial impact and it is undertaking a mapping exercise in order to identify any data gaps. The Council has a carbon management plan, developed in partnership with the Carbon Trust, and has undertaken work to identify which of its operations produces the most carbon, using the Carbon Trust Baseline Toolkit. It is in the process of developing a five-year carbon budget and is also engaging a number of businesses in the development of individual carbon management plans.

'Sustainability impact assessments' are undertaken for all major schemes and staff are being trained to undertake these for business planning and project management purposes. There is an increasing focus on ensuring that supplier contracts include sustainability issues and collaborative working is developing with the private sector.

The Council has a strategic approach to capital management and its capital development programme is linked to the 14 corporate priorities. The Capital Programme Board has an overview of all capital programmes and approval of projects is based on a scored appraisal system. The Council is actively reviewing service delivery locations against those of partners such as the PCT and police, seeking to co-locate where possible, providing joint service delivery centres to meet community needs, though there is as yet insufficient evidence of clear outcomes across all areas of the Council. Significant asset decisions are based on a thorough option appraisal process incorporating whole life costing and the Council actively engages with a benchmarking club of similar councils for asset and construction information. The Council should now actively pursue the opportunities identified for co-location and demonstrate clear outcomes for its communities from this.

**KLoE 3.1 - Is the organisation making effective use of natural resources?**

This KLoE focuses on whether the Council understands, and can quantify, its use of natural resources and whether it is managing performance to reduce its impact on the environment. It also seeks to establish how it works with partners to manage the environmental risks it faces.

The Council continues to develop its arrangements for understanding and quantifying the use of natural resources. It has a number of strategies, plans and processes that have directed, and continue to direct, its approach to the use of natural resources, both as an organisation and, increasingly, with partners. The Climate Change and Sustainable Development Frameworks, Corporate Plan 2007/12 and Corporate Environmental Policy and Forward Plan, the Sustainable Procurement Strategy and "Plymouth's Eco footprint" (produced by the Environmental and Sustainability Partnership) all contribute to this.

It has developed robust baseline data which enables it to predict usage and to calculate the financial impact. There is evidence of working with others in the area, and the LAA now includes specific targets to address the impacts of climate change, the move to a low carbon economy, to minimise waste and to improve levels of recycling. The Council has a Carbon Management Plan, developed in partnership with the Carbon Trust, and has undertaken work to identify which of its operations produces the most carbon, using the Carbon Trust Baseline Toolkit.

The Council has developed a baseline assessment of its annual carbon footprint and is in the process of developing a five-year carbon budget. As well as developing closer practical working arrangements with other agencies, the Council is also engaging a number of businesses in the development of individual carbon management plans in order to address the area-wide carbon footprint (NI 186).

The Council recognises that it has yet to establish the full range and quality of reliable data needed to monitor performance and to manage progress and is currently undertaking a mapping exercise in order to understand what data is already available and what else might be needed. 'Sustainability impact assessments' (or appraisals and/or environmental statements) are undertaken for all major schemes and staff are being trained to undertake 'sustainability impact appraisals' for business planning and project management purposes. There is an increasing focus on ensuring that supplier contracts include sustainability issues and a range of actions to facilitate more effective collaborative working with the private sector is developing, particularly with small local businesses, in order to develop sustainable procurement arrangements.

**Recommendations**

21. Continue to establish the full range and quality of robust and reliable data across all its activities that is needed to monitor performance, to manage progress in reducing its carbon footprint and to demonstrate outcomes.
22. Complete the five-year carbon budget and implement appropriate monitoring arrangements.
23. Implement practical working arrangements on carbon management with key partners.
24. Ensure that all relevant staff are trained to undertake sustainability impact assessments and that these assessments are undertaken routinely throughout the organisation.
25. Implement wide-scale, practical working arrangements for measuring sustainability impact with

the private sector, particularly local businesses.

26. Implement sustainable procurement programmes with all partners and with the private sector and demonstrate benefits arising from these.

27. Ensure that other corporate plans support delivery of the strategy for sustainability.

### **KLoE 3.2 - Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?**

This KLoE seeks to identify whether the Council has a strategic approach to its asset management and whether it is based on an analysis of need to deliver its strategic priorities, service needs and intended outcomes. It also seeks to establish whether the Council manages its asset base to ensure that assets are fit for purpose and provide value for money.

The corporate asset plan includes links to the corporate improvement priorities (CIPs) and is further summarised in the Capital Management and Prioritisation Use of Resources report. The corporate capital strategy is informed by, and produced parallel to, the annual budget-setting processes. Capital projects are then prioritised within a capital funding envelope on the basis of their contribution to the 14 CIPs, using a scored assessment.

There is a corporate asset manager in place and this role is to be integrated through to the Corporate Resources function, to be managed alongside finance, governance and performance. The deputy Leader has portfolio responsibility for asset management.

