



**Barry Keel**  
Chief Executive

Plymouth City Council  
Civic Centre  
Plymouth PL1 2AA

[www.plymouth.gov.uk/democracy](http://www.plymouth.gov.uk/democracy)

Date: 8 December 2011

Please ask for: Ross Johnston, Democratic Support Officer  
T: 01752 307990 E: [ross.johnston@plymouth.gov.uk](mailto:ross.johnston@plymouth.gov.uk)

## **AUDIT COMMITTEE**

**Date:** Friday 16 December 2011

**Time:** 10am

**Venue:** Warspite Room, Council House

**Members:**

Councillor Dr. Mahony, Chair

Councillor Stevens, Vice Chair

Councillors Evans, Stark and Thompson.

**Independent Members:**

Mr. Clarke and Mr. Stewart, plus one vacancy.

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.

Please note that unless the chair of the meeting agrees, mobile phones should be switched off and speech, video and photographic equipment should not be used in meetings.

**Barry Keel**  
Chief Executive

# **AUDIT COMMITTEE**

## **AGENDA**

### **PART I – PUBLIC MEETING**

#### **1. APOLOGIES**

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

#### **2. DECLARATIONS OF INTEREST**

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

#### **3. MINUTES (Pages 1 - 10)**

To confirm the minutes of the meeting held on 23 September 2011.

#### **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. FINANCIAL RESILIENCE REVIEW (Pages 11 - 24)**

The Council's external auditor, Grant Thornton, will submit the Financial Resilience Review report.

#### **6. ANNUAL AUDIT LETTER 2010/2011 (Pages 25 - 38)**

The Council's external auditor, Grant Thornton, will submit the Annual Audit Letter for 2010/2011.

#### **7. CERTIFICATION WORK REPORT 2010/2011 (Pages 39 - 50)**

The Council's external auditor, Grant Thornton, will submit the Certification Work Report for 2010/2011.

#### **8. OPERATIONAL RISK MANAGEMENT UPDATE REPORT (Pages 51 - 60)**

The Committee will receive an update report in respect of Operational Risk Management.

#### **9. SIX MONTHLY INTERNAL AUDIT PROGRESS REPORT (Pages 61 - 90)**

The Assistant Head of Devon Audit Partnership will submit the Six Monthly Internal Audit Progress Report.

**10. CONSTITUTION UPDATE**

The Committee will receive an update on the constitution from the Assistant Director for Democracy and Governance.

**11. TREASURY MANAGEMENT STRATEGY 2011/2012 MID-YEAR REVIEW (Pages 91 - 112)**

The Director for Corporate Support will submit the Treasury Management Strategy 2011-2012 Mid-Year Review.

**12. SUPPLEMENT TO TREASURY MANAGEMENT STRATEGY UPDATE SUBMITTED TO CABINET ON 29 NOVEMBER 2011 (Pages 113 - 122)**

The Committee will receive a report from the Director for Corporate Support providing a supplement to the Treasury Management Strategy update submitted to Cabinet on 29 November 2011.

**13. AUDIT COMMISSION UPDATE: (Pages 123 - 126)**

**14. AUDIT COMMITTEE FORWARD WORK PLAN (Pages 127 - 130)**

The Committee will note its work plan for the forthcoming year.

**15. EXEMPT BUSINESS**

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

**PART II (PRIVATE MEETING)**

**AGENDA**

**MEMBERS OF THE PUBLIC TO NOTE**

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

NIL.

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## Audit Committee

Friday 23 September 2011

### PRESENT:

Councillor Dr. Mahony, in the Chair.  
Councillor Stevens, Vice Chair.  
Councillors Evans, Stark, and Thompson.

Independent Members: Mr. Clarke and Mr. Stewart.

Also in attendance: Kate Jefferies, Grant Thornton, Barrie Morris, Grant Thornton, Jonathan Fry, Senior Policy, Performance and Partnerships Officer, David Simpkins, Head of Services for Children and Young People in Care, Mairead MacNeil, Assistant Director of Children's Social Care, Tim Howes, Assistant Director for Democracy and Governance Julie Hosking, Risk Management and Insurance Officer, Sandra Wilson, Corporate Accountancy and Finance Manager, Sue Watts, Assistant Head of Devon Audit Partnership, Martin Gould, Head of Devon Audit Partnership, Dominic Measures, Audit Manager, Mark Grimley, Assistant Director for Human Resources and Organisational Development, David Northey, Head of Finance, and Ross Johnston, Democratic Support Officer.

The meeting started at 10.00 am and finished at 1.05 pm.

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

### 19. **DECLARATIONS OF INTEREST**

There were no declarations of interest made in accordance with the Code of Conduct.

### 20. **MINUTES**

Agreed the minutes of the meeting held on the 27 June 2011.

### 21. **CHAIR'S URGENT BUSINESS**

The Committee was advised that the recent advertisement for Independent Members had received no applications.

Agreed that, in order to ensure recruitment to the post before the next meeting –

- (1) the Chair gives consideration to undertaking a radio interview to promote the vacancy;
- (2) the committee's existing Independent Members seek to promote the vacancy.

22. **EQUAL PAY/ JOB EVALUATION OUTSTANDING ISSUES**

This item was discussed under minute 33.

23. **DIVERTING CHILDREN FROM CARE PROJECT INITIATION DOCUMENT**

Jonathan Fry, Senior Policy, Performance and Partnerships Officer, David Simpkins, Head of Services for Children and Young People in Care and Mairead MacNeil, Assistant Director for Children's Social Care provided an update on Diverting Children from Care Project Initiation Document. Members were advised that –

- (a) the Diverting Children from Care service area had a clear work plan and a strong team who were dedicated to delivering value for money and were confident of reducing costs by £2.4m by 2013-2014;
- (b) the Project, which was part of the Council's overall efficiency programme, aimed to divert more children from care, thereby securing better outcomes for vulnerable children and realising significant efficiency savings in the process;
- (c) increasing the number of in house foster carer families would create efficiency savings and would support the reduction of the number of children in a residential care setting. Over the past 12 months the council had recruited 12 new foster families, improved the skills and resources available to foster carers and had been approached by a number of private sector foster carers about switching to the local authority's service;
- (d) by moving children from residential settings into a family environment, such as a foster care placement, would create efficiency savings and improve the life chances of these children in care;
- (e) the Council is building partnership working in local communities in the hope of enabling more vulnerable children to remain in their families and local environments; the associated risks of children remaining in their communities will be managed by experienced social workers;
- (f) the number of 16 – 18 year old children going in to care in the past 12 months had been reduced by 60 per cent, this had been achieved by a project which uses intensive support and mediation, as a result of this success, the project for 2011 – 2012 has been expanded to incorporate 11 – 15 year olds.

In response to members questions it was reported that –

- (g) 11 – 15 year olds going into care was a common problem nationally with Plymouth having comparable statistics to similar urban authorities;
- (h) Plymouth was trying to prevent an increase in 11 – 15 year olds going

into care by providing additional support to parents on dealing with problematic teenagers;

- (i) since May 2011 children in care numbers in Plymouth had reached a plateau; the number had not been reduced as the number of children leaving care was being replaced by a similar number of young people entering the care system;
- (j) despite the number of children in care remaining higher than the targeted number there had been significant efficiencies realised as a result of more children being cared for in a foster care setting.

Members were further reminded that the Diverting Children from Care project was being monitored by the Children and Young People's Overview and Scrutiny Panel.

The Chair thanked Jonathan Fry, Senior Policy, Performance and Partnerships Officer, David Simpkins, Head of Services for Children and Young People in Care and Mairead MacNeil, Assistant Director for Children's Social Care for their attendance.

#### 24. **FUTURE OF LOCAL AUDIT**

David Northey, Head of Finance, updated the Committee on the future of local audit and advised members that written confirmation had been received from the Audit Commission stating that as Grant Thornton, the council's auditor was an external company there would be no change with Grant Thornton continuing to be the City Council's auditor in 2012 – 2013.

Agreed that a copy of Audit Commission's written confirmation is included as an annex to the minutes.

*Further to the resolution above the response is attached as an annex to the minutes.*

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

Tim Howes, the Assistant Director for Democracy and Governance, and Julie Hosking, Risk Management and Insurance Officer, presented the Strategic Risk Register Monitoring Report. Members were informed that the total number of strategic risks had reduced from 32 to 30 with the number of red risks reduced from six to three.

It was commented by members that –

- (a) there was no evidence to suggest that Risk 69 – contribute and support the development of the Plymouth Life Centre at Central Park – was on programme and on budget and given that it was yet to be completed it was premature to delete that risk;
- (b) risk 76 – not getting government funding to build Efford Gypsy site - seemed to imply that there was a preferred bidder plan despite there not being any bidders;
- (c) risk 73 – Employee relations – had wider implications other than just

terms and conditions.

Agreed that -

- (1) risk 69 is re-installed and included on the register as a green risk;
- (2) an update is provided on bidders for risk 76 to be emailed to members;
- (3) the status of risk 73 shall not be reduced and further information is provided on this risk at the next meeting;
- (4) a further update on the Strategic Risk Register is provided at the next meeting.

The Chair thanked Tim Howes, the Assistant Director for Democracy and Governance, and Julie Hosking, Risk Management and Insurance Officer, for their attendance.

26. **STATEMENT OF ACCOUNTS**

Sandra Wilson, Corporate Accountancy and Finance Manager, submitted the Statement of Accounts for formal sign off. Following members questions it was reported that –

- (a) the late submission of the Statement of Accounts to members was regrettable, however, necessary due to a requirement for the purpose of quality control;
- (b) the Statement of Accounts needed to be approved in line with a new code of practice on Local Authority Accounting, which is based for the first time on the International Financial Reporting Standards (IFRS) based on approved standards by the International Accounting Standards Board (IASB);
- (c) the report listed a number of adjustments that were made to the Statement of Accounts that were recommended by the City Council's External Auditors, Grant Thornton.

Agreed that

- (1) the committee would proceed to agenda item 27, Annual Report to those charged with governance (ISA 260 report), and hear from the City Council's external auditor before they approve the Statement of Accounts for 2010 – 2011;
- (2) Sandra Wilson, Corporate Accountancy and Finance Manager would provide details to members via email on how many Plymouth City Council employees earn less than £30k per annum and comparison against employees in 2009 – 2010;
- (3) the timetable for approving the Statement of Accounts for 2011 – 2012 should allow a greater period of time for members to review the



document than was allocated this year.

27. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260 REPORT)**

The City Council's External Auditor, Grant Thornton submitted the Annual Governance Report (ISA 260) highlighting the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2011. Barrie Morris, Grant Thornton informed members that –

- (a) the Statement of Accounts and all its working papers were prepared to an adequate standard and the implementation of the IFRS had been successful;
- (b) there were a small number of adjustments required to the Statement of Accounts, with the most significant being -
  - a reduction of £60.2m in the value of the council's school assets;
  - the reclassification of £5m of assets incorrectly included as Community Assets;
  - increasing the value of the council's share of assets of £2.9m in the Devon Pension Fund;
- (c) there were some key recommendations put forward following the audit of the Council's financial statement, which were –
  - the council's asset register needed to be updated to support the accounts;
  - £4.7m of historic council tax debt should be written off, however the council should continue to pursue means of recovering this money;
  - the council should reassess its accounting treatment of the Tamar Bridge and Torpoint Ferry Joint Committee for 2011 – 2012 and include the Committee in the same accounts rather than as a separate entity;
- (d) the conclusion of the audit was that the council had sound financial and budgetary controls in place.

In response to members questions it was reported that –

- (e) a report would be submitted to the next Audit Committee which would review the council prioritising resources and undertaking financial resilience;
- (f) Plymouth City Council was a contributory group on the guidance that

was produced by the Chartered Institute for Public Finance and Accountancy (CIPFA) in dealing with the legal dispute with the Icelandic government and banks;

- (g) the dispute was currently going through the Icelandic courts and the council had taken the prudent, but less optimistic, view that the lowest amount proposed would be recovered from the £13m originally lost;
- (h) the reclassification of assets included as Community Assets would ensure that £2.4m of assets would be classified as Historical Assets; the valuation of these assets was determined by insurance valuations;
- (i) the Statement of Accounts was published in the Herald and on the council's website.

The City Council's External Auditor, Grant Thornton and the Committee commended the hard work of both the Corporate Accountancy and Finance Manager and the Devon Audit Partnership and their respective teams.

The Committee noted the report and agreed to adjourn the meeting to discover the outcome of the Tamar Bridge and Torpoint Ferry Joint Committee approving the Statement of Accounts 2010 – 2011.

## 28. **STATEMENT OF ACCOUNTS**

Councillor Dr John Mahony, Chair informed members that at the recent Tamar Bridge and Torpoint Ferry Joint Committee the Statement of Accounts 2010 – 2011 were approved.

It was therefore agreed that –

- (1) the amendments made to the Statement of Accounts for 2010 - 2011 as agreed with the Auditor, and outlined in this report are noted;
- (2) the Statement of Accounts for 2010 - 2011 is approved;
- (3) the letter of representation attached at Appendix B is authorised and submitted to the Auditor;
- (4) Plymouth City Council officers work with colleagues in Cornwall Council and the respective auditors to review the treatment of Tamar Bridge and Torpoint Ferry in the authorities accounts.

Councillor Dr Mahony, Chair, on behalf of the Audit Committee thanked Sandra Wilson, Corporate Accountancy and Finance Manager, and her team for their excellent work in preparing this year's Statement of Accounts.

## 29. **PROJECT MANAGEMENT REVIEW**

The City Council's External Auditor, Grant Thornton submitted a Project Management Review Report. Kate Jeffries, Grant Thornton, informed members that –

- (a) project management procedures had been identified to provide support on all corporate projects, however, as these would be built-in to the council's contract standing orders they were subject to the constitution being approved by the City Council;
- (b) a project at Compton Primary School was delivered using the newly identified procedures and the project was delivered on time and in budget and as such would be used as a best practice model;
- (c) good progress had been made through the Accommodation Strategy across the council, however, further improvements could be made by introducing better reporting mechanisms to the Corporate Management Team.

It was commented by members that –

- (d) Compton Primary School opened a week later than most other schools across the city, which suggested that the project was not completed on time;
- (e) internal matters such as project management procedures should not form part of the constitution and that the contract standing orders should be included as an appendix to the constitution to enable it to have flexibility so that it can be easily revised.

Agreed that –

- (1) Grant Thornton will submit a copy of the Project Management Review report to Adam Broome, Director for Corporate Support and Tim Howes, Assistant Director for Democracy and Governance along with advice on the need for the Contract Standing Orders to be a flexible annex to the constitution;
- (2) a further update on Project Management is provided at the next Audit Committee meeting;
- (3) clarification on whether the Compton Primary School project was finished on time be included as an annex to the minutes.

*Further to (3) above the response is attached as an annex to the minutes.*

30. **2010/11 AUDIT PLAN UPDATE**

The City Council's External Auditor, Grant Thornton, submitted a progress update on the 2010-2011 Audit Plan.

The report was noted.

The Chair thanked Barrie Morris and Kate Jefferies, Grant Thornton, for all their hard work and attendance.

31. **THE BRIBERY ACT 2010**

Martin Gould, Head of Devon Audit Partnership, and Dominic Measures, Audit Manager, presented a report on the Bribery Act 2010 and advised members that –

- (a) the Bribery Act had been built upon previous legislation and was effective since 1 July 2011;
- (b) it was anticipated that there was no significant risk to PCC following the introduction of the Act, however, it was felt necessary to make members and staff aware of the Act;
- (c) PCC had procedures and guidance in place, including the Code of Conduct, Contract Standing Orders and Financial Regulations which mitigate the risk of any potential bribery incidents.

It was commented by members that procedures and safeguards on how to deal with potential bribery needed to be made clear to staff and members.

Members noted the report and agreed that further information would be provided to all members.

The Chair thanked Martin Gould, Head of Devon Audit Partnership, and Dominic Measures, Audit Manager, for their attendance.

32. **AUDIT COMMITTEE FORWARD WORK PLAN**

The Committee's Forward Work Plan for 2011-2012 was noted.

33. **EQUAL PAY / JOB EVALUATION OUTSTANDING ISSUES**

Further to minute 22 this item was heard in Part I as councillors felt that the information provided did not warrant an exemption of the press and public from the meeting.

Mark Grimley, Assistant Director for Human Resources and Organisational Development, provided members with an update on equal pay and job evaluation outstanding issues. It was reported that –

- (a) in 2007 an Equal Pay Gender Gap Audit found that a number of staff were likely to have been successful in claiming compensation as there pay was not equal. As a result of this Plymouth City Council sought to reduce its liabilities by seeking to reach agreements with individual staff, 2,396 offers were made which had a 97.5 per cent acceptance rate;
- (b) the residual 2 per cent represented 54 staff members who had not reached an agreement;

- (c) following the Job Evaluation Scheme a number of additional claims were received, leaving at present just under 300 claims outstanding.

In response to members questions it was reported that –

- (d) Plymouth City Council's contingency fund for equal pay claims stood at £3.3m and was continuously under review;
- (e) until recently the council had other liabilities concerning terms and conditions. Following collective agreement being reached with the Unions in September the terms and conditions have been harmonised reducing the council's liability, however, further claims may be forthcoming.

The Chair thanked Mark Grimley, Assistant Director for Human Resources and Organisational Development, for his attendance.

34. **EXEMPT BUSINESS**

Further to minutes 22 and 33 being heard in Part I there were no items of exempt business.

**MINUTE ANNEX** (Pages 1 - 2)

Please find attached an annex to these minutes in relation to –

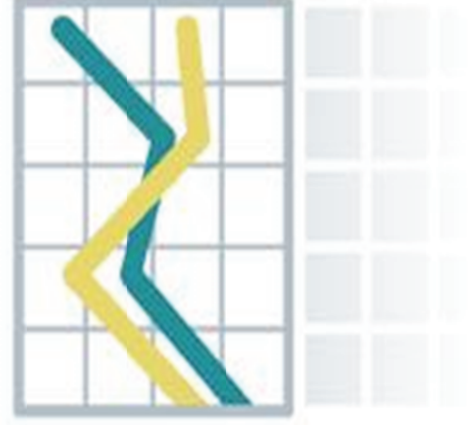
- 24. Future of Local Audit
- 29. Project Management Review

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# Plymouth City Council

## Review of Financial Resilience

**November 2011**



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# 1 Our approach

## Introduction and background

In carrying out our audit of Plymouth City Council ("the Council"), we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 ("the Act") and the Code of Audit Practice ("the Code").

The Code emphasises the respective responsibilities between audited bodies and their auditors as follows:

- The Council is responsible for putting in place proper arrangements for the preparation of its accounts, governance of its affairs and for making adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources; and
- We, as auditors, are required to form an opinion on the Council's annual financial statements and whether the Council has adequate arrangements to:
  - ensure financial resilience going forward; and
  - secure economy, efficiency and effectiveness in the use of its resources.

As such, in our 2010-11 audit plan for Plymouth City Council ("the Council") confirmed we would carry out a review considering financial resilience.

## Code of Audit Practice

Under the Code of Audit Practice, we are responsible for issuing a conclusion on whether we are satisfied the audited body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM conclusion for 2010-11 in the Council was informed, in part, by this review.

## Scope and approach

In August 2011, we agreed the terms of reference for this review with senior officers at the Council. It was agreed that our work should be focused around the following questions:

- are the arrangements in place for financial planning adequate?
- are the arrangements for financial control appropriate?

To answer these questions, we have considered the over-arching arrangements in place for 2010-11 and 2011-12 and considered in detail three service areas:

- Finance, Assets and Efficiencies Department, in the Corporate Support Services Directorate; and
- Adult Social Care and Environmental Services within the Community Directorate.

Our approach has included a review of key documentation, such as;

- the Council's Corporate Plan 2011-2014;
- the Council's Medium Term Financial Strategy ("MTFS") approved in June 2011; and
- the Council's Budget Book (2011-12).

We have also interviewed the following officers:

- Head of Finance;
- Assistant Director for Finance Assets and Efficiency;
- Group Accountant for Finance Assets and Efficiency;
- Assistant Director for Democracy and Governance;
- Assistant Director for Information and Communication;
- Assistant Director for Human Resources and Organisational Development;
- Assistant Director for Adult Social Care; and
- Assistant Director for Environmental Services.

This report draws together the findings from our work. It includes an Executive Summary, which highlights the key messages, and a section that outlines our more detailed summary of our findings. The areas where we consider improvements need to be made are set out in the summary findings and then drawn together in the action plan included as Appendix A. This has been agreed with key officers and will form the basis for our follow up work, to be undertaken as part of our audit in 2011-12.

### **Use of this report**

This report has been prepared to advise the Council of the matters arising and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking its own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

### **The way forward**

We have set out our recommendations in Appendix A to this report.

Our statutory requirements in 2011-12 remain unchanged and as such we are required to continue to assess financial resilience at the Council. This will involve assessing the progress made in the improvement areas identified within this review and through its delivery plans.

### **Acknowledgements**

We would like to record our appreciation for the assistance and co-operation provided to us during our work by the Council staff.

## 2. Executive summary

**The Council's arrangements for financial planning are adequate**

We found that the Council's financial planning process is clearly linked to corporate priorities. The MTFS is supported by annual Delivery Plans produced by each service area. Delivery Plans show the savings that need to be achieved for budgets to balance each year. The planning process is documented, to ensure that key staff are aware of the arrangements in place, and the role that they need to play in ensuring that all financial plans are complete, comprehensive and robust. The planning process is regularly reviewed so that weaknesses can be identified and addressed for future years (we understand that improvements are already being instigated for the 2012/13 process). The assumptions upon which plans are built are routinely challenged. There is a wide level of participation in financial planning, internally and externally. Risks are assessed and quantified on an ongoing basis to indicate the likelihood of savings being realised and budgets being met.

**However, there is scope to further improve the financial planning process**

Whilst the findings above provide an adequate level of assurance in respect of the arrangements for financial planning, it is our view that additional attention to the following two areas would strengthen the arrangements further;

- challenging the assumptions behind the departmental budgets more deeply; and
- identify delivery plans to meet the shortfall expected in 2012/13.

The majority of service budgets are based on historic spending and operational practice and we consider that the Council would benefit from the wider use of zero based budgeting. Given the current and ongoing financial pressures facing the Council, we consider that a more detailed assessment of budgets is required in order to identify further potential savings and efficiencies.

In 2012/13, the MTFS showed an expected budget shortfall of £24.6m. Delivery plans identified £15.8m of this and the further £2.4m from additional Council Tax grant left a funding shortfall of £6.4m. The 2012/13 budget setting process has identified further delivery plans of £4.7m and together with the removal of growth of £1.7m has now achieved a balanced position.

**The Council has arrangements in place for monitoring the use of financial resources across the Council.**

The Council has systematic arrangements in place for financial control, which operate across all areas of the Council. In 2010-11, the Council overspent by 0.05% and in 2011-12, the projected outturn shows an overspend of 0.36% which is attributed to demand pressures within Adult Social Care, Environmental Services and Democracy and Governance. We recognise that the Council has introduced plans to manage the impact of this on the budget.

Roles and responsibilities for delivering services within budget, and meeting the requirements of savings plans are clear. Reviews of performance against financial targets take place through meetings at all levels of the organisation (including Corporate Management Team (CMT), Departmental Management Team (DMT), Senior Management Teams (SMTs), Programme Boards and through thematic groups. Robust performance monitoring arrangements have been introduced and risk assessment is an integral aspect of financial control. Comprehensive performance reports (including financial and non-financial information) are presented to Cabinet on a quarterly basis.

**Processes would be strengthened if action was taken to ensure that the best practice in place in some areas of the Council was implemented in all services areas.**

The key areas where improvements could be made, to strengthen financial control, are as follows:

- ensure that delivery plans are developed that are realistic and achievable with alternative delivery plans in progress to replace intended plans that have not achieved the planned level of savings expected in 2011-12.
- ensuring an appropriate level of detail in all performance report; and
- monitoring the quality of delivery plans, to ensure that they consistently match the quality of the best.

## 3 Detailed findings

### Financial planning

The Corporate Plan outlines four top level City & Council Priorities . These inform the Medium Term Financial Strategy, which sets out total revenue and capital resources available to meet these priorities and spending plans for the next three years. The Council's refinement of its priorities and focus on them throughout the planning process has helped to make the alignment of resources to the areas needs increasingly transparent.

The MTFS is regularly updated and was last revised in June 2011, to reflect the changes in funding announced in the Comprehensive Spending Review (October 2010) and the Central Government Finance Settlement ( December 2010<sup>4</sup>). The current resources available are clearly set out and the need for transformational change to respond to the ongoing financial pressure is a theme throughout the document. By ensuring that the MTFS is updated to reflect significant changes to the financial position, be these due to internal budgetary pressures or external factors, the Council is ensuring its medium term financial planning is fit for purpose and focused on delivering the Council's core priorities.

A robust medium financial strategy should consider possible scenarios and model both changes in income, both funding and charging, and expenditure. At the Council the modelling in the MTFS reflects the following:

- A robust view of future Formula Grant and Council Tax over the medium term to determine the total available resources.

- Forecast spending plans for departments, reflecting known and anticipated expenditure pressures.
- Delivery plans, for all service and corporate areas, developed to balance the budget, year by year.

Annual budgets, at department and service level, sit below the MTFS and set out detailed spending plans and funding arrangements. Delivery Plans sit alongside the annual budgets and must be achieved in order for the budget to be met. Delivery Plans are considered to be realistic, looking only at what can be achieved in the coming year. Each year the Council aims to develop new plans to close the budget gap and ensure corporate objectives can be met within the given financial parameters.

The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation. The intention is for the financial benefit to contribute to more efficient service delivery which is then reflected in the base budgets for subsequent years. This approach should be a more sustainable way of meeting objectives whilst under tight budgetary pressures.

To generate the required savings the Council has recognised that transformational change is required in the delivery of some services. In some cases this will mean the Council needs to make an initial investment to reduce future costs. An 'invest to save' reserve has been set aside and is used for this purpose.



The 'worst case' position set out in the latest MTFS indicates a balanced budget for 2011-12 with a shortfall arising in 2012/13 and beyond. It will be necessary for the Council to identify how up to £9 million of further savings each year will be delivered as part of the on-going MTFS review and subsequent budget setting process.

We consider that the Council should begin to consider and identify delivery plans for these schemes in order to avoid slippage and to ensure maximum delivery within 2012-13.

**Recommendation 1**

**The Council should continue to develop delivery plans to meet the funding shortfall expected in future years.**

The latest MTFS has been developed as a 'living' document with the three year period it covers moving forward, following the end of each financial year. This means historic performance against budget can be factored into the resource needs going forward. Structural changes to resource allocations or spending plans can then be made.

The MTFS should be reviewed on an ongoing given:

- the process is based on the achievement of significant delivery plans to balance the 2011-12 budget as well as providing some mitigation against subsequent budgetary pressures.
- the latest MTFS is based on challenging income collection targets, as well as optimistic returns on Council investments for 2011-12, with further risks identified for the remainder of the term.

The MTFS includes sensitivity analysis showing the potential impact of a variation in budgetary assumptions. This approach sets out a summary of how base figures were arrived at as well as quantifying the impact of any deviation. This should assist CMT in monitoring future budgetary pressures and highlighting the financial impact of identified variances.

Throughout the budget setting process the budget and delivery plans are challenged and revised through CMT

The Council held a budget challenge process in January 2011 over two days. The Overview and Scrutiny Management Board heard from partners, cabinet members, directors and senior officers to consider the corporate plan and revenue and capital budgets. Recommendations were made to each department covering areas including impact assessments, savings schemes and performance targets.

In revising the latest MTFS, the Council consulted with:

- the Local Strategic Partnership;
- the Chamber of Commerce; and
- other partners and community groups.

The Council also consulted residents in Plymouth directly through the 'You Choose,' an on-line budget consultation tool.

External consultation is used as part of the budget challenge process. This allows the SMT to review the Council's matching of resources to priorities and ensure that stakeholders' views are responded to, where possible.

We consider that existing arrangements could be improved if the assumptions underlying the existing budgets were more rigorously and routinely challenged. There is an inherent reliance on historic activity and spending and zero based budgeting is only used to a limited extent, with few services having been fully rebased. We recognise that the resources required to roll-out zero based budgeting across the whole of the Council would be prohibitive, but the selective use of zero based budgeting focused on priority areas should enable the Council to benefit from this approach.

**Recommendation 2**

**Zero based budgeting, focussed on priority areas, should be developed.**

### Financial Control

The MTFS sets out the need to deliver £1.3.3 million of savings through delivery plans in 2011-12 and the Council identified plans to deliver £15.7 million in the current year. Whilst this plan exceeds the required level it allows for some flexibility if any schemes do not deliver and for any additional savings made in the current year to be invested in future delivery plans.

Future spending plans are developed assuming that the savings in a previous years' delivery plans have been realised i.e. the costs saved are removed from the baseline budget. Therefore it is essential that mechanisms are in place to ensure that the expected savings are realised whilst the delivery of services the Council intends to provide are maintained within budget.

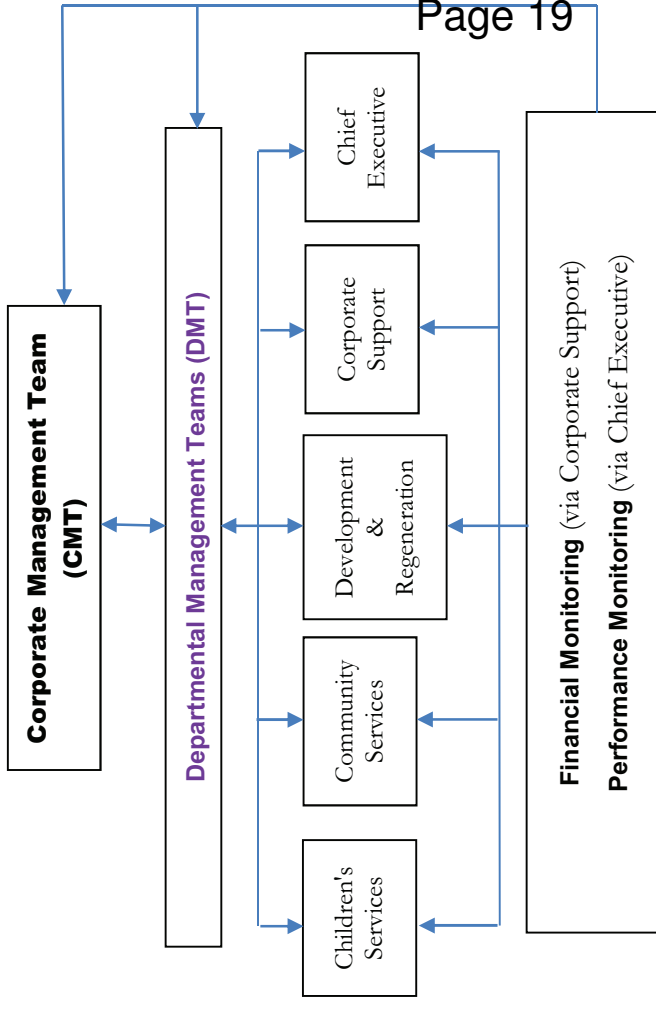
In July 2011 the Council reported its financial position for 2010-11 Total net spending was £201.9 million reflecting an overspend of £0.1 million (0.05%). This reflected an improvement on the £1.43 million (0.73%) overspend in 2009-10.

A scorecard including the following elements is presented each month at CMT:

- Financial Information taken from the ledger and sets out spend and forecast outturn against budget;
- Performance Information taken from performance management system and sets out position against KPIs; and
- Supporting Text provided by Assistant Directors, by Service, and setting the context for the above position.

The scorecards are completed on a RAG (i.e. Red Amber Green) system, with each the ratings being clearly defined. Target performance and spending is profiled so that CMT can monitor the actual position, at a point in time, against expectations for the same period. This means the Council has stronger financial control than solely forecasting a position against year-end outturn.

A process has been established for jointly monitoring financial and operational performance. This is implemented consistently across the Council's services and is set out below.



In addition to monthly reporting to CMT the Council's performance is reported to Cabinet on a quarterly basis.

At a Directorate level the DMTs sit weekly and once a month a representative from the Financial and Performance Monitoring team attend to provide context to the finance and performance data so that the text supporting the monthly scorecard can be written. DMTs include the relevant Director and the Assistant Directors.

Some departments also have an Executive Board which is the forum where Cabinet member input is achieved. Some services also use a Programme Board with representation from various Corporate services to ensure agreement and sign-off of the respective RAG rating and the supporting text.

In addition, the Council holds regular 'budget challenge' meetings where all DMT members have the opportunity to challenge the position being described in other departments. This ensures transparency and also consistency of approach to reporting.

### **Delivery Plans**

Delivery plans are the formal mechanism that the Council uses to set out how it will address the funding shortfall in 2011-12 and beyond.

The risks to achieving the savings set out in delivery plans are assessed and monitored on an ongoing basis. This reporting includes CMT and DMT as well as quarterly reporting to cabinet through the integrate approach described earlier.

In addition to risk assessment there is also a consideration of the impact that a failure to realise savings will have on:

- delivering priorities;
- meeting legal obligations;
- meeting customer expectations; and
- other services and partners.

Our detailed review of Environmental Services Plans identified examples where the plans were not robust and unlikely to be achieved within 2011-12. These examples included public toilets, playgrounds and bowling greens. We identified that the RAG ratings have changed from amber, when presented in the budget book, to red in performance reports in September 2011. Whilst we recognise that risk ratings will change, further investigations indicated that these examples were not based on robust data within the budget book. In addition, they did not have due regard of slippage time.

The following provides further information on these examples:

- Public Toilets - a footfall review is currently underway and the outcomes is not yet known, hence savings are unlikely to be realised in 2011-12;
- Playgrounds - dialogue is taking place relating to the transfer of ownership, but is likely to yield only minimal savings, hence the level of savings identified for 2011-12 are unlikely to be realised; and

- Bowling Greens - the original plan included a range of measures, none of which will be achieved in 2011-12.

As at the end of quarter two, £1.7 million (10.5%) of delivery plans were rated as 'red' and £5.3 million (33.7%) as 'amber'. This is a significant improvement on the position at the end of quarter one and the risk of non-delivery in both categories has reduced by a third.

The Council has taken action to progress a range of plans which were at risk, including domiciliary care, residential care for under 65's, a corporate services restructure, changes to procurement and agreement of revised terms and conditions across the Council. These delivery plans have involved a change in the way the Council delivers services and some difficult decisions about the resources available to do that. We commend the Council for taking action to minimise the impact on priority front line services.

However, we would reinforce the need to ensure that delivery plans are robust and realistic when set and acted upon from commencement of the financial year to ensure progress and reduce slippage. If they are not, the required level of savings will not be achieved and the budget will not be met. Where delivery plans are rated Red or Amber, alternative plans should be developed as a priority by Management Teams to mitigate the risk from plans which cannot be achieved or delivered in the timescale required.

### **Recommendation 3**

**The Council should continue to ensure that delivery plans are based on realistic assumptions and are deliverable in the planned timescales across departments with alternative delivery plans implemented where intended plans are unlikely to produce the planned level of savings.**



## **Financial controls in Community Services**

### **Adult Social Care**

Adult Social Care (ASC) is the largest individual Department in the Council in budget terms. In recent years, ASC has been tasked with achieving significant savings whilst being exposed to significant demand pressures, largely arising from demographic factors and reforms to the system of social care in the UK. In 2010-11, ASC was originally required to identify savings in the delivery plan equating to £5.1 million which was later reduced to £4.6 million.

A complex performance management structure has been introduced within ASC to ensure effective performance and financial management. Within this structure a Programme Board has been established and it is this Board which monitors the delivery plan.

The 2011-12 budget contains £2.3 million of savings to be achieved in addition to those for 2010-11 which are now embedded in the revised base budget figure of £73.1 million. The latest Joint Performance and Finance Monitoring Report (JPFR) states that demand pressures related to Learning Disabilities and older people's mental health are ongoing, resulting in the current £0.8 million forecast overspend. However, there are programmes underway to seek to transform the way the service works and reduce the risks of this overspend being realised. This includes the Proof of Concept team which aims to carry out a service wide transformation of adult care services delivery and improve the joint commissioning arrangements.

### **Environmental Services**

Environmental Services (ES) is the third largest individual Department in the Council in budget terms.

Based on a recent benchmarking exercise the Council considers there is limited scope within this Directorate to make significant savings although Council wide work on Terms and Conditions may provide one opportunity. Consequently the delivery plans focus on how these services are provided.

In 2010-11 ES had no savings targets allocated to them directly but followed the same reporting structure as the rest of the Council to assess performance against budget. ES mirrors the structure in place for ASC, having a Programme Board which includes representation from various corporate functions, and to which the Assistant Director (AD) reports. This Programme Board is chaired by the Community Services Director and, as a result, links to the Council-wide CMT monitoring process.

In addition the (AD) chairs a Delivery Board which meets monthly and is supported by six work stream groups as well as Corporate Resources. The Delivery Board reports directly to the Department Executive (being the Members with the Finance and Community Services Portfolio and the Community Services Director) so that that the monthly reporting of issues can flow upwards from individual officer work streams to Cabinet Members, via AD's and down to operating managers.

### **Financial controls in Corporate Support Services**

Finance, Assets & Efficiencies (FAE) is the largest individual Department within the Corporate Support Directorate. In recent years, FAE has been tasked with achieving significant savings through delivery plans, with these largely relating to improving the efficiency of support services.

In 2010-11 FAE were originally required to generate savings in delivery plans equating to £0.3 million of the overall £0.5 million for Corporate Support Services with additional savings identified and then delivered through the year. Delivery plans in Corporate Services relate to cross-cutting saving requirements which benefit the Council as a whole, for example the accommodation strategy. These delivery plans have been apportioned across service departments and the relevant ADs in corporate services are directly accountable.

Within the overall structure, the Corporate Support Management Team operates as an Improvement Board for FAE, once a month. In this meeting the focus is on progress against key and cross cutting delivery plans. This process is largely the same as that described in ASC and ES and supports our conclusion that there is a clear framework and ownership for monitoring financial and operational performance.

**Performance and Finance Reports**

These reports present both financial and performance information on a quarterly basis to Cabinet. They also include progress on the delivery plans. Our review of these reports indicates that there is scope to improve the level of information included within them.

The key drivers behind the current position being reported is not presented within reports, but could offer a useful insight. The initial overspends relate largely to pressures on demand for the Council's Learning Disability Service as well as those related to Mental Health, Older People and Physical/Sensory Disabilities services. It is not clear how the forecasting of the Council's demand led services has been established and the level of detail in JPFPR documentation is fairly limited. Our review of Health and Adult Social Care Overview and Scrutiny Panel minutes provide only limited information and so it is not clear how robust the review and discussion of performance has been.

**Recommendation 4**

**Keep the content of the joint performance and finance reports under review to ensure that they contain sufficient detailed information in order that appropriate action can be taken, where performance or spending is not in line with expectations.**

# Appendix A – Action plan

Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
1	The Council should continue to develop delivery plans to meet the funding shortfall expected in and future years.	High	Budget setting process has closed the gap for 2012/13 and narrowed the gap considerably for 2013/14. Officers will continue to monitor the position for 2013/14 and 2014/15 and incorporate funding allocations as they become known.	Director for Corporate Support / CMT On-going
2	Zero based budgeting, focussed on priority areas, should be developed across the Council.	Medium	The movement to three Directorates offers the opportunity to further challenge all areas of spend. Management accept the principle of ZBB where appropriate/cost effective to implement	Director for Corporate Support / CMT As part of 2013/14 budget
3	The Council should continue to ensure that delivery plans are based on realistic assumptions and are deliverable in the planned timescales across departments with alternative delivery plans implemented where intended plans are unlikely to produce the planned level of savings.	High	Both CMT & SMT continue to challenge across departments to test robustness of Plans. 2012/13 Budget process included cross-departmental budget delivery plan challenge sessions. Plans will continue to be reviewed and reported via monthly (internal) and quarterly (public) reports	Director for Corporate Support / CMT On-going
4	Keep the content of the joint performance and finance reports under review to ensure that they contain sufficient detailed information in order that appropriate action can be taken, where performance or spending is not in line with expectations.	Medium	Management acknowledge the importance of the reports and the need to be able to make informed decisions.	AD FAE / Head of Finance On-going



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**Plymouth City Council**  
Annual Audit Letter 2010/11

**November 2011**



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# 1 Executive summary

## **Purpose of this letter**

This annual audit letter ('letter') summarises the key issues arising from the work that we have carried out at Plymouth City Council ('the Council') during our 2010/11 audit. The letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **What this letter covers**

This letter includes key messages and conclusions from our 2010/11 audit work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved (Section 3)
- certification of claims and returns to various grant paying bodies (Section 4).

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

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)).

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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.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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.

## **Context**

In the current financial climate the Coalition Government's continuing priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time the Government has stated that it is their aim to reduce top-down government, and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants



- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

The Council has forecast that it will have a revenue funding shortfall of £35.1 million by 2013/14, with £15.7 million in 2011/12. It has delivery plans in place to achieve the savings in the current year and has identified, to date, a total of £26.0 million of delivery plans over the three year period.

### **Key messages**

#### **Our main audit conclusions for 2010/11**

The financial statements gave a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Accounts audit**

We were presented with draft financial statements and accompanying working papers on 30 June 2011, in line with the deadline. The financial statements had been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS). The Council processed all of the proposed amendments identified through our audit work. We issued an unqualified accounts opinion on 23 September 2011, in advance of the 30 September 2011 deadline.

### **Value for money**

We issued an unqualified VFM conclusion on 23 September 2011. Our work focused on arrangements in place during 2010/11, and up to when we signed our conclusion.

### **Certification work**

We have certified all six of the Council's claims and returns required for 2010/11.

### **Key areas for Council action**

We highlight the following key areas, where the Council has not yet completed our recommendations to further improve its arrangements in 2011/12:

- roll out the new draft project management procedures across the Council combined with the planned training programme
- continue to refine the financial planning and control arrangements to maintain strong financial performance in an increasingly challenging financial environment.