Some strong outcomes from the implementation of the asset plan have been achieved in 2008-09 with the Brook Green Centre for Learning, with achievement of an excellent BREEAM (British Research Establishment Environmental Assessment Method) rating being the most notable. The Council is actively reviewing service delivery locations against those of partners such as the PCT and police, seeking to co-locate where possible, providing joint service delivery centres to meet community needs. The replacement of the demolished Plympton Library with a joint library and health centre facility (and potentially also social housing) is an example of this. The Council is also an active partner in the regeneration and redevelopment projects in the locality, including the Devonport Regeneration scheme which is now having significant beneficial outcomes for the community with an investment of over £300m and delivery of over 2,000 homes. This regeneration project has also seen benefits through innovative use of assets such as implementing breakfast and homework clubs in local primary schools.

The asset management system contains a detailed record of all of the Council's land and buildings and contains accurate data on its efficiency, effectiveness, asset value and running costs. This enables the Council to assess whether assets remain fit for purpose, need improvements, should be demolished or put to alternative use, and this data has been reflected in the Asset Management Strategy, again demonstrated by the Plympton Library project. The Council is also working well with other partners. For example, the TR2 project is where the Council is working with the Theatre Royal to provide educational and experience opportunities for children and the disadvantaged through purpose-built facilities, part funded through local authority grants.

Whilst there is an action plan in place to address backlog maintenance, progress has been slower than planned due to reduced asset disposal proceeds to finance it, following the significant fall in the

property market and general economic conditions. Significant asset decisions, such as the demolition and rebuild of the Mayflower Centre, are based on a thorough option appraisal process incorporating whole life costing. The Capital Programme Board has an overview of all capital programmes and approval of projects is based on a scored appraisal system which links to the 14 CIPs. The Council actively engages with a benchmarking club of similar councils for asset and construction information. However, at present, the benefit of this is limited as the Council is ahead of others.

The Asset Strategy and Management Plan includes a strategic review of assets with key partners. The Council has published its accommodation strategy, which sets out the Council's plans to rationalise the estate. The Council has also used GIS mapping to identify corporate land and buildings and that of partners and the data is being used to align its asset management strategy with its strategic objectives, as well as to identify opportunities for co-location or rationalisation of the estate.

### Recommendations

28. Continue to rationalise its estate and identify and pursue all opportunities for co-location, sharing and management of its land and buildings.

29. Ensure that the asset rationalisation and outcome benefits realised from early pilot sites are extended across the City.

### **KLoE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?**

This KLoE has not been considered in 2008-09 as the Audit Commission has prescribed that the introduction of assessed themes will be phased over three years. Appendix D details those KLoEs to be assessed in each year.

## A Action plan

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 1.1: Effective financial planning</b>				
1	The Council should extend the process of challenging how resources are used across all service areas and decide, with partners, the best options for service provision to the local population.	Medium	Agreed. We have introduced more interactive consultation with the public and partners on our priorities and resource allocation e.g. electronic voting in public areas such as Drake Circus.	CIP 2- Informing and Involving residents  <u>Lead Officers:</u> (1) Malcolm Coe (2) Giles Perritt
2	The Council should consult more widely with local people on significant priorities and spending decisions	High		
3	The Council should ensure that robust member involvement in resource prioritisation continues to develop and that members have received appropriate training in order to effectively discharge their duties.	High	Agreed. We have revised and updated finance and priority training to Members and delivered 2 new training courses in Nov 2009. We have regular sessions with Cabinet, Labour Group and Conservative Group on the 3yr Revenue and 5yr Capital budgets.	- Meeting notes - Presentations - 2 day Scrutiny event in Feb 2010 - Member Development Group  <u>Lead officers:</u> Giles Perritt/ Tim Howes

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 1.2: Understanding costs and performance</b>				
4	The Council should continue to develop a sound understanding of costs and performance across all of the Council's services and seek improved value for money from this.	Medium	Agreed. Annual VFM review is undertaken across all services using RA comparative data. We are continuing to build on our annual VFM Challenge events. We will identify high costs and/or low performance service areas and will discuss and prioritise these at CMT.	<ul style="list-style-type: none"> <li>- Looking to create VFM Delivery Plans within each department</li> <li>- Recently appointed Head of VFM &amp; Efficiencies</li> </ul> <p><u>Lead officer:</u> Paul Chapman</p>
5	The Council should demonstrate more active consideration of the social and environmental impact of decision-making processes.	High	Agreed. All social and environmental impacts are considered in the development of major projects such as the Life Centre and schools. Equality impact assessments are considered across all service areas.	<ul style="list-style-type: none"> <li>- CIP2 Informing and Involving residents</li> <li>- Appointed a Carbon Manager</li> <li>- Environmental policy been adopted</li> </ul> <p><u>Lead officers:</u> Paul Chapman &amp; Pete Aley</p>
6	The Council should seek to demonstrate improved productivity on a prioritised basis, across the whole range of its services.	Medium	Please see Recommendation no.4.	<ul style="list-style-type: none"> <li>- VFM Delivery Plans for each dept</li> </ul> <p><u>Lead officer:</u> Paul Chapman</p>