The context for these key messages is set out in this letter. A list of the reports issued during the year is at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure these recommendations are implemented as planned. Appendix B sets out our budgeted and actual fees for 2010/11.

### **Acknowledgements**

This letter has been agreed with the Director for Corporate Support and presented to the Audit Committee on 16 December 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**

**November 2011**



## 2 Audit of the accounts

### Introduction

We issued an unqualified opinion on the Council's 2010/11 financial statements on 23 September 2011, before the statutory deadline of 30 September 2011. Our opinion confirmed that the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we were required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our annual report to those charged with governance to the Audit Committee on 23 September 2011 and summarise only the key messages in this letter.

We were presented with draft financial statements and accompanying working papers on 30 June 2011, in line with the deadline. The financial statements had been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

The financial statements were accompanied by adequate working papers and finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information. This was particularly pleasing with the implementation of IFRS and the demand for finance resource in the current economic climate.

### International Financial Reporting Standards (IFRS)

2010/11 was the first year that councils were required to prepare their financial statements under IFRS. We undertook a review of the Council's preparedness throughout 2010/11 and assessed the arrangements for re-stating each line of the balance sheet. Overall we rated the Council's arrangements as being adequate.

Robust arrangements were in place to collate all the required data for the restatement, with work streams across the Council's services covering all key accounting balances and transactions affected by the restatement. However, the figures for the balance sheet at 1 April 2010 and the comparative figures for 2009/10 were not finalised until the draft accounts were submitted for audit on 30 June 2011, which was after the timescale initially planned by the Council.

Our audit of the financial statements did not identify any significant amendments in relation to the IFRS restatement.

### Audit of the accounts

Through our audit work we identified a small number of adjustments which were required to the financial statements, the most significant being:

- a reduction of £60.2 million in the value of the Council's school assets as a result of the approval of their transfer to Academy status before 1 April 2011, resulting in an increase in the deficit on the provision of services and reduction in the revaluation reserve, although there was no impact on the General Fund balance

- the reclassification of £5.0 million of assets incorrectly included as community assets in the draft financial statements to infrastructure and vehicles, plant, furniture and fittings
- an increase in the value of the Council's share of assets in the Devon Pension Fund of £2.9 million due to a change between the Pension Fund's estimated asset value at the end of February 2011 and the year-end, resulting in an increase in total comprehensive income, this also did not impact the General Fund balance.

We are pleased to report that the Council responded very positively to our audit and all of the amendments we identified were processed by management.

We also recommended that the Council, in partnership with Cornwall Council, should re-assess its accounting treatment of the Tamar Bridge and Torpoint Ferry Joint Committee to determine whether it should be incorporated within the single entity accounts of each council in the future. This work is due to be concluded early in 2012, once the impact of IFRS11 - Joint Arrangements has been considered and following discussions with ourselves and the Audit Commission as auditors of Cornwall Council.

### **Financial performance**

The Council reported a revenue overspend of £0.1 million (0.05%) against its 2010/11 revenue budget. In the current financial year the Council was forecasting an overspend of £0.6 million for 2011/12 at the end of September 2011. The anticipated outturn is a result of on-going pressures in the Community Services department relating to learning disabilities and older peoples mental health services.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit and our VFM work on the Council's financial resilience.

### **Financial systems**

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work focussed on three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 financial statements
- high level review of the general IT control environment.

Our work did not identify any control issues that presented a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- strengthening arrangements for the authorisation of journals
- updating the new fixed asset register with all of the Council's assets, including all transactions relating to 2010/11, on a timely basis.

The actions agreed with the Council to address these recommendations were included in our interim report issued in June 2011 and our Annual Report to those Charged with Governance issued in September 2011. We will review progress against these as part of our 2011/12 audit.

### **Annual Governance Statement and Explanatory Foreword**

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the financial statements.

### **Audit certificate**

We did not receive any questions or objections relating to the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

### **Whole of Government Accounts (WGA)**

The Council submitted its draft WGA L Pack for audit to us on 5 August 2011. This was after the Department for Communities and Local Government (CLG) deadline of 29 July 2011 but in line with the extension the Council agreed with CLG.

We submitted the audited WGA L Pack to CLG by the deadline of 30 September 2011.

## 3 Value for money

### Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we were required to review and, where appropriate, examine evidence that was relevant to the Council's corporate performance management and financial management arrangements.

### Key conclusion

We issued our annual VFM conclusion on 23 September 2011, at the same time as our accounts opinion, before the statutory deadline of 30 September 2011. We concluded that, for 2010/11, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

### Value for money projects undertaken during the year

In addition to our work on the specified criteria, we undertook detailed work to support our VFM conclusion. We have presented to the Audit Committee reports on our reviews of:

- the procure to pay project in March 2011
- project management in September 2011
- financial resilience in December 2011.

### Review of procure to pay project

We reviewed the Council's arrangements to deliver procurement savings through its Procure to Pay (P2P) project. We reported that the Council's project was clearly aligned to its corporate priorities and there was clarity at a corporate level in relation to the purpose of the project.

The P2P project initiation document was developed in April 2010 in advance of the planned start date for the delivery of savings over a three year period from 1 April 2011. We identified that whilst the project was developing, across 2010/11, there was a lack of clarity in the governance arrangements.

During the development of the project, the phasing of the delivery of the planned £4 million savings needed to change because the Council's budget was being revised to reflect a reduction in funding. The final position was agreed as part of the corporate support delivery plan in March 2011, with £1.2 million identified as needing to be delivered in 2011/12. The Council believed that this target was prudent and should be achieved, and probably exceeded.

At the time of our work the Council had not developed a communications plan for P2P. We reported that this was likely to have had a detrimental impact on the engagement with stakeholders across the Council, making it less effective. Since our work the Category Management Project Board approved a combined communications plan for P2P and category management in July 2011.

At the time of our review we identified that the Council did not have a benefits realisation strategy for the project and we recommended that the performance management arrangements for the project needed to be developed as a matter of priority, including how financial and non-financial benefits would be measured and monitored. The Council has now taken action to address this. A benefits realisation process was adopted by the Corporate Management Team in August 2011 and this was communicated to Departmental Management Teams during September 2011.

### **Project management review**

We reviewed the Council's arrangements to manage projects and assessed two projects in more detail to establish whether these arrangements were effective in practice. The two projects we reviewed related to:

- Compton Primary School enhancements, which was one of the first projects to apply the new project management procedures
- Corporate accommodation strategy, because this is a significant project, phase one of which was due to be complete and phase two had been brought forward.

The draft procedures, which were developed in November 2010, meant that the Council had developed a framework to manage capital and large revenue projects. The procedures were due to be approved as part of the Constitution by full Council in June 2011 but this was deferred until October 2011 because a number of significant issues were not resolved following discussion by members.

A further delay has been incurred due to a working group of members undertaking a review of the Constitution in September 2011 which requires some re-drafting. This is currently underway. The revised version will be re-considered by the working group before it is taken back to full Council for approval. This position was reported to full Council in October 2011 although the timetable for completion of this was not stated. As a result, the project management procedures have not yet been rolled out across the Council and the associated training programme has not been delivered.

Our review concluded that the procedures included a number of elements of good practice. We also identified some areas where the procedures could be enhanced and made easier to use in practice. We recommended that the Council would benefit from reviewing the success of their application after a period of time and using this to inform a subsequent review utilising feedback from those staff who had used them.

In reviewing the specific projects, we found that the Compton Primary School project followed the procedures effectively and that the project was delivered on time and within budget. The school opened in September 2011, as planned, and the key outcome to expand the school in response to rising demand was met. Our review indicated that the project was led and managed well and a post implementation review was due to be undertaken in the near future.

The accommodation strategy is a council-wide change programme that incorporates new and different ways of working as well as rationalisation of the office accommodation. We found that the Council has made good progress, to date, in making improvements to office accommodation and rationalising the number of offices. The main area where we considered that the Council should maintain its focus was in ensuring that the overall arrangements were robust and that there continued to be sufficient capacity and resilience within the team to deliver the ambitious programme objectives effectively.



## Financial resilience

We have reviewed the Councils arrangements for financial planning and control to assess whether these are sufficiently robust to meet the current challenges within the financial environment that the Council is operating within. Our review assessed the overall corporate arrangements in place with a more detailed review of two specific departments:

- Community Services which had overspent its budget in recent years
- Corporate Services which underspent its budget in 2009-10.

Over the last few years the Council has continued to develop and refine its financial planning and monitoring arrangements. Our review found that its financial resources have been clearly aligned to its corporate priorities. The Council produced a revised Medium Term Financial Strategy (MTFS) in May 2011, following the Government's CSR in October 2010 and settlement in December 2010.

The MTFS forecasts that the Council will have a revenue funding shortfall of £35.1 million by 2013/14, with £15.7 million of this in 2011/12. It has developed delivery plans to achieve the savings in the current year and has identified, to date, a total of £26.0 million of delivery plans over the three year period. The Council has adopted a prudent approach by not including a delivery plan saving until the detail of how and when it will be achieved has been confirmed.

There is a consistent approach across the Council to budget setting and identification of delivery plans, both within services and for cross-cutting delivery plans which are held and managed within Corporate Services. Budgets and delivery plans are challenged between departments, by members and other key stakeholders enabling them to be refined to reflect the city's priorities. Changes to the budget are appropriately reflected in each service.

In 2009/10 the Council only overspent its budget by £0.1 million (0.05%). At the end of September 2011 it forecast an overspend of £0.6 million (0.27%) for 2011/12. This indicates that the Council has strong arrangements in place to ensure that it maintains tight financial control over its revenue budget.

The current overspend is attributed to on-going pressures in Adult Social Care in learning disabilities and older people mental health services. However, at the time of our review, there were also £1.7 million of delivery plans which were red rated and £5.3 million that were amber rated meaning that there is a risk that up to 44% of the original planned savings may not be realised in the year, requiring alternative schemes being put in place to address this.

The Council should ensure that where there is a risk that a delivery plan will not be achieved that alternative plans are introduced at the earliest opportunity. It is currently not clear within the quarterly Finance and Performance reports to Cabinet how some red rated delivery plans will be achieved in the current financial year or how they impact upon the forecast outturn as the value of red rated delivery plans exceeds the current forecast overspend.

To further develop the existing budget setting arrangements the Council should consider developing its use of zero based budgeting rather than focusing on changes to each budget on an annual basis. Whilst we recognise that many services are demand led, there is scope to more accurately predict the demand for those services where the population using them does not significantly change from year to year, for example learning disabilities and some mental health services.

## Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local value for money work in 2011/12. We will continue to focus on the two key reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will determine a local programme of VFM project based work after completing our audit risk assessment, informed by the criteria above and our statutory responsibilities. Work is in progress to prepare our audit plan for 2011-12 and agree this with the Council.

## 4 Certification work

Each year we review and certify a number of claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 claims and returns. Once this work is complete we will report in full on the findings of our work.

The outcome of this work will be included within our separate certification work report with will be presented to the Audit Committee at a future date.

# A Reports issued in 2010/11

Report	Date Issued
Audit fee letter	March 2010
Audit plan	December 2010
Review of P2P project	June 2011
Interim report and update to financial audit plan	June 2011
Report to those charged with governance (ISA 260)	September 2011
Project management review	September 2011
Financial resilience review	November 2011
Annual audit letter	November 2011
Certification work report	December 2011



## B Audit and other fees for 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial statements	£220,066	£220,066
Value for money conclusion	£115,912	£115,912
Total Code of Practice fee	£335,978	£335,978
Certification of claims and returns	£55,000	Work in progress
Employer solutions review	N/A	£3,500



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# Plymouth City Council

## Certification work report 2010/11

Draft for discussion

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December 2011

Draft for Discussion



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## **Appendices**

A	Details of claims and returns certified for 2010/11
B	Action Plan

# 1 Introduction and approach

## Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As Plymouth City Council's (the Council) external auditors, Grant Thornton undertakes certification work at the Council, acting as an agent of the Audit Commission.

The Audit Commission makes certification arrangements with grant-paying bodies, this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

## Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2010/11 were:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data; and

- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

### **Our certificate**

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the Council; or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or, claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee..

## 2 Results of our certification work

### Key messages

For the financial year 2010/11, we have certified 6 claims (9 in 2009/10) and returns for the Council, which amounted to £216,421,754. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.

The Council's performance in preparing claims and returns is summarised in the table below.

**Table One: Performance against key certification targets**

Performance measure	2010/11	2009/10	Direction of travel
Without amendment or qualification	3 (50%)	7 (78%)	↓
Amended	2 (33%)	1 (11%)	↓
Qualified	1 (17%)	1 (11%)	↔
<b>Total</b>	<b>6</b>	<b>9</b>	

This indicates that the Council's overall performance in preparing claims and returns has slightly deteriorated since 2009/10, with one additional claim requiring amendment. Working papers provided were of a high standard and there were areas of good practice, such as "Sure Start, Early Years and Childcare Grant" where the quality of supporting documentation was of an exceptional standard. There were three grants which did not require external audit certification as they fell below the de-minimum threshold (£125,000) in 2010/11 as a result of the housing stock transfer, these grants were:

- Pooling of Housing Capital Receipts;
- HRA Subsidy, and
- Housing Finance Base Data Return.

The review of the Housing and Council Tax Benefits Schemes proved particularly time consuming this year and this was due again to the transfer of housing stock. The result of investigations that were still ongoing into possibly fraudulent claims resulted in complicated calculations which spanned two to five years and caused negative amounts to be included within the claim. We would emphasise that this is not a negative reflection on the Council, but a product of the fact that the more complicated cases, which take longer to review, remain following the transfer.

Whilst the value of the net adjustment to the Housing and Council Tax Benefits grant was low, this does not reflect the number of errors that were identified, many of which related to underpayments. The errors were due to either mistakes made during benefit assessment or non-application of additional information.

Details on the certification of all claims and returns are included at appendix A. Where we have concluded that an item is significant, further details are included below in this section of our report.

Where claims and returns have been amended or qualified and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan at appendix B.

The Council's and our performance in meeting deadlines related to the certification of claims and returns is summarised in Table two

**Table Two: Performance against deadlines**

Deadline	2010/11	2009/10	Direction of travel
Submitted by deadline	5 (83%)	4 (44%)	↑
Certified by deadline	6 (100%)	9 (100%)	↔

The Council has significantly improved its arrangements to submit claims and returns to us within the required deadlines. This enabled us to meet all the certification deadlines again in 2010/11.

### Certification work fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. To reflect the challenging financial environment facing Councils, these rates have been frozen over the last two years. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

**Table Three: Hourly rates for certifying claims and returns for 2010/11**

Role	2010/11	2009/10
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

Our fee for certification work at the Council in 2010/11 was £51,966, compared to £49,031 for 2009/10. Our fee is below with our estimate of £55,000 included in our audit fee letter presented to, and approved by, the Audit Committee in March 2010. Details of our fee by claim and return and how this compares to last year are included at appendix A.



## Significant issues

During our certification work, the only claim where we identified significant issues was the housing and council tax benefit scheme.

### Housing and council tax benefit scheme

For this scheme, we are required to test a random sample of 20 claims for each of the four benefit types. If we identify any errors in this initial sample, we are required to undertake additional work.

Our initial testing identified the following:

- Council Tax – two cases were identified where the benefit entitlement had been incorrectly calculated causing an underpayment, in addition one case was identified where the expenditure had been misclassified. As a result 40 additional cases were tested and identified a further 10 cases where underpayment or misclassification had occurred.
- Rent Allowances – two cases were identified where the benefit had been underpaid due to incorrect use of eligible LHA rent and incorrect calculation of benefit entitlement. As a result 40 additional cases were tested and identified an additional 14 cases where errors were identified. The errors showed both underpayments and overpayments. The overpayments in the additional testing was for the total value of £490. The certificate instruction require that this is extrapolated and the grant claim be qualified.

- HRA – seven cases were identified with errors in relation to the HRA. The Council transferred it's housing stock in 2009 and the entries in the grant claim for this benefit type is residual amounts due to on-going investigative work. As a result 40 additional cases were tested and identified a further 12 cases where errors had occurred in this benefit type. The certificate instruction require that this is extrapolated and the grant claim be qualified. Due to the nature of the cases and the net figure being certified, which included both negative and positive entries, the extrapolated figure would not have a been a fair reflection of the position. This was set out in the qualification letter that was issued and the DWP will need to assess if additional work will be required.

The number of errors that have been identified during the certification work on this claim has significantly increased since 2009-10. This is likely to reflect the fact that more complex cases are selected for review as a result of the transfer of the housing stock and does not necessarily indicate a deterioration in the performance of the team compiling this claim.

### Acknowledgements

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**December 2011**

# A Details of claims and returns certified for 2010/11

Claim or return	Value (£)	Certificate	Summary	Fee 2010/11 (£)	Fee 2009/10 (£)
Housing and council tax benefit scheme	108,636,279	Amended and qualified	<p>The claim was fairly stated and in accordance with terms and conditions except for errors set out in section 2 of this report:</p> <ul style="list-style-type: none"> <li>the calculation of benefit in relation to rent allowance, council tax and expenditure classification in relation to all benefit types</li> </ul> <p>We have made recommendations in relation to these issues at Appendix B.</p>	32,883	27,004
Sure start, early years and childcare and Aiming high for disabled children grant	11,173,879	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	3,296	4,654
Disabled facilities	782,335	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	1,464	1,423
National non-domestic rates return	75,970,751	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	4,535	3,210
Teachers' pensions return	16,216,454	Amended	The claim was fairly stated and in accordance with terms and conditions. A transposition error was identified in the completion of the claim from the source documentation and a recommendation has been made in Appendix B.	2,410	3,030

Claim or return	Value (£)	Certificate	Summary	Fee 2010/11 (£)	Fee 2009/10 (£)
New deal for communities	3,642,056	Amended	<p>The claim was fairly stated and in accordance with terms and conditions. Ineligible expenditure was identified and replaced with eligible expenditure in the Management and Administration section of the grant. The claim was amended to reflect this prior to certification.</p> <p>This is the final year of this grant and Management and Administration costs included redundancies for staff involved in the programme. All redundancy costs were checked and found to be eligible.</p>	4,441	2,326
Housing and council tax benefit scheme (2009-10 claim)		Response to DWP	Additional work was required to resolve the issues raised in the 2009-10 qualification letter and respond to the DWP	1,959	N/A
2009-10 Claims			Claims not required to be certified in 2010-11	-	6,134
Cost of reporting to those charged with governance			The cost of reporting to those charged with governance on the results of certification work should be charged as certification work under section 28 of the Audit Commission Act 1998. A record of the time charged and the cost of this work should be kept so it can be reported to the Commission.	978	1,250
<b>Total</b>	<b>216,421,754</b>			<b>51,966</b>	<b>49,031</b>

## B Action Plan

Claim or return	Recommendation	Priority	Management response & implementation details
Housing Benefit and Council Tax benefit scheme	Quality Assurance arrangements should be implemented to review benefit assessments to minimise the risk of errors resulting in under/overpayments of benefit and subsequent qualification of the grant claim.	High	<p>&lt;A review of the existing QA process is currently underway and changes are being introduced to better reflect the audit process. The recent introduction of a subsidy officer will enable a more focussed approach to data quality and allow for more robust management and reporting of data quality.&gt;</p> <p>&lt;Martine Collins&gt;</p> <p>&lt;January 2012&gt;</p>
Teachers' Pension return	Robust arrangements should be implemented to check that all information has been correctly recorded on the grant claim form to reduce the risk of amendment.	Medium.	<p>This was a "one-off" error where two figures were entered into the reverse columns. To mitigate, the responsible officer will ensure the completed claim is cross checked by a second person within the HR department. Finance will scrutinise more closely.</p> <p>Responsible Officer Tony Sullivan – Pensions Officer HR / Sue Buddell Group Accountant Corporate Finance</p> <p>Next return</p>



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The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP

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**CITY OF PLYMOUTH**

**Subject:** Operational Risk Management Update Report

**Committee:** Audit Committee

**Date:** 16<sup>th</sup> December 2011

**Cabinet Member:** Cllr Ricketts

**CMT Member:** Director for Corporate Support

**Author:** Mike Hocking, Head of Corporate Risk & Insurance

**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 21<sup>st</sup> January 2011, 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 corporate guidelines on operational risk management and business planning

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

The total number of operational risks now reported has decreased from 131 to 113, comprising 1 high (red) risk, 66 medium (amber) risks and 46 low (green) risks.

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

The report also includes information on how risk management is being embedded in the Council's core business processes.

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**Corporate Plan 2011/2014 as amended by the four new priorities for the City and Council:**

Operational Risk Registers are being aligned to Business Plan objectives which are in turn linked to the Corporate Plan and our four 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  
Business Plan guidance and template 2011-2014  
Previous reports on risk management to Audit Committee

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**Sign off:**

Head of Fin	DJN1112.02 1	Head of Leg	DS/RSN 13446	Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member : Assistant Director, Democracy and Governance											



**Report of Director for Corporate Support to Audit Committee  
16<sup>th</sup> December 2011**

**Operational Risk Management Update Report**

**1. Introduction**

- 1.1 At the meeting of the Audit Committee on 21<sup>st</sup> January 2011, 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 corporate guidelines on operational risk management and business planning.
- 1.2 The business plan guidance and template has been revised for 2011-2014 and departments have been engaged in populating their service business plan templates to cover the next 3 year rolling plan.
- 1.3 This report now outlines the continuing progress being made across Services in delivering Operational Risk Registers in line with the Council's shared vision and corporate priorities.
- 1.4 The total number of operational risks now being reported has decreased from 131 to 113, comprising 1 high (red) risk 66 medium (amber) risks and 46 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 Although the CAA inspection framework has been abolished, the performance drivers within the old Use of Resources assessment remain a valid focus for the Council to continue on its improvement journey and, in particular, for the development of an effective risk management strategy.
- 2.2 We have therefore continued to work towards fully embedding risk management in the Council's core business processes in line with the original UoR Action Plan.
- 2.3 The good progress made towards achievement of this 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 The corporate risk management process to enable service level Operational Risk Registers to be brought in line with business planning guidance linked to

the Corporate Plan is now becoming embedded across the Council.

- 3.2** In drawing up their Business Plans, Assistant Directors and Heads of Service are identifying risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis, 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 their use of scarce resources more effectively.
- 3.4** All Services have therefore now either completed Operational Risk Registers or are reporting work in progress in line with development of their Business Plans.
- 3.5** An update across directorates is provided below:

- **Children's Services**

The Children's Services risk register is divided into three divisions, Lifelong Learning, Learner and Family Support and Children's Social Care and risks are monitored in line with the Children and Young People's Trust Plan.

- **Development**

Development's operational risk register is divided into four operational areas - Planning Services, Economic Development, Transport & Highways and Strategic Housing with risks monitored routinely by senior managers.

- **Community Services**

The Community Services Risk Champion attends senior management meetings and meets with individual risk owners to review existing risks and increase awareness as a point of discussion for any new or emerging risks. All risks are aligned with the department's business plan which has resulted in a reduction in the number of risks from 30 to 23.

- **Assistant Chief Executive**

The risk register is awaiting review by the senior management team following the senior management restructure.

- **Corporate Support**

- **Finance, Assets and Efficiencies**

The overarching Finance, Assets & Efficiencies (FAE) risk register for 2011/12 captures the key priority risks from Capital & Assets, Finance and

Value for Money as well as cross cutting risks. Capital & Assets and Finance now have robust risk registers that are monitored at management meetings and via one to one meetings with Heads of Service. The FAE risk register is updated and approved by the Assistant Director. Risk management is a quarterly agenda item for FAE Management meetings and managers throughout FAE are encouraged to report progress on the risks in their area as part of their service action plan update and identify new risks as they are recognised.

#### **- Customer Services & Transaction Team.**

Following the recent restructure a new over-arching risk register is in the process of being formulated for these areas.

#### **- ICT**

The ICT business plan has been finalised following recent office moves and risks aligned accordingly.

#### **- Democracy & Governance - Legal Services**

Risks are aligned with the Legal Services Business Plan and are reviewed by the Management Team on a six monthly basis or sooner if a new risk is identified. The Business Plan will be reviewed in the coming months to ensure integration with the four new Council/City wide priorities. Both the Business Plan and Operational Risk Register are stored in the Legal Services S drive and circulated to all Senior Lawyers.

#### **- Human Resources and Organisational Development**

All risk register monitoring dates are included in the HR & OD forward plan together with risk assessment monitoring dates.

- 3.6** 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 – Jun 11</b>	<b>No. of Risks – Dec 11</b>	<b>Deleted Risks Dec 11</b>	<b>New Risks Dec 11</b>
Red (High)	2	1	0	0
Amber (Medium)	71	66	12	10
Green (Low)	58	46	17	1
<b>Total</b>	<b>131</b>	<b>113</b>	<b>29</b>	<b>11</b>

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

- 4.1 Of the two “red” risks identified in June 2011, one remains red whilst the other has been reduced to amber as indicated below:

Department	Potential Risk	Comments / Mitigation
<b>NEW RED RISK</b>  <b>Finance, Assets &amp; Efficiencies</b>	Medium Term Financial Strategy issues	This risk is also included on the Strategic Risk Register. Robust delivery plan structure put in place for 2011/12. Improvement Boards are in place to oversee the “Major Change” agenda.
<b>FORMER RED RISK (Now Amber)</b>  <b>Finance - Capital &amp; Assets</b>	<p>Failure to maintain trees on the corporate estate.</p> <p>Pockets of land retained by the Council following the stock transfer to Plymouth Community Homes now come under the control of Corporate Property.</p>	Council owned trees have been identified. SLA commenced with Parks last month to inspect trees on council land and carry out maintenance works as appropriate. The management of all Council-owned trees will be centralised as part of the “Corporate Landlord” model approved in November. The “Open Land Review” will also help to reduce this risk through centralised management of all land and property.

## 5. Risk Register Information

- 5.1 Operational Risk Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case.
- 5.2 Risks scored 5 and under are considered to be managed to an acceptable level and have been removed from registers and archived in line with the current Risk Management Strategy.
- 5.3 Risk information is now being included in Challenge reports provided to the directorate Management Teams for all risks scored 16 and above and updated on a quarterly basis.

- 5.4 More detailed information on individual Services' risk registers can be obtained from the Head of Corporate Risk & Insurance, departmental risk champions or Heads of Service.

## 6. Information Governance

- 6.1 In June's Audit Committee report I reported on the positive steps that are being taken to embed information management principles throughout the organisation.
- 6.2 The Corporate Information Manager has drafted Terms of Reference for an Information Lead Officer Group (ILOG) which is currently being circulated for consultation. The ILOG will be the corporate forum to enable the promotion of information assets and a reduction in the risk to the council arising from data and information created, obtained, processed, stored and provided by council services.
- 6.3 To support this objective Risk Champions have included Information Governance as a risk on all Operational Risk Registers and continue to monitor the risk using the template derived from the Information Governance Risk Workshop held in March 2011.
- 6.4 Devon Audit Partnership's follow-up report on information management arrangements is included in their six monthly update report on today's agenda.

## 7. Risks and Corporate Business Processes

- 7.1 A key aim of the risk management strategy is to embed risk management considerations into core business processes such as strategic and financial planning, policy making, project/partnerships management, performance management and business planning.
- 7.2 Good progress has been made in all of these areas as follows:
- **Strategic and Financial Planning** – Following analysis of the Plymouth Report, the council's priority focus has been reduced from 14 Corporate Improvement Priorities to 4: deliver growth, raise aspirations, reduce inequalities and provide value for communities. The 2012-15 Corporate Plan will be structured around People, Place and Resources and "Challenges and Risks" will feature prominently.
  - **Policy Making** – report authors preparing papers for Member decisions are required to include risk considerations in the front summary sheet for all Committee reports.
  - **Competency Framework** - To support the development of a risk aware culture, risk management is now one of the five core management

competencies in the Competency Framework and managers are therefore now routinely assessed on their performance in managing risk as part of their annual appraisal.

- **Project/Partnerships Management**

- A broad-based, city-wide review of governance across the whole partnership landscape is underway in light of the Comprehensive Spending Review and its impact on both the Council and its strategic partners and also in the light of structural reforms around for example the future provision of healthcare services and the Localism Bill.

- Project management arrangements under the control of the Corporate Property team include robust risk management elements.

- A new Partnerships Framework is being developed by the Policy, Performance and Partnerships Team and is currently out for consultation. This guidance will be used in future to introduce consistent governance principles to new partnerships, supported by a guide to managing risks.

- **Business Planning** – Operational Risks are now being routinely incorporated into departmental business plans as outlined in Section 3 of this report.

- **Performance Management** – information on key risks is now being reported routinely alongside budget delivery, sickness monitoring and other key performance indicators in new style monthly directorate challenge reports.

## **8. Risk Management and the Localism agenda**

**8.1** Significant budget reductions arising from the Comprehensive Spending Review will present unprecedented challenges to the Council in maintaining the delivery of front line services.

**8.2** The effects of the economic downturn, coupled with demographic changes and an increasing demand for services, will compound this pressure. Allied to this, the increasing focus on the localism agenda and the development of the Big Society vision will see more public services being delivered by, or in partnership with, charities, communities or other public sector organisations.

**8.3** Such a potential shift in the structure of service provision will create significant risks but also present significant opportunities.

**8.4** In this challenging climate we recognise that we need to constantly review our approach to managing risk to ensure that short-term budget challenges do not divert us from our vision or prevent us from addressing the longer-term risks that may result from future service delivery models.

**8.5** The Council's embedded approach to managing risk at strategic, operational and project levels, supported by a competency framework that recognises and encourages the management of risk as a core management skill, will

ensure that the step changes required are taken with the confidence that risks will be effectively minimised and opportunities fully exploited.

## **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 Council recognises that it is operating in a climate of unprecedented financial pressure and that it therefore needs to be innovative, resourceful, customer focused and provide greater value for money. The achievement of delivery plan actions to deliver budget savings continues to be closely monitored by Services during 2011/12 with regular reporting on a risk rated basis to the Corporate Management Team.
- 9.3** The approach to operational risk management now being adopted is focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business and Delivery Plans – this in turn should in time impact positively on outcomes for service users and, as the process becomes fully implemented as a routine business practice, will go a long way towards meeting the risk management requirements of effective corporate governance in line with external inspection and stakeholder expectations. It should also contribute effectively to reducing the Council's overall budget deficit and to meeting the challenges of the current financial climate.
- 9.4** One of the responsibilities 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.
- 9.5** This update report confirms that operational risks are now being identified across Services with clear links to Business Plan objectives and also confirms the good progress in embedding risk management in the Council's other core business processes.
- 9.6** 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 across all operations of the Council.
- 9.7** The next progress report will be presented to Audit Committee in June 2012.

## **10. Recommendation**

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

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**CITY OF PLYMOUTH**

<b>Subject:</b>	Internal Audit – 6 Monthly Progress Report
<b>Committee:</b>	Audit Committee
<b>Date:</b>	16 December 2011
<b>Cabinet Member:</b>	Councillor Ricketts
<b>CMT Member:</b>	Director for Corporate Support
<b>Author:</b>	Martin Gould, Head of Devon Audit Partnership
<b>Contact:</b>	Tel: 01752 306710 e-mail: martin.gould@devonaudit.gov.uk
<b>Ref:</b>	AUD/MG
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Executive Summary:**

This report reviews audit work carried out since April 2011, comments on current commitments and performance, and outlines proposed audit coverage for the remainder of the financial year.

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**Corporate Plan 2011 – 2014**

The work of the Section assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The Section has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations. In addition, the delivery of the Internal Audit plan assists all directorates in meeting their Corporate Improvement Priorities and achieving the shared priorities for the City and the Council.

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

None

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

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

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**Recommendations and Reasons for recommended action:**

It is recommended that:-

- 1) the report be noted

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

None, as failure to maintain an adequate and effective system of internal audit would contravene Accounts and Audit Regulations 2003, 2006 and 2011.

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**Background papers:**

Internal Audit Annual Plan 2011/12

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**Sign off:**

Head of Fin		Head of Leg	TH0035	Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member: Martin Gould, Head of Devon Audit Partnership											

## **I INTRODUCTION**

1.1 The Internal Audit (IA) Service for Plymouth City Council is being delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement constituted under section 20 of the Local Government Act 2000; the Partnership was formed on 1<sup>st</sup> April 2009.

1.2 Plymouth's IA Plan for 2011/12 was submitted to, and agreed by, the Audit Committee on 25<sup>th</sup> March 2011. The purpose of this report is to provide an overview of the work undertaken by the IA Service, and achievement against performance indicators set for the first half of the 2011/12 financial year.

## **2 REVIEW OF AUDIT COVERAGE 6 MONTHS ENDED 30<sup>th</sup> SEPTEMBER 2011**

2.1 Overall, good progress has been made against the plan agreed with management for the 2011/12 financial year. Progress in the first six months has included completion of work carried forward from 2010/11, undertaking follow up audits on areas where significant findings were made in the previous year, and in completing assignments in accordance with timescales agreed with management.

2.2 Appendix 1 attached shows the total number of direct audit days ended 30<sup>th</sup> September 2011 compared with the total number of days originally planned for the year. In total, the actual number of days used in the first half of the year is in line with expectations and DAP remain confident that we will be able to complete those audits planned for the 2011/12 financial year. A table showing the status of planned audits and their associated reported executive summaries is contained at Appendix 2.

### **2.4 Systems / Procurement Reviews**

2.4.1 Systems audits accounted for the largest element of the audit plan for the first 6 months of the year and a full summary of reviews undertaken is included in Appendix 2. Individual audit opinions for each review are also included in Appendix 2.

2.4.2 Under the Managed Audit arrangements, the External Auditor looks to place reliance on the work undertaken by Internal Audit to assist them in determining their opinion as to whether or not the annual accounts provide a true and fair view of the Council's position. The reviews of the key financial systems (eg payroll, council tax etc) are now underway. To commence this work earlier in the year would not provide sufficient assurance that the controls have operated effectively throughout the year.

2.4.3 Of particular note is the work undertaken by DAP on monitoring of PCH. DAP have concluded a review of the governance and monitoring arrangements introduced as part of the transfer of the City's housing stock to Plymouth Community Homes in November 2009. Our review found arrangements to monitor transfer promises and commitments to be of a good standard with a robust effective governance structure in place. With the abolition of the Tenant Services Authority (TSA), independent regulation has passed to the Homes Communities Agency (HCA) but to a lesser degree and with more reliance on tenant and stakeholder involvement. Consideration of the new regulatory framework, changes in the level of inspection and their impact on current governance arrangements has been subject to a further piece of work by DAP and our findings reported to senior management

2.4.4. In addition, DAP have been able to certify that the Council has fulfilled its obligations with regard the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme.

2.4.5. Appendix 2 details progress against the plan for all systems reviews completed, in progress, or scheduled. The appendix also highlights reviews which have been cancelled or deferred by the client, and also additions to the plan.

## **2.3 Projects**

2.3.1 DAP continue to support and advise various project teams set up to oversee procurement, construction or system / service implementation projects, by providing assurance on project governance, the management of risks facing each project as well as the compliance with procurement practices and procedures, particularly where Competitive Dialogue has been utilised. Projects include major procurements such as the South West Devon Waste Partnership, the continuing construction of the BSF One School Pathfinder (OSP) project at the former Estover College, as well as the Life Centre and its associated projects which include the letting and mobilisation of the Leisure Management contract. Further, DAP were invited to provide advice and support to the team tasked with the purchasing of 15 refuse collection vehicles. Audit were present at meetings held to develop the procurement approach and specification and provided comments on draft documents before they were issued to prospective bidders. Projects involving the implementation of new systems or services include Payroll Procurement & Transfer from SAP. Internal Audit assist in identifying any key project risks and issues, and monitors the way these have been managed and controlled as well as ensuring that good project governance is established and maintained. DAP continues to support and advise the South West Devon Waste Partnership on governance and risk issues.

## **2.4 ICT (Computer Audit)**

2.4.1 The review of ICT organisational controls concluded that ICT is operating with the framework of corporate policies, strategies and plans and has sound procedures to manage workforce planning, development and training. However the current workload of the ICT department is extremely challenging and the risk of failing to fulfil customer expectations is ever present. ICT team managers already acknowledge that there is a need to re-examine the department's demand management procedures with a view to ensuring that its 'Business as Usual' functions are adequately resourced whilst, at the same time, its project workload does not exceed its ability to deliver in accordance with customer expectations and agreed time scales.

2.4.2 Our review of the IT aspects of partnership working indicated a lack of clear corporate procedures to govern the arrangement and implementation of operational partnerships. Individual business areas which identify partnership arrangements inevitably focus on service delivery without always understanding the technical aspects of any proposed ICT solutions. Appropriate controls need to be put into place to ensure that any proposals receive appropriate technical scrutiny at an early stage and that the necessary technical support is provided through to the "live" environment.

2.4.3. The audit of the Program Management System (PMG) found that the sheer number of projects ICT are required to deliver remains a concern.

The good progress made by ICT in respect of the embedding of the Information Technology Information Library (ITIL) methodology throughout the service serves to regulate the change

process required to deliver these projects. The introduction and use of the Microsoft Project Server project management software also provides a useful tool to manage and record individual projects, including resource management. Whilst its use is still being embedded into operational procedures it does represent a significant improvement.

2.4.4. Following the failure to pay teachers in July DAP were asked to undertake a review of the incident and its causes. We found multiple layers of sound controls built into the BACS salary payments system and, provided they are applied, they will ensure that payments are made on time. The failure was the result of human error and we made three minor recommendations to further strengthen the existing procedures. DAP consider that the response to the situation was well organised and all of the departments involved co-operated well with each other to ensure that everything ran smoothly and professionally.

2.4.5. We found the arrangements to manage IT “events” reported to the service desk were of a good standard. The service desk provides a central point of contact and employs standard procedures and workflows embedded within Supportworks. We made some recommendations aimed at supporting ICT’s desire to continually improve service delivery and customer satisfaction.

2.4.6 We found the operation of the existing Academy housing benefit application modules to have a good standard of internal control. The system architecture has sufficient capacity, processing power and resilience. Security was found to be of a good standard overall. Physical access to hardware is satisfactory and logical access to the back end database is restricted to a small number of ICT staff. Users access the database via a virtual host, which is physically separate from the servers holding the core database, providing a good degree of protection. Data backup arrangements are working well.

The introduction of the new Self Service modules is still in the early stages and it was therefore not been possible to carry out the level of testing on implementation that had originally been planned. Delays have been caused due to the need to upgrade the core applications, operating system and database. Some recommendations have been made that will assist in ensuring best practice is used during the implementation of the modules.

## **2.5 School Audits and Financial Management Standard in Schools (FMSiS)**

2.5.1 The Partnership arrangements for school audit are well established with an efficient service being delivered across all 3 Partners and improvements have already been seen in several areas. Good progress has been made on the delivery of the schools plan this year with approximately 30% complete to date of the planned 31 primary, 1 secondary and 1 special schools (see appendix A). The work is biased to the second half year in line with the education years calendar. Presently we hope to deliver the plan by the year ending 31st March 2012. Details of schools visited are included in Appendix 2b

2.5.2 It continues to be a challenging time with the introduction of the new Schools Financial Value Standard (SFVS), academy school transfers and not least the national challenges that face local government through budget and staffing reductions. In light of this the achievement against plan to date is positive.

2.5.3 The Schools Financial Value Standard was developed by DfE to replace the FMSiS to help governors, in particular, in self-evaluating the quality of their financial management and to aid in improving schools financial management. The Standard is intended to cover standards

- 2.5.4 You will no doubt be aware that the DfE announced the SFVS at the very end of the Summer Term with an implementation date of 1st September 2011 and have set two key deadlines for achievement. All schools that were not accredited to FMSiS (phase 1) will need to submit their SFVS Self-assessment to their LA by the 31st March 2012. All Schools that were accredited (phase 2) will need to submit their SFVS Self-assessment before the 31st March 2013.
- 2.5.5 The purpose of the SFVS is to make the best use of resources in the education system, to achieve the best possible outcomes for children. DfE have made this a mandatory requirement for all schools and are changing the scheme of delegation to fit this requirement. We were part of the DfE consultation and pilot study on the SFVS which, in general, received positive comment from the pilot schools.
- 2.5.6 We continued to audit schools against the FMSiS, where they chose so to do, up until the end of last financial year. We have not audited schools against the FMSiS since then, rather we have focussed the audit effort on the core requirements of the Local Authority. We have still made recommendations in areas of governors skills and financial benchmarking as these areas continue to form part of the new standard.
- 2.5.7 The main areas where there are issues remain the same as previous years and relate to ineffective governance, poor financing of the development plan and the absence of benchmarking. Areas which schools continue to struggle with also include:
- demonstrating good governance;
  - lack of costing and financial backing for school development plans;
  - no benchmarking;
  - procurement authorisation;
  - lack of evidence to support value for money testing
  - incomplete or effective inventories.
- 2.5.8 DAP have continued to provide support and advice to those involved in various school construction projects, namely Tor Bridge High and High View as well as projects that form part of the Basic Needs Programme. In addition, DAP have been invited onto the Academies Delivery Project Board and also asked to support the forthcoming project at Boringdon Primary

## **2.6 Special Investigations and Anti-fraud Work**

2.6.1 In the first six months of this financial year Internal Audit has received 14 matters requiring investigation which were received from officers and members of the public. Investigations into 5 of those concerns have now been completed and investigations are ongoing in respect of the remaining cases. In addition, 8 cases carried forward from 2010/11 have been completed.

2.6.2 Examples of the type of irregularities investigated include:-

- Misuse of Council property;
- Misuse of computer resources;
- Breaches of the Council's Code of Conduct;

- Loss of income;
- Breaches of confidentiality.