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 1.3: Financial reporting</b>				
7	The Council should ensure that its external reporting includes robust sustainable development and social information.	High	Agreed. We are looking to include/ incorporate more robust sustainable development and social information within the Annual report.	<p>- Annual report</p> <p><u>Lead officer:</u> Corporate Accountancy &amp; Finance Manager</p>
8	The Council should consider whether annual reporting of accounts might be undertaken across specific communities as a means of engaging with those communities, in addition to a single corporate report.	Medium	Agreed. To be considered for future years. Link to production of Annual report. Will look to also identify best practice from other authorities.	<p>Annual report</p> <p><u>Lead officer:</u> Corporate Accountancy &amp; Finance Manager</p>
9	The Council should improve arrangements to ensure that all entities within the group submit their final signed accounts to the Council on a timely basis.	High	Agreed. More productive arrangements to be put in place- closedown review meetings to be held with group entities. Formal closedown/audit timetable to be agreed and regular meetings to be held during closedown/audit process. Board members to be advised of need to monitor spend.	<p>- Meeting notes</p> <p>- Robust monitoring of Closedown project plan</p> <p><u>Lead officer:</u> Corporate Accountancy &amp; Finance Manager</p>

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 2.1: Commissioning and procuring quality services</b>				
10	The Council should seek to understand its supply market, particularly in the third sector, and shape it, where necessary, by developing new suppliers and other sources of capability.	High	Agreed. Strategic Procurement and Commissioning teams across the organisation work together with our strategic partners to develop and understand our market place.	<ul style="list-style-type: none"> <li>- NAAPs event</li> <li>- Annual Supplier Surveys</li> <li>- Meet the Buyer events</li> </ul> <p><u>Lead officer:</u> Jane Keeley</p>
11	The Council should seek to engage its communities at each stage of the commissioning cycle in all service areas, particularly in assessing needs and defining services.	High	Agreed. The Council has implemented a consultation process via LSP 'compact'. Major tender activities also involve internal and external stakeholders who are involved from the beginning of the process.	<ul style="list-style-type: none"> <li>- Code of conduct (Compact) (developed by LSP &amp; Private Sector)</li> <li>Consultation strategy</li> <li>Commissioning Strategy (Children's &amp; families &amp; Adult Social Care)</li> <li>Contract Standing Orders</li> <li>Section 3 pre-procurement procedure sub section e.</li> <li>- CIP 2 Informing and Involving residents</li> </ul> <p><u>Lead officers:</u> Jane Keeley, Jo Atkey</p>



No.	Recommendation	Priority	Management response	Implementation details
12	The Council should challenge why and how its services are provided on a prioritised basis, across the whole range of its services.	High	Agreed. We have agreed we will continue to build on the budget process which we put in place last year. We will challenge resource allocations to priority areas corporately at CMT and within each department. We will challenge the outcomes achievable through additional resource allocations.	<ul style="list-style-type: none"> <li>- Presentations</li> <li>- Budget Review Forms</li> <li>- looking to produce budget &amp; business planning timetable for CMT and Cabinet / Full Council.</li> </ul> <p><u>Lead officer:</u> Malcolm Coe</p>
13	The Council should demonstrate clear outcomes from procurement and commissioning across the range of the its services.	Medium	Agreed. Large procurement and commissioning activities always have business cases developed prior to commencement. Clear outcomes from procurement activities are developed within the specification documents and on-going management should demonstrate that business cases and specifications are standard, although the Authority recognises the need for more robust contract management. Contract Management has been incorporated into the Strategic Procurement Action plan as an activity for development in 2010/11.	<ul style="list-style-type: none"> <li>- Strategic Procurement Action plan</li> <li>- Contract standing Orders</li> </ul> <p><u>Lead officers:</u> Jane Keeley (Strategic Procurement), Karen Grannum (Capital projects)</p>

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 2.2: Producing relevant and reliable data and information</b>				
14	The Council should ensure that arrangements for checking data accuracy and addressing areas of weakness are fully embedded across the Council, and shared with partners where they are the source of the data.	High	Agreed. We have increased the level of internal auditing to ensure data quality standards are being met throughout the Council and its' arrangements with partners, with a focus on the Local Area Agreement. We had previously issued accountable officers with definitions for their national indicators. This includes a standard means of recording any changes to the monitoring or collection of respective indicators. These arrangements will be reviewed as part of the Internal Audit work.	Incorporating into CIP13  <u>Lead officer:</u> Giles Perritt
15	The Council should ensure that formal agreements and schedules are in place for the collection of third party source data for partners outside the LSP. This will help to ensure that data underlying key corporate performance information is up to date and accurate.	High	Agreed. We are looking to firstly identify the key external providers of data and then work with them to develop appropriate data sharing protocols.	- Internal Audit work plan - CIP13  <u>Lead officer:</u> Giles Perritt