- 2.6.3 A significant amount of audit resource has been provided to a complex ongoing investigation into alleged major financial irregularities within a Plymouth school. Internal Audit staff have been working alongside the Finance Officers and others within the Authority and the School and the issues are subject to an on-going Police investigation.
- 2.6.4 Internal Audit continues to sit on the Management Information Security Forum. The forum has responsibility for ensuring clear direction and visible management support for security initiatives together with promoting greater security awareness within the organisation.
- 2.6.5 The National Fraud Initiative exercise for 2010/11 is coming to an end. The exercise has been run every two years since 1996 and, under the arrangements, all councils are required to provide the Audit Commission with data for cross-matching with information supplied by other organisations, such as the Department for Work and Pensions and the NHS, to identify potential cases of fraud and error. Data has been provided for areas such as payroll, creditors, care homes, various types of licences as well as parking permits and blue badges.
- 2.6.6 The data extraction for the current exercise took place in October 2010 with the data matching report received from the Audit Commission in February 2011. This identified 15060 matches of which the Audit Commission categorised 2892 as “recommended”. 5171 of the above matches related to Creditors data which the department are already checking through the use of specific software purchased following the last NFI exercise. As a result, these matches have been disregarded. Auditors have been coordinating and monitoring the matching exercise and the resulting investigations where discrepancies in the matched data have been reported.
- 2.6.7 To date, 2447 matches have been processed with a further 49 currently under investigations. The deadline for completing the processing of data matches is set for the end of 2011 and the Council is on target to meet this deadline.

## **2.7 Consultancy / Advice**

- 2.7.1 Internal Audit continues to be consulted by all departments throughout the Authority on many and varied topics including, interpretation of Financial Regulations / Standing Orders, retention of prime documents, reclaiming grant funding, school lettings, VAT, internal controls etc.
- 2.7.2 The pro-active involvement of Internal Audit in control issues relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse. This early involvement is also intended to prevent unnecessary criticism when a formal audit review is undertaken and departments are actively encouraged to seek advice at the outset of any changes.

## **2.8 Whistleblowing Policy**

- 2.8.1 The Whistleblowing Policy, which was refreshed and approved by the Audit Committee in July 2010, aims to encourage staff to raise any legitimate concerns they may have in relation to the



Council's activities. This policy, which supports the Council's Anti Fraud and Corruption Policy, makes it clear that concerns can be raised without fear of reprisals.

2.8.2 A total of two Whistleblowers have come forward during the period 1 April 2011 to 30 September 2011, of which:

- Investigations remain ongoing into allegations concerning the decision making of a member of staff which was contrary to the Council's working practices and procedures.
- Investigations remain ongoing into allegations regarding a failure to comply with financial regulations concerning the safeguarding of an asset, inappropriate payments and poor financial procedures.

## **2.9 Grants**

2.9.1. DAP have been able to certify a number of grant claims on behalf of the Authority as required by the terms of the grant funding. DAP were able to confirm that records provided an accurate reflection of expenditure incurred and that the expenditure was exclusively incurred for the purposes set out in the grant offer.

## **2.10. Internal Audit Development**

2.10.1 As mentioned in para 1 above Devon Audit Partnership became operational on 1<sup>st</sup> April 2009. Since that time there has been ongoing development of integrating audit programmes, procedures and associated processes.

2.10.2 The formation of the Partnership enabled the procurement of an Audit Management System which is designed to create efficiencies in the delivery of audits and thereby performance improvement. Migration from previous manual audit systems to the new Morgan Kai Insight Audit Management System (AMS) was completed in the first half of 2010 and many of the benefits arising from new methods of working are now beginning to be realised.

## **3 ADDED VALUE**

3.1 Internal Audit is committed to providing value for money to the Council and its stakeholders and, where possible, to identify examples of specific, tangible benefits achieved. The following are examples of recent benefits delivered:-

3.2 DAP were able to provide management with the assurance that systems and processes were in place to enable officers to compile the necessary information and evidence for the CRC Energy Efficiency Scheme accurately, in time for the submission deadline in July.

3.3 DAP has continued its watching brief of the Council's implementation of a call centre management system and other associated telephony and communications projects. Our observations on the process and key issues have been reported in a briefing note to management, issues that include technical complexity and integration, systems administration, training and staff development, quality assurance and call monitoring, compliance with Data Protection Act and Payment Card Industry requirements, data security, risk management and business continuity.

3.4 DAP has undertaken work in respect of CRB checking to ensure risks are appropriately managed. PCC appeared to be compliant in the majority of areas with the CRB Code of Practice. and the use of SAP has ensured that CRB data can be properly managed and is utilised effectively.



However, the future of SAP and the potential for the electronic submission of CRB Disclosure checks are both important factors to be considered in relation to the system used to record and manage CRB data. The QA process helps to ensure that the data in the SAP system is accurate.

3.5. Support and independent review were provided to the team around the procurement exercise for new refuse vehicles underway in 2011.

3.6. DAP are providing support and advice in respect of the Payroll Procurement & Transfer from SAP This started with assistance during the accelerated procurement of consultancy and implementation services for the project and DAP was able to give assurance that the process was conducted in line with policy and procedures. DAP will continue its involvement during the implementation phase of the project ensuring the solution incorporates sufficient business and ICT controls, as well as monitoring project governance and the management of risks.

3.8. Time has been allowed for in the audit plan for DAP to provide support to Housing Benefits by carrying out independent accuracy checking on HB claims. A number of days have already been delivered at the request of the department.

3.10. Feedback from customers has been very good in the first 6 months with comments received such as

- “The audit was conducted in a professional manner with little disruption to the school or the day to day operation.”
- “The audit highlighted key risks to senior management, which enabled us to address them adequately.”
- “I feel very reassured that we can rely on your support and advice during the investigation process.”
- One Director responded “thank you for the copy of the audit report. It is good to see that this service received a high standard for two audit opinions.”

3.11 Having implemented and embedded audit recommendations an operational manager advised:-

“We have seen a remarkable reduction in overtime, around £7k projected for the year, which is excellent news. This was due to the amalgamation of the stores and reception. We have also seen benefits for the team members with regard to:-

- Cover arrangements,
- Training of new staff. This has been easier as they are in the same place and can therefore work better with each other,
- Other improvements around job card processes which have streamlined charging and reduced outstanding funds.”

## 4 INTERNAL AUDIT PERFORMANCE

4.1 There are no national Performance Indicators in existence for Internal Audit, but with the advent of Devon Audit Partnership the opportunity has been taken to expand the local performance measures routinely monitored and reported to Audit Committee.

4.2 Internal Audit Performance Data – April to September 2011

Activity	Target Standard	Achievement 11/12 to date
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Delivery of Audit Plan (annual target)	90%	43%
Actual Days delivered against plan	90%	45%
Percentage of chargeable time	65%	68%
Customer satisfaction	90%	96%
Draft audit reports to be produced within 15 working days of completion of work	90%	92%
Final reports produced within 10 days of agreeing action plan	90%	94%
Average level of sickness	2%	4%
Percentage of staff turnover	5%	0

4.3 Overall, delivery against the majority of local performance indicators has been good with several targets exceeded. Whilst delivery of the audit plan (ie reviews / audits undertaken) is an annual indicator, progress has been very good in the first half year and the plan is on target to be accomplished by 31<sup>st</sup> March 2012.

4.4 The equated percentage of direct days delivered in the first half of the year is in line with expectations as the days delivered in the first half year are normally lower due the higher incidence of annual leave and bank holidays in the first 6 months of the year.

4.5 The percentage of chargeable time, at 68%, is both above target and above average rates of other local authorities identified through benchmarking comparators.

4.6 Customer service is a key priority to DAP and results received in response to our satisfaction surveys continue to demonstrate the very high regard placed on our service provision by clients. Some examples of customer feedback are included in para 3.6 above.

## 5 INTERNAL AUDIT OPINION

5.1 A summary of Internal Audit's opinion on the individual reviews that have been carried out or concluded for the first 6 months of 2011/12 is included in Appendix 2

5.2 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

5.3 All final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

5.4 Overall, and based on work performed to date during 2011/12, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the authority's internal control environment.

## **6 RECOMMENDATIONS**

6.1 It is recommended that the report be noted

**PROGRESS AGAINST PLAN - 26 WEEKS ENDED 30 SEPTEMBER 2011**

	<u>2011/12</u>		<u>26 wks to 30/09/11</u>	
	<b>Total Planned Days</b>	<b>%</b>	<b>Actual Days</b>	<b>%</b>
Systems, Procurement, Cross Cutting	948	48	343	32
ICT	176	9	94	7
Schools	210	11	84	12
Anti-Fraud / NFI	250	13	208	14
Consultancy / Advice	90	5	48	4
Corporate Governance	90	5	52	10
Grants	20	1	6	10
Contingency *	100	5	0	0
Other Chargeable Activities	90	5	52	21
<b>TOTAL AUDIT DAYS</b>	<b><u>1974</u></b>	<b><u>100</u></b>	<b><u>887</u></b>	<b><u>100</u></b>

\*Actual days used have been allocated to specific audit categories

## Summary of Audit work completed and Audit Opinions

Departmental Area: Corporate Support (excluding ICT)				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
<b>Material Systems</b>				
Loans & Investments	2010/11	Final	Good Standard	The review found a robust policy framework within which the Treasury Management activity takes place. The Audit Committee provides independent scrutiny of the Treasury Management Policy and Procedures and a TM board comprising senior officers and members meets regularly and receives regular updates of trading activity. Forecasting is accurate, enabling cash flow to be managed effectively.
Main Accounting System	2010/11	Final	Good Standard	The consistent application of internal controls ensures that the main accounting system has sound governance arrangements and continues to operate effectively. Information contained in the Joint Finance and Performance reports continues to develop and the process of challenging significant budget variations has become embedded within the culture of the organisation.  The Overview and Scrutiny Management Board have again provided robust challenge and review of the proposed budget for 2010/11.
Council Tax	2010/11	Final	Good Standard	2010/11 was a challenging year set against continuing economic problems and payment issues experienced by customers of Santander, contributory factors which did result in Council Tax collection rates being below target set. However, although the target was not achieved, the consistent application of internal controls and sound debt recovery practices did result in a 0.9% increase on collection rates when compared to 2009/10. Performance was regularly monitored and a

					number of initiatives developed to further improve collection rates.
Payroll	2010/11		High Standard	<p>Working processes are ighly evolved and the system operates to a high standard of internal control.</p> <p>The maintenance of the SAP application and database remains costly and governance arrangements for administering the computer application remain complex but it is recognized that SAP will be replaced in early 2012/13.</p>	
Material Systems IT Issues	2010/11	Final	Good Standard	<p>The evidence obtained during the course of this review confirms that the majority of the processes and procedures, now in place within the ICT department, are of a Good Standard. However, in order to comply with the requirements of the external auditors, this audit exercise has had to consider the procedures that were in place throughout the whole of the financial year under review (i.e. 2010/11) when new working practices were still evolving and being consolidated throughout the department.</p> <p>It is anticipated that once all of the planned improvements have been fully implemented and the issues included in this report addressed, the ICT department procedures will then be of a High Standard.</p>	
Housing Benefits	2010/11	Draft	Improvements Required	<p>The economic climate continues to provide a challenging environment with the average caseload increasing by approximately 5% between 2009/10 and 2010/11 and consequently performance for 2010/11 was below the target set.</p> <p>Overall, the internal control arrangements operating within the benefits system were found to be of a good standard and the development of a risk based claim management strategy following the departmental restructure will further enhance the service.</p>	

					<p>A new Fraud Management System has recently been deployed and it is anticipated that once fully implemented, the improved functionality will support a more targeted proactive approach to anti-fraud work.</p>
Asset Register	2010/11	Draft	Good Standard		<p>The 2009/10 baseline data uploaded onto the Technology Forge (TF) database was the subject of detailed checks carried out by the Corporate Accountancy Team with any discrepancies being identified and corrected.</p> <p>As each category of assets was updated for 2010/11, the values on TF were reconciled to the general ledger with any discrepancies being investigated and resolved. Finance planned to complete this exercise early September with discrepancies resolved by early November.</p> <p>Access to the Valuation and Finance modules of TF was found to be adequately controlled with access permissions granted in respect of each individual module. However, security could be further strengthened if the configuration is updated so that the system automatically forces periodic password changes and the minimum length for passwords is set.</p>
ICT Helpdesk	2010/11	Draft	Improvements Required		<p>Internal control has improved with the introduction of self-service and the system provides a complete audit trail for each request raised. Although this has improved the overall management of user access and will enable it to evolve, the experience for the customer has deteriorated as the time taken to complete the requests are slower than that previously experienced.</p>
Main Accounting System	2011/12	In Progress			
Revenues & Benefits System Parameters	2011/12	In Progress			
Creditors	2011/12	Not Started			

Debtors	2011/12	Not Started		
Payroll	2011/12	Not Started		
Council Tax	2011/12	Not Started		
NINDR	2011/12	Not Started		
Housing Benefits	2011/12	Not Started		
Loans & Investments	2011/12	Not Started		
Asset Register	2011/12	Not Started		
Cash Collection	2011/12	Not Started		
ICT Helpdesk Access Controls	2011/12	Not Started		
Material Systems IT Issues (11/12)	2011/12	Not Started		



ICT					
New Data Centre	2010/11	Final	Not Applicable	<p>This report was not issued as a standard report with an assurance opinion but was advice and consultancy issued directly to the Assistant Director for ICT.</p>	
Partnership Working (ICT Systems)	2010/11	Final	Improvements Required	<p>The lack of clear corporate procedures to govern the arrangement and implementation of operational partnerships could expose the Council's data assets to unnecessary risks.</p> <p>Individual business areas which identify partnership arrangements inevitably focus on service delivery without always understanding the technical aspects of any proposed ICT solutions. Appropriate controls need to be put into place to ensure that any proposals receive appropriate technical scrutiny at an early stage and that the necessary technical support is provided through to the "live" environment.</p>	
Program Management System (PMG)	2010/11	Final	Improvements Required	<p>The sheer number of projects ICT are required to deliver remains a concern.</p> <p>The good progress made by ICT in respect of the embedding of the Information Technology Information Library (ITIL) methodology throughout the service serves to regulate the change process required to deliver these projects.</p> <p>The introduction and use of the Microsoft Project Server project management software also provides a useful tool to manage and record individual projects, including resource management. Whilst its use is still being embedded into operational procedures it does represent a significant improvement.</p>	
BACS Transmission	2011/12	Final	N/A	<p>The PCC BACS system has been subject to external inspection which negated the need for DAP to perform work in this area as it would have been a duplication of effort.</p>	

				<p>However, following the failure to pay teachers in July a review of what caused the incident to occur, the controls incorporated into the system for making BACS salary payments and an assessment of their effectiveness was carried out.</p> <p>The review found that there are multiple layers of sound controls built into the BACS salary payments system and, provided they are applied, they will ensure that payments are made on time. The failure was the result of human error and three minor recommendations were made to further strengthen the existing procedures. DAP consider that the response to the situation was well organised and all of the departments involved co-operated well with each other to ensure that everything ran smoothly and professionally.</p>
Event Management	2011/12	Draft	Good Standard	<p>The review found that the way in which the ICT Service Desk provides a central point of contact and the use of standardised procedures and workflows within Supportworks is very effective. Where it is possible for the ICT Service to improve further, recommendations have been made which supports the department's desire to continually improve service delivery and enhance its reputation with its customers.</p>
Organisational Controls	2011/12	Draft	Good Standard	<p>The ICT function is operating within a framework of approved corporate strategies, plans and policies and is well placed to support all other Council services in achieving their business aims and objectives. The review found that the ICT department is complying with the Council's corporate requirements and has sound departmental procedures in place to manage its workforce planning, development and training requirements.</p> <p>The current workload of the ICT department is extremely challenging and the risk of failing to fulfil customer expectations is ever present. ICT team managers already acknowledge that there is a need to re-examine the department's demand management procedures with a view to ensuring that its 'Business as Usual' functions are adequately resourced</p>

				whilst, at the same time, its project workload does not exceed its ability to deliver in accordance with customer expectations and agreed time scales.
Housing Benefits (IT)	2011/12	Draft	Good Standard	<p>The operation of the existing Academy modules were found to be working to a good standard. System architecture was deemed sufficient in terms of capacity, processing power and resilience, with no incidents noted of system instability or lock ups caused by insufficient hardware.</p> <p>Security was found to be of a good standard overall. Physical access to hardware is satisfactory and logical access to the back end database is restricted to a small number of ICT staff. Users access the database via a virtual host, which is physically separate from the servers holding the core database, providing a good degree of protection. Data backup arrangements are working well.</p> <p>The introduction of the Self Service modules is still in the early stages and it was therefore not been possible to carry out the level of testing on implementation that had originally been planned. Delays have been caused due to the need to upgrade the core applications, operating system and database. Some recommendations have been made that will assist in ensuring best practice is used during the implementation of the modules.</p>
Business Continuity	2011/12	Ongoing		
Hosted Services	2011/12	Not Started		
Information Security (Ongoing)	2011/12	Not Started		
Capacity and Availability	2011/12	Not Started		

Service Level Management	2011/12	Not Started				
Access Management	2011/12	Not Started				
Programme Management	2011/12	Not Started				
CareFirst	2011/12	Not Started				
Other						
Carbon Management	2010/11	Final	N/A			DAP have been able to certify that the Council has fulfilled its obligations with regard the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme. An earlier audit review was able to provide management with the assurance that systems and processes were in place to enable officers to compile the necessary information accurately, in time for the submission deadline in July.
Telephony	2010/11	Final	Good Standard			DAP has continued its watching brief of the Council's implementation of a call centre management system and other associated telephony and communications projects. Observations on the process and key issues have been reported in a briefing note to management, issues that include technical complexity and integration, systems administration, training and staff development, quality assurance and call monitoring, compliance with Data Protection Act and Payment Card Industry requirements, data security, risk management and business continuity.
CRB and Independent Safeguarding	2010/11	Final	Good Standard			Policy and guidance documents were found to be up to date and accessible but regular monitoring and updating needs to be continued in a structured way taking into account the timetables for change driven by Central Government reforms.

				<p>The use of SAP has ensured that CRB data can be properly managed and is utilised effectively. The QA process helps to ensure that the data in the SAP system is accurate.</p> <p>PCC appeared to be compliant in the majority of areas with the CRB Code of Practice.</p> <p>As this is a high risk project, DAP have been asked by management to provide support and advice. This started with assistance during the accelerated procurement of consultancy and implementation services for the project and DAP was able to give assurance that the process was conducted in line with policy and procedures.</p> <p>DAP will continue its involvement during the implementation phase of the project ensuring the solution incorporates sufficient business and ICT controls, as well as monitoring project governance and the management of risks.</p>
Payroll Procurement & Transfer from SAP	2011/12	In Progress	N/A	
Accommodation Strategy	2011/12	Ongoing	N/A	DAP has continued its watching brief of the Accommodation Strategy project, to provide support and assurance on project governance and the management of risks facing the project.
New Procurement Policies & Strategies inc Procure to Pay Project	2011/12	On-Going	N/A	Support and advice given. Some of the planned resource used in the review of Refuse Collection Vehicle procurement (see above).
Housing Benefit Claim Checking	2011/12	Ongoing	N/A	Time has been allowed for in the audit plan for DAP to provide support to Housing Benefits by carrying out independent accuracy checking on HB claims. A number of days have already been delivered at the request of the department.
Delivery Plans	2011/12	In		Work linked to the Council's Delivery Plans is currently underway for

				Progress		the following areas: <ul style="list-style-type: none"> <li>Invest to Save Projects</li> <li>ICT</li> </ul>
Data Quality	2011/12	Not Started				
Local Performance Framework	2011/12	Not Started				
Payment to Consultants & Advisors	2011/12	Not Started				
Procurement & Management of Consultants & Advisors	2011/12	Not Started				
Corporate Debt Management	2011/12	Not Started				
Capital Programme - Delivery	2011/12	Not Started				

Departmental Area: Development and Regeneration			
Audit Area	Year	Status	Assurance Opinion
PCH Monitoring 10/11	2010/11	Draft	Good Standard
			Executive Summary
A robust governance structure has been implemented post stock transfer that allows both PCC and PCH to work together to deliver shared objectives for the future through the promises to tenants, whilst also allowing both organisations to be independent. Governance arrangements have been clearly defined, agreed by both parties and			

				<p>appear to work effectively with clear reporting lines up and down the structure.</p> <p>Performance, in respect of promises made to tenants, is reported by PCH on a quarterly basis. Performance data is subject to review by PCC and any anomalies challenged. However, PCC rely on the fact that the performance figures produced by PCH are accurate, no validation process is undertaken or formal assurances obtained to confirm the accuracy of the reported performance.</p> <p>Sufficient arrangements are in place to manage the service level agreements (SLA's) in place between PCC and PCH. The work involved in renegotiating the SLA's has been considerable but has now been finalised.</p> <p>PCH are subject to the Tenant Services Authority's (TSA) regulatory framework from which PCC can gain assurance. However, the Government intend to abolish the TSA, with the regulatory role for housing associations passing to the Homes Communities Agency (HCA). It is intended that independent regulation will continue under the HCA but to a lesser degree and with more reliance on tenant and stakeholder involvement.</p>
<p>PCH Monitoring 11/12</p>	<p>2011/12</p>	<p>Final</p>	<p>N/A</p>	<p>The Regulatory Framework for Social Housing came into effective in April 2010 but the abolition of the TSA, reduced inspection regime and reliance on local accountability mechanisms pose a risk to service delivery and outcomes for tenants.</p> <p>To protect taxpayers, proactive economic regulation will continue with a greater focus on value for money. This will provide the necessary assurances that housing associations are financially viable and well governed. PCC, as the Strategic Housing authority, can take assurance from economic regulation assessments and include within their monitoring arrangements consideration of Landlord's Annual reports,</p>