No.	Recommendation	Priority	Management response	Implementation details
16	The Council should ensure that guidance is understood by all relevant officers for all of the national indicators at the start of the year. This could be done by adding a self certification within the audit checklist.	High	Agreed. We have issued relevant officers with definitions for their national indicators. All relevant officers also record any changes in monitoring or collection of their indicator data. Where the national indicator sits within the range of influence of a CIP, we will provide guidance notes as part of the planning process to relevant CIP leads.	<ul style="list-style-type: none"> <li>- Could be in place by Dec 09</li> <li>- CIP Planning Process</li> </ul> <p><u>Lead officers:</u> Giles Perritt &amp; Peter Honeywell</p>
<b>KLoE 2.3: Promoting and demonstrating good governance</b>				
17	The Council should ensure that member PDPs are fully embedded and having an impact.	High	Agreed. Member development group currently in place. Support package from the Improvement and Development Agency (IDeA) procured and Charter Status being pursued, which requires individual plans for Members.	<ul style="list-style-type: none"> <li>- Member Development Plan</li> </ul> <p><u>Lead officers:</u> Tim Howes/ Giles Perritt</p>

No.	Recommendation	Priority	Management response	Implementation details
18	The Council should work closely with the third sector and seek improvements in leadership and governance.	High	Agreed. Since the report in March 09, the Council has worked closely with the third sector to create the Plymouth Third Sector Consortium. The Consortium has recently published its' strategy and plans. The governance and leadership of the Consortium represents a significant strengthening over previous arrangements in the third sector and includes an assembly which allows all sector bodies working in Plymouth to represent their views and requirements to the Consortium. The Consortium has strong leadership representation on both the LSP Executive and Board.	<ul style="list-style-type: none"> <li>- Third Sector Strategy (published Sept 09)</li> <li>- Revised LSP governance arrangements (implement Dec 09)</li> <li>- Third Sector Assembly (16<sup>th</sup> Sept 09)</li> </ul> <p><u>Lead officers:</u> Peter Honeywell</p>
19	The Council should ensure that the Audit Committee remains consistently effective.	High	Agreed. We will continue to review the officer's support provided to Audit Committee. We will undertake relevant training for all Committee Members and continue to review the effectiveness of the committee.	<p>- ongoing</p> <p><u>Lead officer:</u> Sue Watts</p>

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 2.4: Risk management and internal control</b>				
20	The Audit Committee should seek to demonstrate that its work has a positive impact in providing effective challenge.	High	Agreed. Lead officer Sue Watts to speak with Cllr Sam Leaves (Chair of Audit Committee) to discuss how best to capture the outcomes and impact from Audit Committee work.	<p>- Lead officer to meet and discuss with Chair of Audit Committee.</p> <p><u>Lead officer:</u> Sue Watts</p>
<b>KLoE 3.1: Effective use of natural resources</b>				

No.	Recommendation	Priority	Management response	Implementation details
21	The Council should continue to establish the full range and quality of robust and reliable data across all its activities that is needed to monitor performance, to manage progress in reducing its carbon footprint and to demonstrate outcomes.	High	Agreed. The Council's management of environmental data is improving day by day and systems to record, monitor and measure progress are being established to verify actions in accordance with the Council's Environment Policy's Delivery Plan (Aug 2009) and their contribution to the city's Climate Change Action Plan 2009/13. Baselines are being established for corporate waste and water use. We use the Carbon Trust recommended NI 185 spreadsheet and value at stake toolkits to assess potential projects for their impact in both £s and tCo2. Outcomes are pulled together through the Carbon Reduction Plan 2008/2013 which is to be updated. Here projects are detailed, monitored regularly and reported using a verification process endorsed by DEFRA.	<ul style="list-style-type: none"> <li>- Environment Policy Delivery Plan 2009-2012.</li> <li>- Climate Change Action Plan delivery 2009-2013.</li> <li>- Carbon Reduction Plan 2008/13.</li> <li>- Environment statement-planned for June 2010.</li> <li>- Appointed a Carbon Manager</li> <li>- Energy use is monitored through TEAM Energy Ltd with regular updates and assistance with the NI 185 data required by the end of July each year.</li> </ul> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young/ Alex Hurth</p>

No.	Recommendation	Priority	Management response	Implementation details
22	The Council should complete the five-year carbon budget and implement appropriate monitoring arrangements.	High	<p>Agreed. We currently have in place a Carbon Reduction plan for 2008/2013. The plan will be updated to address target predictions and new projects. It is our intention to review the 2008/2013 Plan and update it through CMT and Cabinet to reflect any changes and upgrades.</p> <p>The monitoring arrangements set out above apply to this proposal.</p>	<p>- Carbon Reduction Plan 2008-2013.</p> <p>- Overview governance structure in place. Chaired by Director of Development and Regeneration and Members input to monitor progress.</p> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young/ Alex Hurth</p>