				<p>Local Offer documents and any independent external validation that has taken place.</p> <p>There are also potential benefits that can be realised through synergies between PCC and its strategic partners who can harness the work of Housing Associations engagement with local communities and their role in identifying local priorities.</p> <p>Greater engagement at strategic level across the sector will help to meet the objectives of the Big Society and Localism Bill that are the golden thread throughout government policy. PCC, as the Strategic Housing authority, should have an understanding of outcomes from tenant engagement processes and links should be made with the city's Housing Strategy.</p>
Plymouth Market	2011/12	In Progress		
Section 106	2011/12	In Progress		
Planning Applications and Appeals	2011/12	Not Started		
Highways Amey 09/10 Follow-Up	2010/11	Not Started		
Choice Based Lettings 10/11 F/U	2011/12	Not Started		
PCH Monitoring 10/11 Follow-Up	2011/12	Not Started		



Waste Management - SWDWP - (Waste PFI)	2011/12	On-Going	N/A	DAP continues to support the South West Devon Waste Partnership Waste PFI project as it now works through the planning application stage, following the award of the contract to MVV Umwelt. DAP have been asked to advise on governance and risk issues, in particular the Partnership's approach to Section 106 negotiations that would minimise the risk of impact on a timely planning decision, whilst at the same time ensuring that the Partnership are not seen to be acting inappropriately.
Blue Badges	2011/12	On-Going	N/A	
Local Carbon Framework	2011/12	Complete		Grant Certification
New Growth Point 10/11	2011/12	Complete		Grant Certification
Urban Bus Challenge 10/11	2011/12	Complete		Grant Certification
Contaminated Land Capital Projects Prog 10/11	2011/12	Complete		Grant Certification
Community Infrastructure Fund	2011/12	Complete		Grant Certification

**Community Services Directorate**

Audit Area	Year	Status	Assurance Opinion	Executive Summary
Supporting People	2010/11	Final	High	There have been changes in the past year, the main one being the integration

			Standard	<p>into Adult Social Care. In addition, the Plymouth Supporting People Partnership Commissioning Body held their last meeting in September 2010.</p> <p>The Supporting People 5 year strategy came to an end in 2010. A new Commissioning Plan for 2011/14 for Supporting People is being developed which will set out the strategic direction for the provision of low preventative services over these three years.</p> <p>The procedures and process for the procurement of services and their subsequent monitoring have been maintained at a high standard since the issue of the last audit report in March 2010. This is much to the credit of the staff as members of the Supporting People Team.</p>
CareFirst Residential Care Payments	2010/11	Final	Good Standard	<p>The Residential Care Payments system aids in the processing of payments to residential and nursing care providers based on data being collected and processed through the CareFirst system. Information provided by the Corporate Performance Team, as at 4 January 2011, confirmed that there were 894 service users in long stay residential care and 136 in temporary (short stay) care, as compared to 181 in long stay nursing care and 17 in short stay nursing care.</p> <ul style="list-style-type: none"> <li>This audit identified that the systems operated for payments has achieved a 'good standard' in the areas reviewed; much to credit of those staff involved in the processes..</li> </ul> <p>In the June 2009 follow up, it was noted that there were outstanding actions to make on the recommendations previously made. However, it was pleasing to note that action has been taken to address these points and where recommendations had been implemented, the revised processes continued to be used.</p> <p>With the Council acting as agent for the Plymouth PCT in making payments through the Funded Nursing Care and Continuing Health Care schemes, an agreement has been put in place with the PCT to ensure the Council receives a fixed monthly payment in advance of the payments being made to providers.</p>

Safeguarding Adults	2010/11 (Started 2011/12)	Draft	Good Standard	<p>The Plymouth Safeguarding Adults Board has a diverse membership and meets the national guidance objectives of approving and implementing a multi agency policy, co-ordinating activity between agencies, facilitating joint training and also monitoring and reviewing progress. This multi agency approach is vital to reduce the risks to service users from a fragmented and individualised approach to safeguarding.</p> <p>The creation of supporting sub groups such as the Lead Officers Group has helped to ensure that the board can be effective and focus on the high level issues rather than the day to day safeguarding provision. The sub groups help to implement and manage actions and provide feedback to the Board. The production of annual reports helps to ensure that the Board are made aware of local and national issues and can be in a position to be ahead of changes and identify potential areas for improvement.</p> <p>The Council's Safeguarding Adult Manager plays a key role in ensuring that there is an effective process in place to support referrals which demands the majority of the available time. Some recommendations were made relating to the management and administration of the Safeguarding Adults Board and Sub Groups which are considered as good practice and would be required if the board is placed on a statutory footing.</p> <p>It is evident from the work undertaken that overall there is a commitment from all partners to provide an effective multi agency safeguarding service. However, the supporting governance documentation could be strengthened further and the processes should be universally adhered to.</p>
Data Quality - Govt Returns	2011/12	Final	Good Standard	<p>Overall, the arrangements in place for managing submission of the RAP and ASC-CAR statutory government returns, for the year ending 31 March 2011, were of a good standard.</p> <p>Considerable effort had been made by performance officers, even at a time of significant change within the Adult Social Care (ASC) Policy and Performance team, enabling the completion and submission of the statutory returns by the</p>

				deadline. Devon Audit Partnership supported the performance team by carrying out data accuracy validation checks on the ASC-CAR and key areas of the RAP. Potential problems and other areas of concern found during the audit validation checks were referred back to the Performance Team to investigate and where necessary make amendments to the return prior to its submission to the NHS Information Centre.  will ensure further operational efficiencies are recognised.
Client Finance Services	2011/12	Draft	High Standard	The completion of financial assessments for service users and /or their representatives has been carried out by the Client Finance Services Team promptly with notifications of any contributions, including a 'nil contribution' being sent out to these individuals.  The result of the review of the processes and procedures has been given as 'High Standard' which is due to the staff in the Team carrying out this process.
Life Centre, Leisure Management, Pavilions Projects	2011/12	On-Going	N/A	DAP continue to support and advise the various project teams as well as the Culture, Sport and Leisure Programme Board, in providing assurance on project governance, the management of risks facing each project as well as the compliance with procurement practices and procedures, particularly where Competitive Dialogue has been utilised.
Refuse Collection Vehicle Procurement	2011/12	On-Going	N/A	DAP were invited to provide advice and support to the team tasked with the purchasing of 15 refuse collection vehicles. Audit were present at meetings held to review previous procurements, develop the procurement approach and specification and provided comments on draft documents before they were issued to prospective bidders
Commissioning & Contracting (inc Supporting People)	2011/12	Not Started		
Non Residential	2011/12	Not		

Services Billing (NSIBS)			Started		
Domiciliary Care	2011/12		Not Started		
Personalisation	2011/12		Not Started		
CareFirst Implementation / Charteris	2011/12		Not Started		
CareFirst Residential Care Payments (F/Up)	2011/12		Not Started		
Safeguarding Adults (F/Up)	2011/12		Not Started		

**Services for Children & Young People Directorate**

Audit Area	Year	Status	Assurance Opinion	Executive Summary
Commissioning & Contracting	2011/12	In progress		
CareFirst Fostering	2011/12	Not Started		
'Diversion of Children from Care' Plan	2011/12	Not Started		
Escort Service, Concessionary Transport, Special School Routes, SEN Transport	2011/12	Not Started		
CareFirst Care	2011/12	Not		

Leavers (Follow Up)		Started		
Data Quality Children's EMS (Follow Up)	2011/12	Not Started		
Children's Independent Sector Placements (Follow Up)	2011/12	Not Started		

**CITY OF PLYMOUTH**

**Subject:** Treasury Management Strategy 2011/12– Mid year Review

**Committee:** Audit Committee

**Date:** 16 December 2011

**Cabinet Member:** Councillor Bowyer

**CMT Member:** Director for Corporate Support

**Author:** David Northey Head of Finance

**Contact:** Tel: 01752 304942  
e-mail: david.northey@plymouth.gov.uk

**Ref:** djn/audit/071211

**Part:** 1

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**Executive Summary:**

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's strategy for 2011/12 was approved by full Council at its budget meeting on 28 February 2011. This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2011. It is a requirement of the CIPFA Code of Practice on Treasury Management that a full mid year report, as a minimum, should be presented to Full Council.

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**Corporate Plan 2011-2014:**

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

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

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns.

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

The current volatility and uncertainty within the global financial markets has had a substantial effect on Treasury Management activities. The risk in the Council's Investments and Loans will be constantly monitored and acted upon through the Treasury Management Board which meets weekly.

**Recommendations & Reasons for recommended action:**

- I. The report be noted and presented to full Council in accordance with TMP 6

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

It is Statutory requirement under the Local Government Act 2003 and supporting Regulations to set a an annual treasury strategy for borrowing and prepare an annual investment strategy. Prudential indicators and the MRP policy must be approved by Full Cabinet.

**Background papers:**

- Treasury Management Strategy Report 2011/12 to Council 28 February 2011
- Treasury Management Practices update for 11-12 reported to Audit committee 27 June 2011
- Treasury Management budget working papers

**Sign off:**

Finance	Mc1112.020	Legal	TH0036	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member Malcolm Coe											



## Treasury Management Strategy Mid Year Review

### I. Introduction

- I.1 The Treasury Management Strategy for 2011/12 was approved by full Council at its meeting of the 28 February 2011. The Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
- I.2 Treasury Management is defined as:
- “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- I.3 The responsibility for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions is delegated by the Council to its Section 151 Officer – the Director for Corporate Support Services, and is overseen by a Treasury Management Board consisting of senior officers of the Council and the portfolio Member for Finance, Property, People and Governance.
- I.4 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP's). Updates to these practices for 11-12 were approved by the audit Committee on 27<sup>th</sup> June 2011.
- I.5 The Council works closely with its treasury management advisors Arlingclose who assist the Council in formulating views on interest rates, regular updates on economic conditions and interest rate expectations, and advice on specific borrowing and investment decisions.
- I.6 This report therefore provides an update on the Council's Treasury Management activity for the period ended 30<sup>th</sup> September 2011 together with performance against approved Treasury Management Prudential Indicators. In accordance with Treasury Management Practice (TMP) note 6, the report is required to be presented to full Council.

## 2. Economic Background

- 2.1 Before reviewing the Council's performance to date it is appropriate to outline the national and economic background within which Council Officers have operated during the first part of the year. The key financial issues are outlined below.

**Growth:** Global growth prospects deteriorated considerably over the six months to September, moving from an expectation of modest expansion to the risk of a double-dip recession. Q1 2011 GDP in the UK was 0.5% but was just 0.2% in Q2. Even economies like Germany's, which were hitherto seemingly strong, began to flounder with growth registering 0.1% in Q2.

**Inflation:** Inflation remained stubbornly high. Annual CPI for August was 4.5%; CPI had remained above MPC's 3% upper limit for 20 consecutive months and required the Bank of England's Governor to write his seventh open letter to the Chancellor. The Bank believed the elevated rate of inflation reflected the temporary impact of several factors: the increase in the VAT rate to 20%, past increases in global energy prices and import prices.

**Employment / Consumer Confidence:** Weakness persisted in the labour market. Job creation was unable to absorb the 90,000 quarterly growth in jobseekers, particularly those in the 16-20 age bracket. Unemployment on the ILO measure rose to 7.9%. High inflation trumping average earnings growth of only 2.9%, scarce availability of credit, stagnant house prices, all combined to lower disposable income, squeeze household spending power and leave consumer confidence fragile.

Central bankers' policies were driven by the feeble growth outlook rather than the upward trend in inflation. The Bank of England's August Inflation Report downgraded the growth forecast even as it acknowledged energy price rises could push CPI to 5% before inflation fell back to the 2% target over the medium-term. The UK's strategy of combining loose monetary policy (the Bank Rate had remained at 0.5% for 2½ years and Quantitative Easing at £200bn) with tight fiscal policy supported the rebalancing of the economy and also commanded support in the markets.

The protracted and unseemly political impasse to resolve the US debt ceiling issue turned a debate into a debacle. A lack of both political governance and measures to address the high debt burden (put off until after the 2012 presidential election), ultimately led Standard & Poor's to downgrade the US Sovereign from AAA to AA+. The country's weak economic and fiscal situation and an unemployment rate of 9.1% left the Federal Reserve little option but to commit to "exceptionally low" interest rates until mid 2013.

The European sovereign debt crisis deepened. The agreement in July to address Greece's fiscal problems and broaden the mandate for the European Financial Stability Facility (EFSF) only bought time for the Eurozone as market pressure

increased on Italy and Spain, but did little to address the issue of overburdened sovereign balance sheets.

The European Banking Authority released the results of the second of its stress tests in July. 8 banks (two Greek, one Austrian and five small domestic Spanish banks) out of 91 banks failed the tests. All of the UK and non-UK banks tested by the EBA and which are on the Council's lending list met the 'stressed' Core Tier I Ratio of 5%, none were adjudged as 'near-failed' (i.e. having ratios between 5% and 6%).

**Gilt yields and money market rates:** The economic uncertainty resulted in analysts postponing the likelihood of an increase in the UK Bank Rate until mid 2012. Gilts were considered a safe haven and benefited from market turmoil. Gilt yields fell to their lowest levels in five years. 5-year gilt yields fell to 1.25%, 10-year yields to 2.2% and 20-year yields to 3.05%.

PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

There was very little change to Libor and Libid rates as at 30/09/2011, the differential between 0.1% to 0.2% for maturities up to 12 months.

Money market data and PWLB rate movements over the first half of 2011/12 are attached as Appendix I to this report.

### **3. The Council's Strategy for 2011/12**

3.1 The Council's Treasury Management Strategy was approved by full Council on 28<sup>th</sup> February 2011. As an overriding principle, the strategy proposed that in the current financial climate the Council would continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security, with liquidity and yield. The Council would continue to make use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.

3.2 Where possible the Council would continue to reduce the underlying level of long-term debt with the borrowing strategy for 2011/12 to meet the capital financing requirement from short-term fixed rate borrowing or variable rate borrowing where rates were lower than those available to the Council on its investments. Where borrowing rates were higher than investment rates internal resources would be used in lieu of borrowing with borrowing only taken to cover short-term cash flow requirements. Capital expenditure levels, market conditions and interest rate levels would be monitored during the year in order to minimise borrowing costs over the medium to longer term.

#### 4. Review of the Council's Performance April – September 2011

4.1 Table I shows the Council's overall treasury portfolio at 30<sup>th</sup> September 2011 compared to the position at the start of the year.

**Table I**

01/04/2011 £m	Average Interest rate %		30/9/2011 £m	Average Interest rate %
61.315	5.4001	External Borrowing Long-term:	61.315	5.4001
130.000	4.4202	PWLB	130.000	4.4202
0.083	1.1660	Market	0.083	1.1660
94.985	0.4801	Bonds	22.200	0.3025
		Temporary Borrowing		
<b>286.383</b>	<b>3.3222</b>	<b>Total PCC Borrowing</b>	<b>213.598</b>	<b>4.2782</b>
31.753	8.7300	Long-term liabilities	31.753	8.7300
3.263	n/a	PFI Schemes	3.263	n/a
		Finance Leases		
<b>321.399</b>		<b>Total External Debt</b>	<b>248.614</b>	
<b>(165.801)</b>	1.5871	<b>Total Investments</b>	<b>(95.930)</b>	1.7551
<b>155.598</b>		<b>Net Borrowing/(Net Investment) Position</b>	<b>152.684</b>	

#### **Borrowing**

4.2 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

4.3 The external debt limits for 2010/11, as approved by Council in February 2011, are as follows:

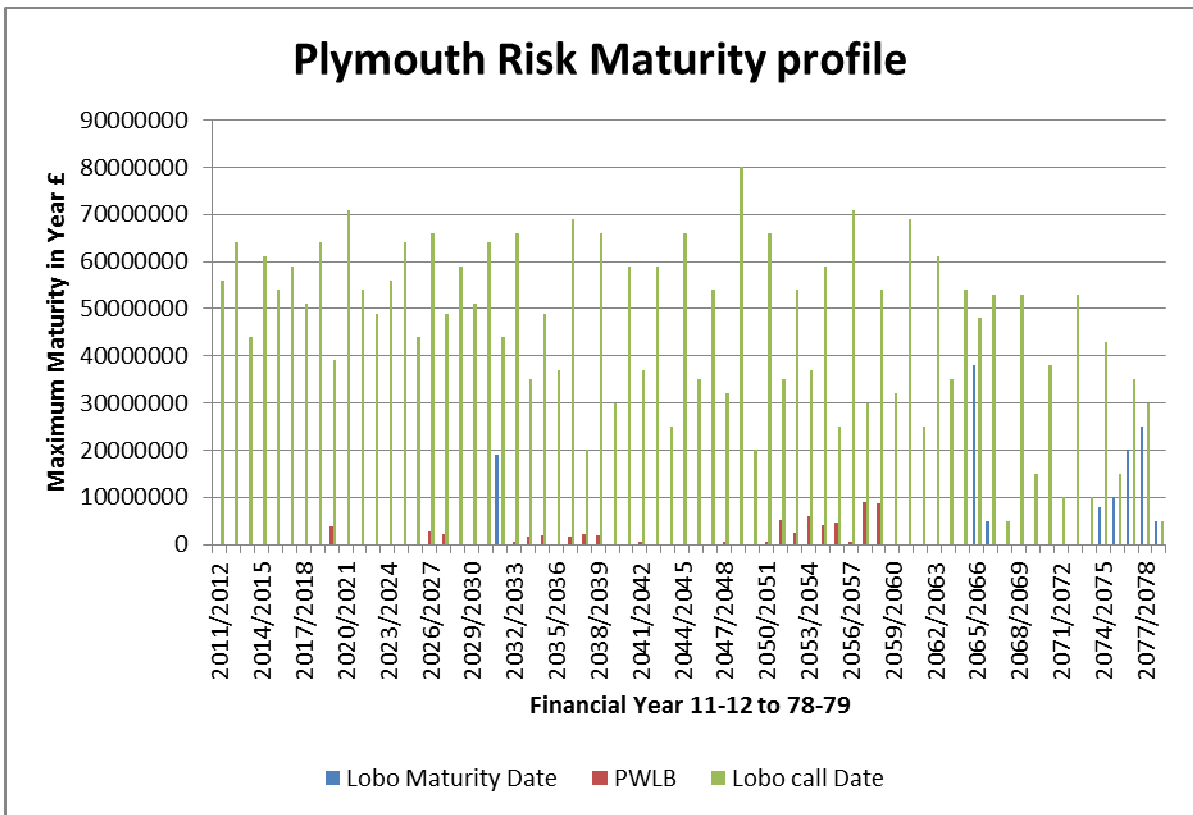
- Authorised limits           £368m
- Operational Boundary     £343m

4.4 The maximum borrowing outstanding during the period was £327.4m on 11<sup>th</sup> April 2011 (including £36.419m for the PFI scheme and finance leases). This was within both the authorised limit and the operational boundary. At 30<sup>th</sup> September 2011 total external debt had fallen to £248.6m with external

borrowing excluding PFI and Finance leases at £213.6m due to the strategy to reduce short-term borrowing and call account deposits to reduce credit risk resulting from the Eurozone debt crisis.

4.5 The following graph shows the maturity profile of the Council’s external debt:

Figure 1



4.6 The debt portfolio currently includes £130m of LOBO loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in green) to enable officers to risk manage the Council’s cashflows. To 30<sup>th</sup> September 2011 £34m of loans had reached their call option dates. No options were exercised and these loans will continue at fixed rates until the next option dates in 2 to 5 years time.

4.7 Table 2 shows the movement in the borrowing portfolio during the year.

**Table 2**

	<b>Balance on 01/04/2011 £000s</b>	<b>Debt Maturing £000s</b>	<b>Debt Repaid £000s</b>	<b>New Borrowing £000s</b>	<b>Balance on 30/09/2011 £000s</b>	<b>Increase/ (Decrease) in Borrowing</b>
Short Term Borrowing	94,985	(635,345)	0	562,560	22,200	(72,785)
Long Term Borrowing	191,398	0	0	0	191,398	0
<b>TOTAL BORROWING</b>	<b>286,383</b>	<b>(635,345)</b>	<b>0</b>	<b>562,560</b>	<b>213,598</b>	<b>(72,785)</b>

#### 4.8 New borrowing in year

The use of short-term borrowing has been the most cost effective means of financing of capital expenditure and cashflow requirements. By matching any short-term borrowing with the available of liquid deposits held in bank call accounts this has lowered overall treasury risk by allowing flexibility of reducing debt and investment levels at short notice when credit conditions deteriorated.