No.	Recommendation	Priority	Management response	Implementation details
23	The Council should implement practical working arrangements on carbon management with key partners.	Medium	<p>Agreed. The Council, as a partner in the LSP, has endorsed the city's Climate Change Action Plan (led by the Wealthy Theme Group). This document also has a delivery plan that focuses on preparing businesses and partners for the introduction of carbon accounting (2012), resource management and the carbon tax (2010). The Plymouth 186 network – designed to inform the city's LAA 186 targets and the actions required to reduce the per capita carbon footprint, was launched in June 2009 and is already training 32 companies, council departments and public organisations in basic carbon management processes. It is our aim to involve at least 186 companies by 2011.</p> <p>Social and networking events are also planned to reassure companies and to boost Plymouth's ability to react positively to the low carbon economy challenges.</p>	<ul style="list-style-type: none"> <li>- Climate Change Action Plan/ Delivery Plan.</li> <li>- The Plymouth 186 Network</li> <li>- Workshops- carbon tax.</li> <li>-Social and networking events</li> <li>- Workshops have also been organised – with one on the carbon tax attracting 50 participants. It is our plan to continue these throughout 2010/11.</li> </ul> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young/ Alex Hurth</p>



No.	Recommendation	Priority	Management response	Implementation details
			Links with the University are being strengthened with the possibility of establishing accredited courses for business leaders in 2010. The work is already endorsed by the Chamber of Commerce, Federation of Small Businesses, Plymouth Manufacturer's group, Business Link and the Carbon Trust. .	
24	The Council should ensure that all relevant staff are trained to undertake sustainability impact assessments and that these assessments are undertaken routinely throughout the organisation.	Medium	Agreed. The simplest possible sustainability checklists were introduced to the business planning element of the Corporate Plan in 2009 and it is our intention to make this training formal and mandatory for the review in 2010.	<p>-Corporate Plan</p> <p>- Work with Grant Thornton to seek how best to implement recommendation.</p> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young</p>
25	The Council should implement wide-scale, practical working arrangements for measuring sustainability impact with the private sector, particularly local businesses.	Medium	Agreed. We will look to instigate through the 186 network, however will need to establish the extent of interaction required along with the approval from the businesses and partners.	<p>- PCC officers to work with Grant Thornton to seek how best to implement recommendation.</p> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young</p>

No.	Recommendation	Priority	Management response	Implementation details
26	The Council should implement sustainable procurement programmes with all partners and with the private sector and demonstrate benefits arising from these.	Medium	Agreed. Sustainable Procurement strategy in place, with ongoing engagement with partners and the Private Sector. Full cost recovery is a standard element of the procurement process, which involves viability of service delivery. Designated staff have been involved in regional sustainable procurement. Continue to ensure sustainability as part of evaluation criteria for ongoing major procurement activities.	<ul style="list-style-type: none"> <li>- Sustainable Procurement Strategy</li> <li>- Engagement with FSB, Chamber of commerce. Meet the Buyer events.</li> </ul> <p><u>Lead officer:</u> Jane Keeley</p>

No.	Recommendation	Priority	Management response	Implementation details
27	The Council should ensure that other corporate plans support delivery of the strategy for sustainability.	High	Agreed. Plymouth has set out it's commitment to sustainability in the Sustainable Development Framework and the Climate Change Framework, both documents are fully supported by PCC. In December this year the city will be launching the Climate Change Action Plan and this will be supported by the PCC Environment Policy which supports the action plan and specifically details the actions to be taken within the Council.	<p>- Corporate Plan</p> <p><u>Lead officers:</u> Paul Chapman/ Jackie Young/ Pete Honeywell</p>

No.	Recommendation	Priority	Management response	Implementation details
<b>KLoE 3.2: Effective asset management</b>				
28	The Council should continue to rationalise its estate and identify and pursue all opportunities for co-location, sharing and management of its land and buildings.	High	Agreed. We have commissioned consultants to look at how we are going to implement the Accommodation Strategy. The accommodation strategy was approved in June 09 which looks at how we are seeking to reduce office requirements hence to further rationalise the estate. First phase of the business case is momentarily being finalised for consideration by CMT. We will also continue to expand on co-location with key partners and have commenced our 'Locality Working Strategy' alongside key partners.	<ul style="list-style-type: none"> <li>- Presentation to CMT</li> <li>- Accommodation strategy</li> <li>- Locality working Strategy</li> </ul> <p><u>Lead officer:</u> Chris Trevitt</p>
29	The Council should ensure that the asset rationalisation and outcome benefits realised from early pilot sites are extended across the City.	Medium	Agreed. We are looking to capture the issues and lessons learnt from the initial pilots (2 of which in the Civic Centre) and this will then inform the wider roll-out of other initiatives. (as part of business case of phased implementation).	<ul style="list-style-type: none"> <li>- Accommodation Strategy</li> </ul> <p><u>Lead officer:</u> Chris Trevitt</p>

## B CAA and the new Use of Resources Framework

### The Old UoR Regime

Local authorities' Use of Resources (UoR) has been assessed by external auditors under the Comprehensive Performance Assessment (CPA) regime since 2005. Until 2008, this took the form of an assessment in each of the following 5 areas:

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money.

Authorities received an overall UoR score, and a score for each area as set out below;

Score	Key
1	Below minimum requirements - performing inadequately
2	At only minimum requirements - performing adequately
3	Consistently above minimum requirements - performing well
4	Well above minimum requirements - performing strongly

This score directly influenced each organisation's overall CPA score and had a significant impact on external perception and reputation.

### The move to Comprehensive Area Assessment

The CPA regime provided an effective roadmap and stimulus for improvement, which helped many authorities to move in the right direction, focusing on externally validated strengths and weaknesses. This was reflected by a national picture of gradually improving scores and assessment results from 2005-8, and improving services to the public.

However, in order to build on the success of CPA, the Audit Commission recognised the need to:

- Ask "how well are people served by their local public services" rather than "how well are people served by their Councils";
- Focus on outcomes for an area, not just on individual organisations;
- Consider local priorities rather than apply a "one-size fits all" approach;
- Consider whether performance is likely to improve in the future, rather than how it has improved in the past; and

- Place less importance on compliance and rules to reflect local differences.

In late 2007 the Audit Commission began to consult on a new framework for comprehensive area assessment (CAA), of which an updated UoR assessment would be a key component. The CAA framework that emerged focuses on *areas* rather than the *organisations* within them, and holds local partners jointly to account for their impact on the things that matter to the area as a whole. The CAA asks three key questions:

- How well do local priorities express community needs and aspirations?
- How well are the outcomes and improvements needed being delivered?
- What are the prospects for future improvement?

The CAA does not give an overall score, as was the case for CPA. However, there will be green flags given for innovative or exceptional performance and red flags given to indicate concerns about outcomes and performance.

### CAA - key changes

CPA	CAA
Local government focus	All sectors and partners
Institution based	Area based
One size fits all	Focus on local priorities
Performance	Outcomes and perceptions
Collaboration between regulators	Joint assessment
Cyclical inspection	Continuous assessment, proportionate inspection
Focus on past performance	Focus on future improvement

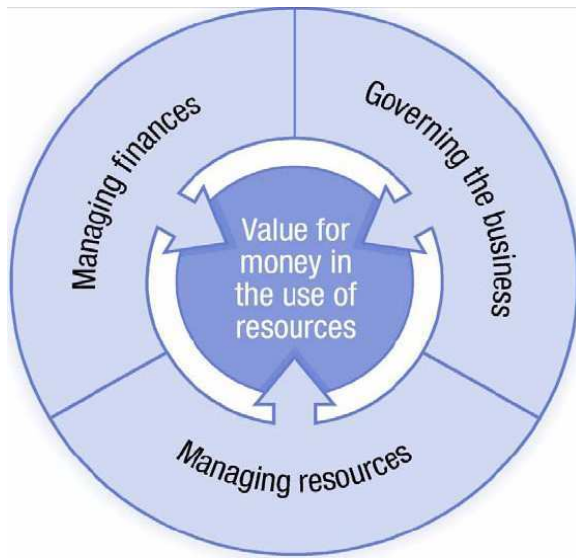
*Source:- Audit Commission*

### Use of Resources under CAA

Alongside the area assessment, CAA will include organisational assessments for key public sector organisations including councils, primary care trusts (PCTs), police forces and fire authorities. Each organisational assessment consists of two components; an assessment of how effectively the organisation is addressing its own priorities, called "managing performance" for councils, and an updated UoR assessment will be applied similarly across the different types of organisation.

The new UoR framework under CAA applies from 2008-09. The diagram below shows the overall approach to the revised UoR framework. There are three themes replacing the five areas included in the old framework, and a number of key lines of enquiry (KLoEs) within each theme.

**Use of Resources under CAA (source: the Audit Commission)**



The individual KLoEs for each theme are detailed in the main body of this document. Scoring criteria are set out in appendix C.

## C Scoring criteria and rules

The table below summarises the criteria used to reach scored judgements for each KLoE.

Level 2 Performs adequately	Level 3 Performs well	Level 4 Performs excellently
Arrangements consistent with established professional practice and guidance, meet <b>statutory requirements</b> and operate effectively.	Implemented effective arrangements that are: <ul style="list-style-type: none"> <li>➤ <b>forward looking</b> and <b>proactive</b> in identifying and developing opportunities for improvement; and</li> <li>➤ include more sophisticated measuring and assessment techniques.</li> </ul>	Demonstrating <b>innovation</b> or <b>best practice</b> .
Arrangements sufficient to address the KLoE.	<b>Outputs and outcomes</b> demonstrate arrangements which are effective and have the <b>intended impact</b> , and show evidence of effective <b>partnership working</b> .	Demonstrating strong <b>outcomes for the community</b> including through <b>partnership working</b> .
Arrangements achieve minimum <b>acceptable levels of performance</b> .	Evidence of performing <b>consistently above minimum acceptable levels</b> and achieving <b>VfM</b> .	Evidence of performing <b>well above minimum acceptable levels</b> and achieving <b>excellent VfM</b> .