The Council started the year with £94.985m of short-term loans with £635.345m of new loans taken and £562.560m of loans maturing in 11/12. The average period of new loans taken in the period 1<sup>st</sup> April 2011 to 30<sup>th</sup> September 2011 was 24.5 days at an average rate of 0.3661% which mitigate the impact of changes in variable rates on the Council's overall treasury portfolio (the Council's investments are deemed to be variable rate investments due to their short-term nature). Short-term fixed/variable rate borrowing is expected to remain attractive for some time as the Bank of England maintains the base rate at historically low levels. However with credit conditions deteriorating with sovereign debt problems in the Eurozone the strategy has changed to a greater emphasis on internal borrowing reducing external borrowing and investments further reducing the credit risk of the Council's investment portfolio. This strategy will be constantly reviewed reacting to any changes in credit conditions.

#### 4.9 Debt Rescheduling

There has been no debt rescheduling in the period due to falling interest rates making the repayment of any PWLB loans more expensive. Officers along with our advisers Arlingclose will monitor PWLB interest rates looking for opportunities to repay any debt maximising the savings achieved whilst

maintaining a balances maturity profile.

#### 4.10 Overall Debt performance for the first part of the year

All new debt taken in 11-12 has been in short-term borrowing to meet cashflow/capital financing requirements. Over the period total loan debt has reduced by £72.785m as a result of a reduction in short-term borrowing to reduce credit risk in the first half of the year increasing internal borrowing. The reduction in short-term borrowing has resulted in an increase in the average rate on external borrowing from 3.322% on 1<sup>st</sup> April 2011 to 4.2872% on 30<sup>th</sup> September 2011.

### **Investment Activity**

#### 4.11 Managing Investment Risk

4.11.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

4.11.2 Security of capital remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2011/12. This restricted new investments to the following:

- Deposits with the Debt Management Office (DMADF)
- Treasury Bills
- Other Local Authorities
- AAA-rated Stable Net Asset Value Money Market Funds (not currently in use)
- Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the USA). Counterparty credit quality is assessed and monitored with reference to: Credit Ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's); Credit Default Swaps; GDP of the country in which the institution operates; the country's net debt as a Percentage of GDP; Sovereign Support Mechanisms /potential support from a well-resourced parent institution; Share Price.
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank (not currently in use).

4.11.3 Figure 2 below shows the split of split of deposits over country/sector as at 30 September 2011. In terms of risk management, the majority of the investment portfolio is now held in UK institutions. These institutions are of systemic importance to the UK economy and as such would in probability receive state support should they have difficulty in operating due to adverse credit conditions. Table 3 provides more detail of the actual deposits by counterparty group.

Figure 2

**PCC DEPOSITS BY COUNTRY/SECTOR AT 30th SEPTEMBER 2011 - Total Deposits £95,930,163.28**

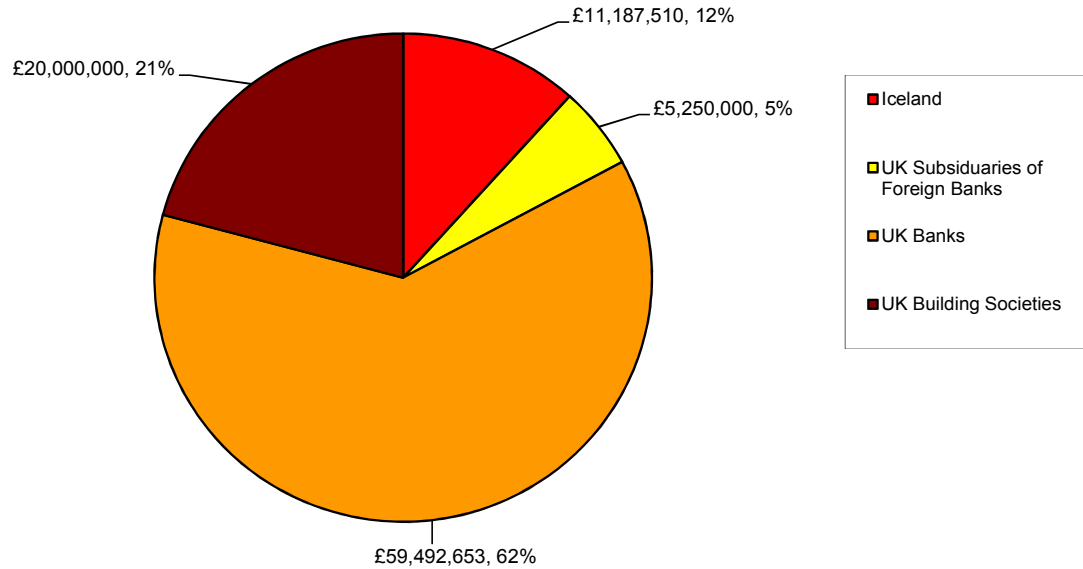


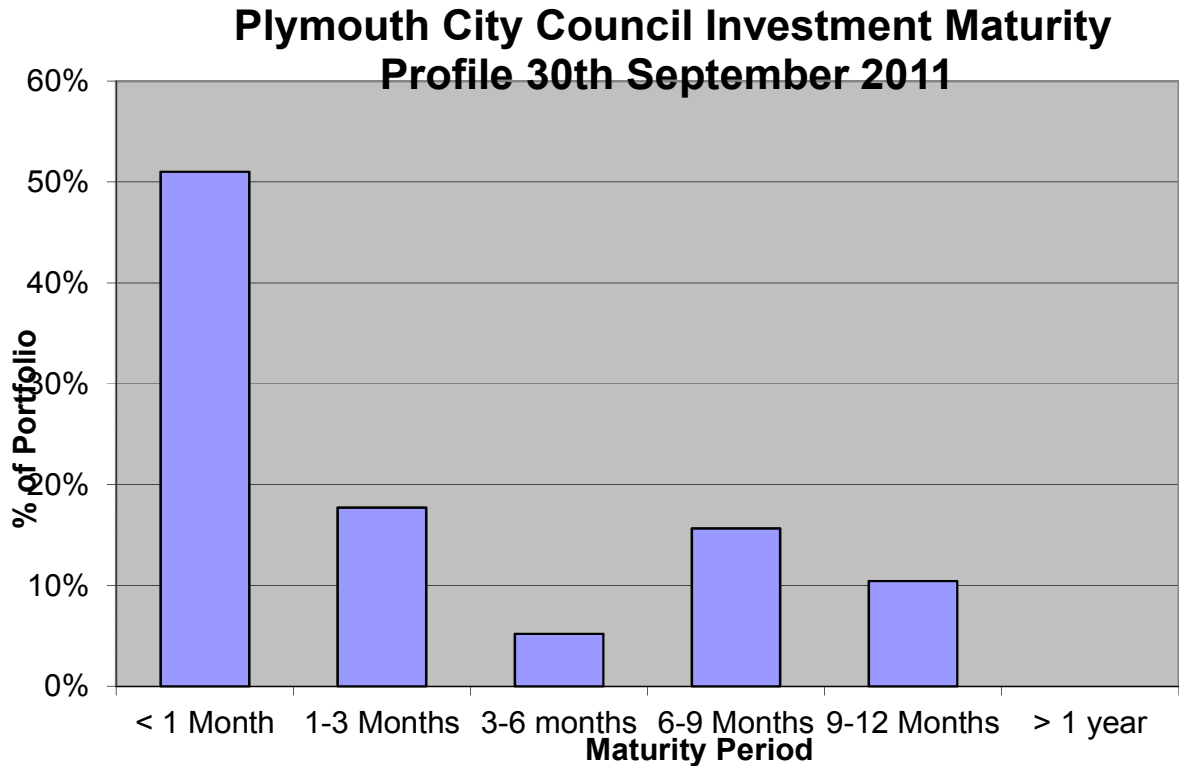
Table 3

Counter party	Total £m
Iceland	11.187
Banco Santander	
Santander UK (was Abbey National)	5.250
Lloyds Banking Group	
Bank of Scotland	20.000
Barclays	9.500
Royal Bank of Scotland (RBS)	
RBS	24.993
Ulster Bank	5.000
Nationwide	20.000
<b>Total</b>	<b>95.930</b>

4.11.4 The maturity profile of the Councils deposits is represented in figure 3. This shows a large proportion of deposits maturing in less than one month reflecting the deposits in call accounts giving the liquidity requirement to meet cashflow requirements and the ability to react to further adverse changes in market conditions.



Figure 3



#### 4.12 Icelandic Bank Update

4.12.1 The Council continues to receive regular dividend payments in respect of its investment in Heritable bank with the following dividends received in the period April – September 2011:

	Principal £000	Interest £000	Total £000
April 2011	187	10	197
July 2011	122	6	128

Further, we can confirm the receipt of the next dividend at the end of October 2011:

October 2011	126	6	132
--------------	-----	---	-----

This brings the total amount recovered to date to £2.037m (64.6%)

4.12.2 Investments in Landsbanki (£4m) and Glitnir (£6m) remain subject to court proceedings. The Council is expecting its claim to be heard by the Icelandic Courts in September 2011, with a decision likely either late October or early

November 2011. If the outcome is known after publication of this report, an update will be given in a timely manner to Council as appropriate.

Based on the test case hearings, the Council is hopeful that its claims will receive priority creditor status and 100% of monies in Glitnir will be recovered, with recovery of money in Landsbanki at 95%.

The Council continues to work with Bevan Brittan solicitors and the LGA continues to actively pursue the recovery of its total investments.

#### 4.13 Credit Risk

4.13.1 The Treasury Management Strategy report to Audit Committee in February 2010 outlined a recommendation that Officers work to develop a set of benchmarking criteria against which the Council's investment risk could be measured. The Council's treasury advisors, Arlingclose, as a result developed the following matrix to score the credit risk of an authority's investment portfolio. This continues to be used in 11-12:

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

- D = lowest credit quality = 15

- Aim = A+ or higher credit rating, with a score of 5 or lower, to reflect current investment approach with main focus on security

4.13.2 Table 3 shows the rating currently attached to the Council's portfolio and its movement during the year.

**Table 3**

<b>Date</b>	<b>Value Weighted Average – Credit Risk Score</b>	<b>Value Weighted Average – Credit Rating</b>	<b>Time Weighted Average – Credit Risk Score</b>	<b>Time Weighted Average – Credit Rating</b>
<b>31/03/2011</b>	4.20	AA-	4.75	A+
<b>30/06/2011</b>	4.24	AA-	4.58	A+
<b>30/09/2011</b>	4.37	AA-	4.68	A+

Note: These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's Counterparty credit quality has been largely maintained throughout the year with the Council reacting to rating downgrades by reducing deposits and suspending counterparties from the council's lending list.

- 4.13.3 Arlingclose have used the scoring matrix to compare Plymouth's investment risk against other unitary authorities who use Arlingclose as their advisors. The results are shown in section 5.

4.14 Counterparty Update

**4.14.1 Maturity Limits**

The lack of real progress in resolving the sovereign debt crisis in Europe began to affect even the stronger Eurozone nations and their banking systems. Market volatility, as measured by the VIX index, spiked sharply in August, banks' share prices fell sharply. Having reviewed all credit indicators the Council, advised by Arlingclose, believed that there were no solvency issues with the banks on the recommended lending list. Nevertheless the share price moves were too sharp to ignore and a prudent response to the tensions and negativity in the markets was required.

The Council responded to the growing stress by scaling back maturities for new investments on the advice of the Council's treasury advisors. Limits for UK banks, Nationwide BS and Australian, Canadian and US banks were reduced to 6 months (Santander UK plc restricted to 3 months). Limits for European banks were reduced to 1 month. French institutions were suspended for new investments in response to concerns over funding and their sovereign exposure to peripheral European nations.

- 4.14.2 On 28<sup>th</sup> September Clydesdale Bank was suspended from the lending list following the bank's downgrade to A2 by Moody's, which falls below the Council's minimum criteria of A+ or equivalent. All previously held deposits with Clydesdale were held in call/notice accounts and these were withdrawn following the rating downgrade. At 30<sup>th</sup> September 2011 the Council had no deposits with Clydesdale Bank.

**4.15 Investment activity during the year**

- 4.15.1 Investments are made short term to cover cash flow and liquidity requirements and longer term to maximise and guarantee future income. In line with our investment strategy for 2011/12 the following longer term deposits were taken in the period 1<sup>st</sup> April 2011 to 30 September 2011.

Amount	Start Date	End Date	Term (days)	Rate %
£1.0m	15/04/11	14/10/11	182	1.42

£1.0m	09/05/11	09/11/11	184	1.41
£5.0m	13/05/11	27/07/12	441	2.65
£5.0m	02/06/11	02/12/11	183	1.03
£5.0m	02/06/11	31/05/12	364	1.41
£1.0m	08/06/11	08/12/11	183	1.41
£5.0m	14/06/11	12/06/12	364	1.53
£5.0m	04/08/11	06/02/12	186	1.04
£5.0m	04/08/11	02/08/12	364	1.42

4.15.2 The above deposits have been taken above target rates and increased the forecast return on investments in 2011/12. However current market conditions continue to put pressure on the Council's treasury management activity. In line with cash flow requirements to year end deposits for the remainder of the year will be made in shorter period maturities and call accounts at rates below target.

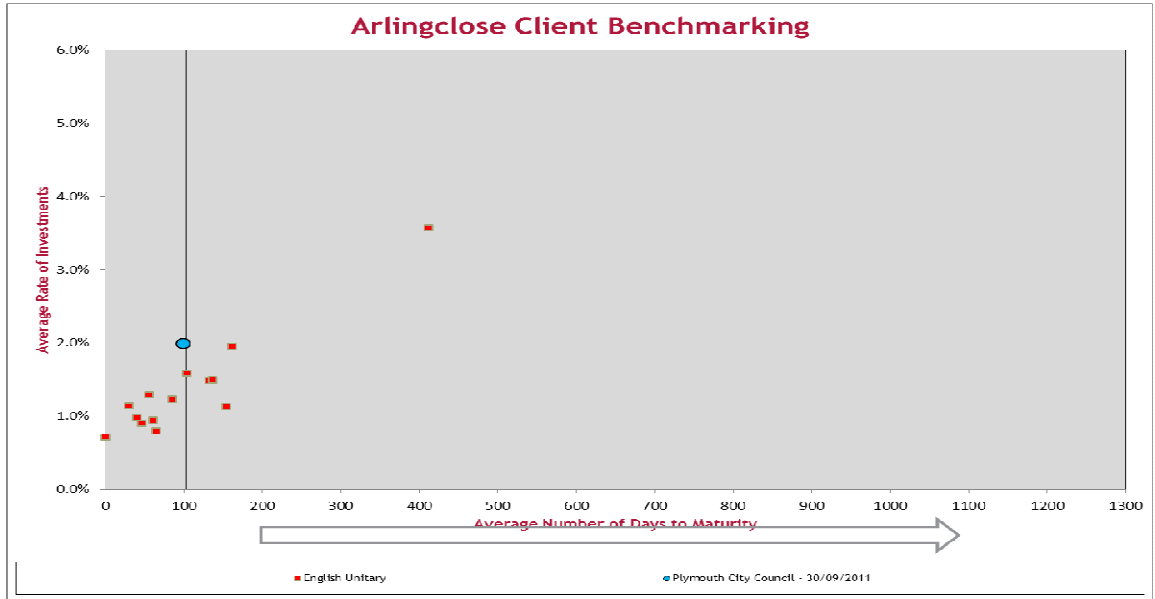
## 5. Benchmarking

- 5.1 The Council's performance on investments is measured against a benchmark of the 7 day libid rate. For the period to 30 September 2011 the return on investments made in 2011/12 was 1.0379% against the average 7 day Libid for the period of 0.533%. Including investment made in previous years at higher rates the average return on all deposits taken to 30 September 2011 was 2.0181%.
- 5.2 As outlined above, Arlingclose have developed a set of benchmarking criteria to enable comparisons on performance to be made on data provided by all their clients. To compare like with like the following graphs compare our performance with other Unitary authorities. This is based on data provided to 30 September 2011.

The 4 graphs used for comparison are:

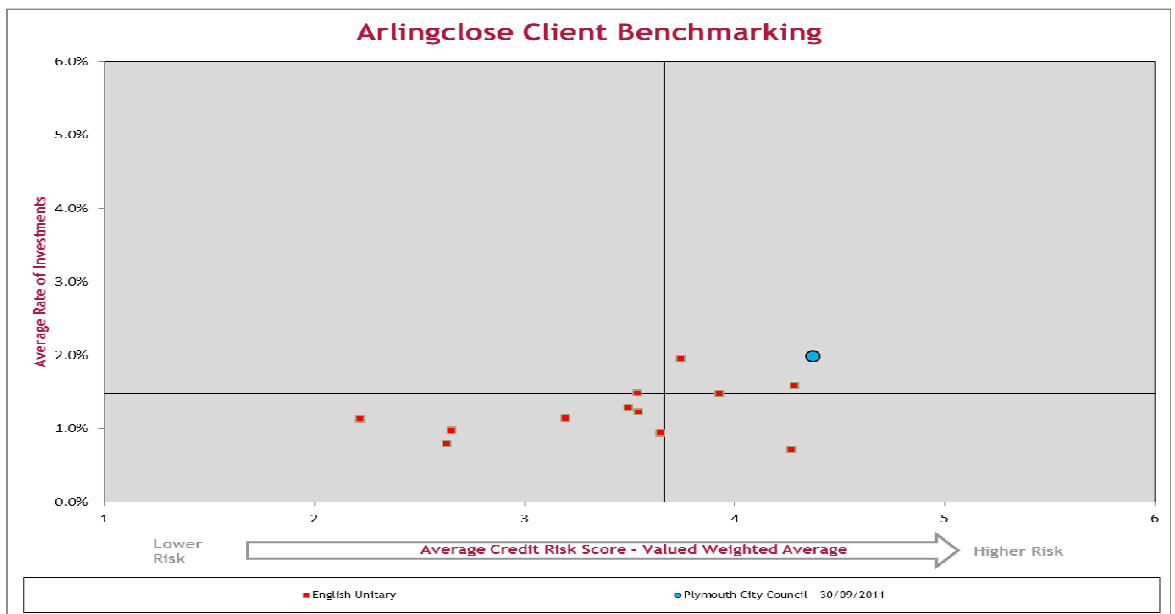
1. Average rate of investment against average maturity period
2. Average rate of investment against value weighted average credit risk score
3. Average rate of investment against time weighted average credit risk score

**Graph I Average Number of days to Maturity V Return**



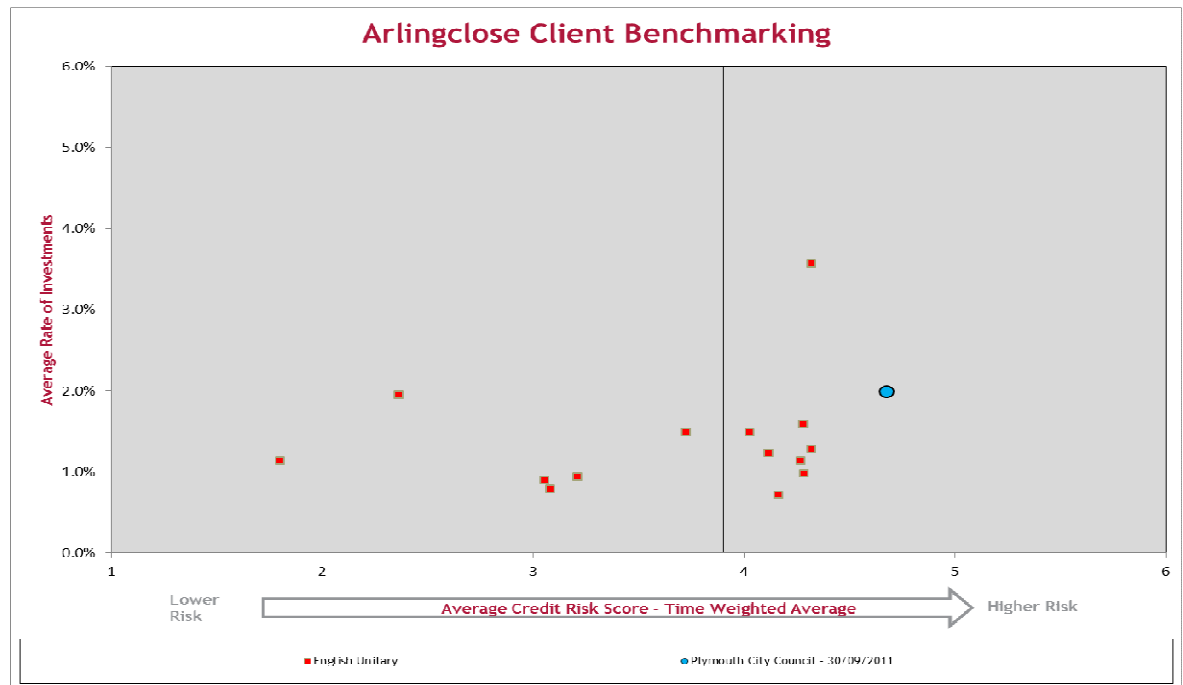
This graph shows the duration of investments against return. It shows the Council's investments have performed well against other unitary authorities reflecting the higher rates negotiated on call accounts and the legacy investments in Ulster Bank (a subsidiary of the RBS group) which are high rate but due to mature in the next few months.