Theme scores are derived from a numerical average of the KLoE scores within that theme. In some cases such as theme 2 or theme 3 when only 2 out of 3 KLoEs are assessed, the average of KLoE scores could result in a number ending in .5. In such cases the following rules apply in 2008-09;

- For theme 2, if the average KLoE score ends in 0.5, then the theme score will be rounded up or down to the score for KLoE 2.2. Examples - KLoE scores of 3,2,2,2 = theme score of 2. KLoE scores of 3,2,3,2 = theme score of 2. KLoE scores of 2,3,3,2 = theme score of 3.
- For theme 3, if the average KLoE score ends in 0.5, then the theme score will be rounded up or down to the score for KLoE 3.1. Examples - KLoE scores of 3,2 = theme score of 3. KLoE scores of 2,3 = theme score of 2.

The Audit Commission document at the link below details the overall approach to UoR framework and full details of scoring methodology.



<http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/uorframework2008updatefeb09.pdf>

In addition the Commission published auditor guidance for the UoR framework. This is available at the link below. This provides details of the specific KLoE's and expected indicators for levels of performance;

<http://www.audit-commission.gov.uk/localgov/audit/UoR/Pages/guidance.aspx>

## D KLoEs specified for assessment in 2008-09 and 2009-10

Some KLoEs are assessed on a rotating basis. The table below summarises the KLoEs that were assessed and formed the basis for the VfM conclusion in 2008-09.

2008-09	Single tier or county council	District Councils	NHS PCTs
<b>Theme 1 - Managing finances</b>			
1.1	Financial planning	Y	Y
1.2	Understanding costs	Y	Y
1.3	Financial reporting	Y	Y
<b>Theme 2 - Governing the business</b>			
2.1	Commissioning and procurement	Y	∞
2.2	Use of data	Y	Y
2.3	Good governance	Y	Y
2.4	Internal control	Y	Y
<b>Theme 3 - Other resources</b>			
3.1	Environmental management	Y	N
3.2	Asset management	Y	Y*
3.3	Workforce management	N	Y

\* only assessed at PCTs with a significant asset base.

∞ For PCTs, KLoE 2.1 will form a relevant criterion for the purposes of the VfM conclusion but not a scored KLoE for the use of resources assessment. Evidence for the VfM conclusion is expected to be drawn from the World Class Commissioning assurance framework, findings from Auditors' Local Evaluation work in 2007/08 and any other work undertaken locally.

For the 2009-10 assessment, the following KLoEs will be assessed and will form the basis for the VfM conclusion. Scores achieved in 2008-09 will continue to apply for 2009-10 for those KLoEs not being assessed in year 2.

<b>2009-10</b>	<b>Single tier or county council</b>	<b>Districts</b>	<b>NHS PCTs</b>
<b>Theme 1 - Managing finances</b>			
1.1	Financial planning	Y	Y
1.2	Understanding costs	Y	Y
1.3	Financial reporting	Y	Y
<b>Theme 2 - Governing the business</b>			
2.1	Commissioning and procurement	Y	Y
2.2	Use of data	Y	Y
2.3	Good governance	Y	Y
2.4	Internal control	Y	Y
<b>Theme 3 - Other resources</b>			
3.1	Environmental management	N	Y
3.2	Asset management	Y	N
3.3	Workforce management	Y	Y

∞ For PCTs, KLoE 2.1 will form a relevant criterion for the purposes of the VfM conclusion but not a scored KLoE for the use of resources assessment. Evidence for the VfM conclusion is expected to be drawn from the World Class Commissioning assurance framework and any other work undertaken locally.

Further details are available at the Audit Commission's website at:

<http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/uorframework2008updatefeb09.pdf>

## E Use of Resources Timetable 2009-10

	<b>2009-10 NHS</b>	<b>2009-10 Councils, police and fire</b>
<b>Area Challenge</b>		
EDC submission (indicative)	<b>By 26 March 2010</b>	<b>By 21 April 2010</b>
SHA area challenge	12-23 April 2010	n/a
LG area challenge	n/a	10-21 May 2010
<b>National Quality Assurance</b>		
EDC submission (final)	<b>By 2 July 2010</b>	<b>By 30 July 2010</b>
NQA process	5-30 July 2010	2-27 August 2010

## F Identifying outcomes, outputs and achievements

### Identifying outputs, outcomes and achievements

In order to score level 3 or above in the new UoR assessment framework, organisations were required to show that processes are *effective* and having the *intended impact*. This is an important shift in emphasis from the previous framework, within which organisations could achieve top scores by demonstrating excellent processes. The table below gives generalised examples of the types of outcome that have led to higher scores.

**Table 4: Illustrative examples of outcomes, outputs and achievements by KLoE**

**NOTE** - these examples are for illustration only and do not comprehensively cover each KLoE. Refer to section 2 for KLoE headings.

	Outcome	Output	Achievement
1.1	Investment in priorities leads to improved performance	Savings targets met, performance reward grant achieved	Positive external assessment
1.2	Improved relationship between costs and performance	Service reviews completed identifying opportunities	Development of effective corporate efficiency programme
1.3	Healthy financial position	Improved financial skills	Early close of accounts, clean audit
2.1	Improved service performance at lower cost	Completed commissioning / procurement exercises	Innovative approach to joint commissioning External recognition for procurement
2.2	Better-informed decisions and robust data to stakeholders	Improved internal performance reporting	Finding and fixing problems with own or partner data
2.3	Flexibility and responsiveness whilst maintaining focus	All members trained in ethical behaviour	Achieving a more balanced political process
2.4	Risks identified and mitigated, frauds recovered	Development and review of risk registers	Development of effective partnership risk framework
3.1	Reducing emissions and water consumption	Training of environmental champions	Enrolment in carbon reduction programme
3.2	Improving condition of assets	Income from disposal of unwanted assets	Better office accommodation
3.3	Meeting skills gaps, improving staff satisfaction	Reducing turnover and sickness absence	Investors in people accreditation

There are some common sense principles that should be taken into account when seeking to identify outcomes:

- organisations should not have to identify new outcomes for the purposes of UoR assessment. These should be identified and captured through existing management activity; organisations should understand how their processes help them to achieve their priorities;
- outcomes and outputs should be measurable where possible, but if this is not the case then a qualitative description of the improvement is still useful;
- there may not be a one-to-one relationship between processes and outcomes. There may be a small number of outcomes that arise as the net effect of a processes across a KLoE area; and
- if you are having difficulty then discuss the area with your UoR auditor.

### **Engagement in the assessment process**

Plymouth City Council engaged effectively with the assessment process in 2008-09. The Council provided a broad-ranging self-assessment at the outset and this was supported by a number of meetings and background evidence. Our workshops on KLoEs 1.2, 2.1 and 3.1 were well attended and useful.

For the 2009-10 assessment, we feel that the Council would benefit from our closer involvement in interpreting the KLoEs and the identification of relevant outcomes. It would also be beneficial for the Council to focus on outcomes across the whole of its services and its population.

### **Our approach to ensuring consistency**

In line with the Audit Commission's move to Comprehensive Area Assessment, the new use of resources framework has been designed to provide more flexibility to recognise local issues, priorities and achievements. This has given auditors more freedom to establish the individual story of each organisation, rather than applying a rigid best practice template. To support this, both the Audit Commission and Grant Thornton UK LLP have put in place new arrangements for ensuring that judgements and scores are reached in a fair and consistent way.

The Audit Commission has:

- provided extensive guidance and training;
- introduced an area-based challenge process bringing together auditors within each region to discuss and challenge indicative scores;

## Use of Resources findings and conclusions 2008-09

- increased the visibility of comparative scores and commentary for auditors; and
- undertaken a detailed final quality assurance process including statistical analysis across suppliers, regions and types of organisation.

Grant Thornton has:

- provided internal training and guidance;
- developed a network of regional leads to oversee the audit process nationally;
- undertaken a number of internal consistency and challenge sessions, comparing our clients to each other and with their regional neighbours; and
- undertaken detailed review and quality control of scores and conclusions.



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2008-09 Audit Plan progress report					
Work Area	Reason chosen	Work objective	Draft to lead officer	PCC Lead Officer	Progress to date
<b>Accounts</b>					
Systems of internal financial control.	Code of Audit Practice.	To gain assurance from systems of financial control for opinion.	March 2009.	Adam Broome.	Reported to Audit Committee on 25 March 2009.
Annual Governance Report (ISA260 report).	Statutory requirement.	To comment on all code work undertaken to date and include the items needed to be discussed with those charged with governance.	Mid September 2009.	Adam Broome.	Reported to Audit Committee on 25 September 2009.
Accounts Opinion.	Code of Audit Practice.	To provide an opinion on the accounts.	September 2009.	Adam Broome.	Reported to Audit Committee on 25 September 2009.
<b>Assessments</b>					
Use of Resources.	Code of Audit Practice.	To provide auditor judgment for Use of Resources.	October 2009.	Adam Broome.	Reporting to Audit Committee on 11 December 2009.
Value for Money conclusion.	Code of Audit Practice.	To provide auditor judgment for VFM.	September 2009.	Adam Broome.	Reported to Audit Committee on 25 September 2009.
<b>Risk based projects</b>					
Follow up on performance management arrangements	Code of Audit Practice	Local risk based work to support VFM conclusion	December 2009.	Adam Broome.	Drafting report.
Project management arrangements	Code of Audit Practice	Local risk based work to support VFM conclusion	December 2009.	Adam Broome.	Reporting to Audit Committee on 11 December 2009.
Follow up of single status arrangements.	Code of Audit Practice	Local risk based work to support VFM conclusion	December 2009.	Adam Broome.	Drafting report.
Compliance with equalities legislation	Code of Audit Practice	Local risk based work to support VFM conclusion	December 2009.	Adam Broome.	Drafting report.
<b>Other reports</b>					
Annual Audit Letter.	Code of Audit Practice.	To summarise issues arising from audit and assessment work.	November 2009.	Barry Keel.	Reporting to Audit Committee on 11 December 2009.
Grant Certification and report	Acting as agents for the Audit Commission	To review and provide a certificate on a number of prescribed grant claims and returns.	January 2009.	Adam Broome	Started June 2009.

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