**Graph 2. Value Weighted Average V Return**



As a general rule to aim should be to convert a greater average length of portfolio duration into a greater than average return. There should be a positive correlation between duration and return. However this chart should not be viewed in isolation from other measured parameters and it should be noted that a high average number of days to maturity does not necessarily mean a higher risk, in fact the reverse may be considered true in some cases. As can be seen from the above graph Plymouth City council are converting duration into a higher return than the majority of our peer group..

**Graph 3 Time weighted Average V Return**



Longer term investments with banks are inherently more risky. Ideally authorities should move towards the top left hand corner of the above graph. Therefore it is preferable to see risk taken converted into return at a greater than average rate. This should be seen as a longer term goal within Plymouth city council's portfolio which is currently affected by a number of rating downgrades on legacy investments increasing the credit risk score. This is the case with our Ulster Bank deposits where the rating has been lowered but there are still see as an important bank within the RBS group which is 84% owned by the UK taxpayer.

**6. Revenue Implications of Treasury Management**

6.1 The expenditure arising from the Council's borrowing and lending accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written

out to revenue from previous debt rescheduling. Some of the interest receivable is passed on to specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. The table below shows the monitoring positions against budget arising from these transactions in 2010/11 to 30 September 2010. Due to the reduction in higher interest fixed- term deposits and the increased use of internal borrowing as an alternative to lower rate short-term borrowing

#### Summary of Capital Financing Costs 2010/11

	<b>2011/12 Budget £000</b>	<b>Forecast 2010/11 Outturn £000</b>	<b>Variance £000</b>
External Interest payments	8,871	9,188	317
External Interest received	(1,743)	(1,657)	86
Interest transferred to other accounts	200	220	20
Premiums / Discounts written out to Revenue	(189)	(189)	0
Debt Management Expenses	130	130	0
<b>Treasury Management Cost</b>	<b>7,269</b>	<b>7,692</b>	<b>423</b>
Minimum Revenue Provision	7,285	7,018	(267)
Recharges for unsupported borrowing	(1,588)	(1,508)	80
Recovered from trading Accounts	(3,331)	(3,331)	0
<b>Net Cost to General Fund</b>	<b>9,635</b>	<b>9,871</b>	<b>236</b>

## 7 Compliance with Prudential Indicators

- 7.1 Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of prudential indicators covering borrowing limits and other treasury management measures. The prudential Indicators for 2010/11 were approved by Council on 28<sup>th</sup> February 2011.

The performance to 30 September 2011 against these limits are set out below:

### (a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. It is measured on a daily basis against all external borrowing items on the balance sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). It is consistent

with the Council's existing commitments, its proposal for capital expenditure and its approved treasury management policy/strategy.

- The Council's Affordable (Authorised) Borrowing Limit was set at £368m for 2011/12 including a limit for other long term liabilities of £31m to cover PFI.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. It is a focus for the day to day Treasury Management and a means by which the authority manages its external debt within the self imposed Authorised limit. The operational Boundary may be breached at certain times during the year due to short-term cashflow requirements
- The Operational Boundary for 2011/12 was set at £343m.
- There were no breaches to the Authorised Limit or Operational Boundary to 30th September 2011 with the total external debt (including PFI and finance leases) reaching its maximum level of £325.96m.

**(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2010/11 %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	200
<b>Maximum exposure in 11-12</b>	222.91
Compliance with Limits:	No
<b>Upper Limit for Variable Rate Exposure</b>	85
<b>Maximum exposure in 10-11</b>	-12.82
Compliance with Limits:	Yes

For 5 days in during June and July the upper limit for fixed rate exposure exceeded the 200% limit. This was due to cashflow receipts increasing balances held in call accounts reducing net variable debt and increasing the proportion held in net fixed rate debt. This was also a consequence of reducing the maturity period of deposits. By the end of September the exposure to net fixed rate date



had fallen back to 141.34% with net variable rate debt at -41.34%, both well within the limits set.

**(c) Maturity Structure of Fixed Rate Borrowing**

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. And is designed to protect against excessive exposure to interest rate changes.
- It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The repayment of the majority of PWLB loans over the last 2 years has resulted in a high proportion of Lobo (lenders Option, Borrowers Option) loans which may be subject to rate change or repayment at specified intervals. On specified dates the Lender has the option to vary the rate. If the option is taken the Council (Borrower) has the option to repay the loan. Therefore the loan may be subject to repayment on a number of occasions throughout the life of the loan. These repayment possibilities are included in the limits set for the maturity of fixed rate borrowing and the monitoring of actuals against these limits. The following table shows the performance against limits during the year.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Highest % of Actual Fixed Rate Borrowing during 11-12</b>	<b>Lowest % of Actual Fixed Rate Borrowing during 11-12</b>	<b>Compliance with Set Limits?</b>
under 12 months	50	0	26.69	13.11	Yes
12 months and within 24 months	70	0	48.59	33.44	Yes
24 months and within 5 years	35	0	15.15	5.22	Yes
5 years and within 10 years	25	0	4.56	1.94	Yes
10 years and within 20 years	25	0	2.50	2.50	Yes
20 years and with 30 years	25	0	5.37	5.37	Yes
30 years and within 40 years	25	0	0.72	0.72	Yes
40 years and within 50 years	30	0	21.50	21.50	Yes
50 years and above	50	0	0	0	Yes

**(d) Total principal sums invested for periods longer than 364 days**

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

- The limit for 2011/12 was set at £25m.
- The Council's strategy for 11-12 started with maximum deposit maturity limits out to 2 years policy. However due to adverse changes in credit conditions only one deposit was made for more than 12 months in the period to 30<sup>th</sup> September 2011. On 1<sup>st</sup> April 2011 deposits with maturity periods greater than 364 days was at a peak for the year of £5m due to deposits taken in previous years with in excess of 12 months left to maturity. As these maturities fell below 12 months a £5m deposit was taken with Bank of Scotland for 441 days bringing the level of deposits invested for periods longer than 364 days back up to £5m.

## 7. Outlook for Q3-Q4

7.1 At the time of writing this activity report in November 2011, the outlook for interest rates was as follows:

	Dec-10	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk	-	-	-	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.75	1.75
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-	-	-	-	-	-	-	-	-	-	-	-	-

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signaled their respective official interest rates will be on hold through to end of 2012. It could be 2016 before official interest rates rise putting pressure on investment returns over the next five years.
- The bank of England's Monetary Policy committee has returned to unconventional monetary policy and embarked on a further round of Quantitative easing. It is likely that there will be more to come. Gilts will remain volatile as the growth versus headline inflation debate escalates.

## 9. Summary

9.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2011/12. As indicated in this report the only Prudential Indicator to have been breached in the period was the fixed rate exposure limit due to the impact of peaks in cashflow receipts invested in call accounts. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

## Appendix I

## Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2011	0.50	0.40	0.54	0.54	0.69	1.12	1.59	1.89	2.36	3.00
30/04/2011	0.50	0.50	0.40	0.49	0.69	1.05	1.52	1.62	2.07	2.74
31/05/2011	0.50	0.40	0.40	0.52	0.69	1.08	1.56	1.53	1.89	2.54
30/06/2011	0.50	0.50	0.40	0.50	0.77	1.06	1.54	1.44	1.82	2.50
30/07/2011	0.50	0.40	0.40	0.50	0.78	1.07	1.55	1.29	1.53	2.09
31/08/2011	0.50	0.40	0.40	0.56	0.86	1.15	1.63	1.27	1.43	1.92
30/09/2011	0.50	0.60	0.60	0.54	0.92	1.21	1.69	1.25	1.38	1.75
<b>Average</b>	<b>0.50</b>	0.41	0.43	0.53	0.77	1.10	1.58	1.42	1.71	2.29
<b>Maximum</b>	<b>0.50</b>	0.60	0.60	0.58	0.92	1.21	1.69	1.95	2.42	3.07
<b>Minimum</b>	<b>0.50</b>	0.40	0.35	0.49	0.68	1.01	1.40	1.08	1.23	1.60
<b>Spread</b>	<b>0.00</b>	0.20	0.25	0.09	0.24	0.20	0.29	0.87	1.19	1.46

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2011	128/11	1.93	3.66	4.81	5.33	5.35	5.31	5.28
28/04/2011	162/11	1.73	3.45	4.61	5.18	5.21	5.17	5.14
31/05/2011	202/11	1.64	3.21	4.43	5.08	5.12	5.09	5.07
30/06/2011	246/11	1.61	3.09	4.42	5.17	5.21	5.20	5.18
29/07/2011	288/11	1.52	2.75	4.06	4.97	5.07	5.06	5.04
31/08/2011	332/11	1.48	2.50	3.71	4.66	4.84	4.87	4.85
30/09/2011	375/11	1.49	2.41	3.49	4.36	4.62	4.70	4.70
	Low	1.42	2.18	3.31	4.24	4.49	4.55	4.54
	Average	1.59	2.92	4.15	4.94	5.04	5.04	5.01
	High	1.97	3.73	4.89	5.41	5.42	5.39	5.35

Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2011	128/11	0.82	2.37	3.62	4.21	4.24	4.16	4.10
28/04/2011	162/11	0.62	2.16	3.42	4.06	4.10	4.02	3.96
31/05/2011	202/11	0.53	1.93	3.23	3.97	4.01	3.94	3.90
30/06/2011	246/11	0.50	1.80	3.22	4.05	4.10	4.05	4.01
29/07/2011	288/11	0.41	1.48	2.86	3.84	3.95	3.91	3.87
31/08/2011	332/11	0.37	1.25	2.50	3.53	3.73	3.72	3.68
30/09/2011	375/11	0.38	1.17	2.30	3.23	3.51	3.55	3.53
	<b>Low</b>	0.31	0.95	2.10	3.10	3.37	3.40	3.37
	<b>Average</b>	0.48	1.65	2.95	3.82	3.93	3.89	3.84
	<b>High</b>	0.86	2.44	3.71	4.29	4.31	4.23	4.18

**Table 4: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2011	128/11	2.76	3.74	4.84	5.22	5.33	5.36
28/04/2011	162/11	2.55	3.53	4.64	5.05	5.18	5.22
31/05/2011	202/11	2.37	3.30	4.46	4.93	5.09	5.12
30/06/2011	246/11	2.25	3.17	4.46	4.99	5.17	5.22
29/07/2011	288/11	2.01	2.83	4.11	4.73	4.97	5.06
31/08/2011	332/11	1.88	2.57	3.75	4.38	4.67	4.80
30/09/2011	375/11	1.84	2.48	3.53	4.08	4.37	4.54
	<b>Low</b>	1.67	2.24	3.35	3.93	4.25	4.41
	<b>Average</b>	2.17	3.00	4.19	4.73	4.95	5.02
	<b>High</b>	2.82	3.82	4.92	5.30	5.41	5.44

**Table 5: PWLB Repayment Rates – Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2011	128/11	1.54	2.55	3.70	4.10	4.22	4.25
28/04/2011	162/11	1.33	2.34	3.50	3.91	4.07	4.11
31/05/2011	202/11	1.16	2.10	3.32	3.81	3.97	4.01
30/06/2011	246/11	1.04	1.98	3.31	3.87	4.06	4.11
29/07/2011	288/11	0.82	1.64	2.95	3.60	3.86	3.94
31/08/2011	332/11	0.70	1.39	2.60	3.25	3.55	3.68
30/09/2011	375/11	0.67	1.30	2.38	2.95	3.25	3.42
	<b>Low</b>	0.51	1.07	2.20	2.80	3.13	3.30
	<b>Average</b>	0.97	1.81	3.04	3.60	3.83	3.91
	<b>High</b>	1.59	2.62	3.78	4.18	4.30	4.33

**Table 6: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2011	0.67	0.77	0.89	1.57	1.67	1.79
28/04/2011	0.67	0.71	0.79	1.57	1.61	1.69
31/05/2011	0.66	0.70	0.76	1.56	1.60	1.66
30/06/2011	0.65	0.68	0.71	1.55	1.58	1.61
30/07/2011	0.65	0.67	0.69	1.55	1.57	1.59
31/08/2011	0.65	0.66	0.68	1.55	1.56	1.58
30/09/2011	0.65	0.65	0.66	1.55	1.55	1.56
	<b>Low</b>	0.65	0.65	0.65	1.55	1.55
	<b>Average</b>	0.66	0.69	0.72	1.56	1.59
	<b>High</b>	0.69	0.79	0.91	1.59	1.69

**CITY OF PLYMOUTH**

**Subject:** Supplement to Treasury Management Strategy  
Update reported to Cabinet 29-11-2011

**Committee:** Audit Committee

**Date:** 16 December 2011

**Cabinet Member:** Councillor Bowyer

**CMT Member:** Director for Corporate Support

**Author:** David Northey, Head of Finance

**Contact:** Tel: 01752 304942  
e-mail: david.northey@plymouth.gov.uk

**Ref:** fin/djn071211/A

**Part:** 1

This update to the Council's investment policy/strategy as approved by Cabinet on 29<sup>th</sup> November 2011 is incorporated in an amendment to the Council's Treasury Management Practices, Principles and Schedules for 2011-12 as highlighted in the following extract from this document.

**1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT**

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the detrimental effect on the Council's capital and revenue resources.

**Principle:**

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

**Schedule:**

### 1.1.1. CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1. The Director for Corporate Support is responsible for setting prudent criteria; and the Council's Treasury advisors will provide guidance and assistance in setting criteria for assessing and monitoring the credit risk of investment counterparties.
2. The Council's Treasury Management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 agencies and other alternative assessment of credit strength including statements of potential government support, Credit Default Swap information for Countries and individual banks. The Council will also take account of information on corporate developments of and market sentiment towards investment counterparties.
3. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -
  - Fitch Ratings
  - Moody's Investors Services
  - Stander & Poors
4. The approved investment counterparty list is determined by the following criteria: -

ORGANISATION	INVESTMENT CRITERIA	MAX AMOUNT	MAX PERIOD
Government Debt Office	Central Government Office	No Limit	12 Months
UK Banks	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£30m	12 Months
UK Building Societies	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£30m	12 Months

Foreign Banks	Minimum credit rating: Fitch – Long-Term A- Short-Term F1 Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£10m	12 Months
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call
Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years

5. The maximum period of lending is 12 Months for deposits other than in EIB/Government bonds where the limit will be 10 years.
6. The maximum value for any one investment transaction will be unlimited with the DMO or £30m for any other investment.
7. The maximum limit for bank/group to include money market deposits will be £30m.
8. The maximum limit for lending to local authorities will be £30m.
9. The maximum limit for lending to a non UK bank will be £10m.
10. The limit on investments with non-UK banks will be 10% per country of total investments.
11. The maximum limit for investments in Money Market Funds will be £20m or 10% of investment portfolio with a limit in each fund of 2.5% of total investments.
12. The maximum investment in Eurosterling Bonds will be £20m or 10% of investment portfolio.

**Authority' Bankers** – The Authority banks with the Co-operative Bank Plc. Where the rating falls below the minimum credit criteria set by the Council for investment purposes the Co-operative Bank will continued to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

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**Subject:** Treasury Management Strategy Update  
**Committee:** Cabinet  
**Date:** 29 November 2011  
**Cabinet Member:** Councillor Bowyer  
**CMT Member:** Director for Corporate Support  
**Author:** David Northey, Head of Finance  
**Contact:** Tel: 01752 304942  
e-mail: david.northey@plymouth.gov.uk  
**Ref:** fin/djn1111/A  
**Key Decision:** No  
**Part:** 1

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### **Executive Summary:**

This report sets out proposed amendments to our current treasury management strategy, and incorporates an update on current economic influences on world banking institutions, and the most recent advice from our independent treasury management advisors, Arlingclose.

Under our current policy, we only have four UK banks where we can place deposits. These banks are:

- Barclays
- HSBC
- Standard Chartered
- Santander UK PLC

This means consolidating the council available cash in very few banks with only two of these, Barclays and Santander UK PLC, readily in the market with call account and fixed term deposit options. Several other UK banks have recently dropped off of our approved list due to downgrading of credit rating linked to the wider European economic situation.

Following advice from our independent treasury management advisors, Arlingclose, in order to give greater flexibility, whilst maintaining the agreed investment strategy of first considering security, second liquidity and finally the yield of investments, it is proposed that the minimum long-term rating for new investments be reduced to A-, (or equivalent), for deposits. This will give the Director for Corporate Support the flexibility to react to changing credit conditions.

Our current strategy enables us to deposit money up to a maximum of two years with approved organisations within defined limits. Due to recent instability in the European markets, the maximum duration for deposits is regularly updated and reviewed upon the advice of Arlingclose. Whereas our formal duration limits within our strategy remain, operationally we will often apply a shorter duration limit for new deposits complying with the professional advice relevant at the point in time.

The Co-operative Bank Plc is the Council's bankers for all operational banking activity and transactional business. Due to recent changes in credit ratings, transactions with the Co-operative would no longer be allowable within our current Treasury Management Strategy. We therefore need to approve a relevant amendment to continue to use this bank on a day to day basis. Arlingclose support this action. Our contract with the Co-operative bank runs to 31<sup>st</sup> March 2013 and Council officers are currently in the process of reviewing bank services with the option to go out to tender.

A fully revised treasury management strategy, incorporating the changes recommended within this report, will be submitted for approval by the Audit Committee, meeting in January 2012.

**Other Implications: e.g. Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:**

N/A

**Recommendations & Reasons for recommended action:**

That Cabinet approve:-

1. The Reduction in the minimum long term rating to be used for investments from A+ or equivalent to A- or equivalent.
2. The continued use of Co-op bank as the Council's Bankers for short term liquidity and business continuity arrangements.

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

If we do nothing we would be using Co-operative Bank even though this does not meet our investment strategy. We would not be complying with the Cipfa code of practice and would receive a negative report from Audit.

For deposits we would have complete inflexibility and be consolidating our credit risk into just two available UK banks. Any further downgrades would mean we could lose the Santander and Barclays options leaving us with other Local Authorities and the Government's DMO as our only options with only a minimal sum that could be invested in MMF's. The return on deposits would be cut having implication on the Council's revenue budget.

**Background papers:**

- Treasury Management Strategy 2011/12
- Performance and Finance Report (including Capital Programme update) November 2011

**Sign off:**

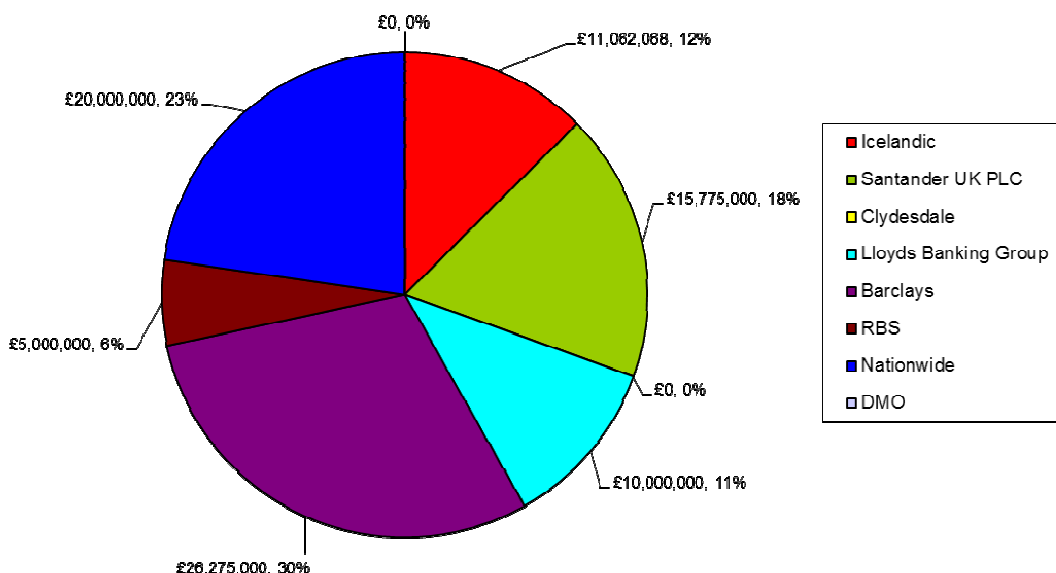
Fin	MC1112.018	Leg	TH18/11/11	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member M Coe											

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**Plymouth City Council**  
**Supplement to:-**  
**Treasury Management Strategy Update**

**1. Background**

- 1.1 When setting the strategy for 2011-12, based on the advice of our treasury management advisors (Arlingclose), a minimum long-term credit rating of A+ or equivalent was approved as the minimum criteria for depositing funds with Banks and Building Societies.
- 1.2 Since setting the strategy, credit conditions have deteriorated with problems with sovereign debt in the Eurozone and credit rating downgrades for a number of banks. As a result of this the decision was made to reduce credit risk by using available cash flow to repay short-term borrowing on maturity. At 30 September 2011 the Council's borrowing stood at £213.598 (compared to £261.408 at 30 June 2011). All borrowing activity during the year has remained within the approved borrowing limits.
- 1.3 Investment at 30 September 2011 stood at £95.913m down from £162,109m at 30 June 2011. At 18 November this has further fallen to £88.112m. Our current breakdown of investments can be analysed as:

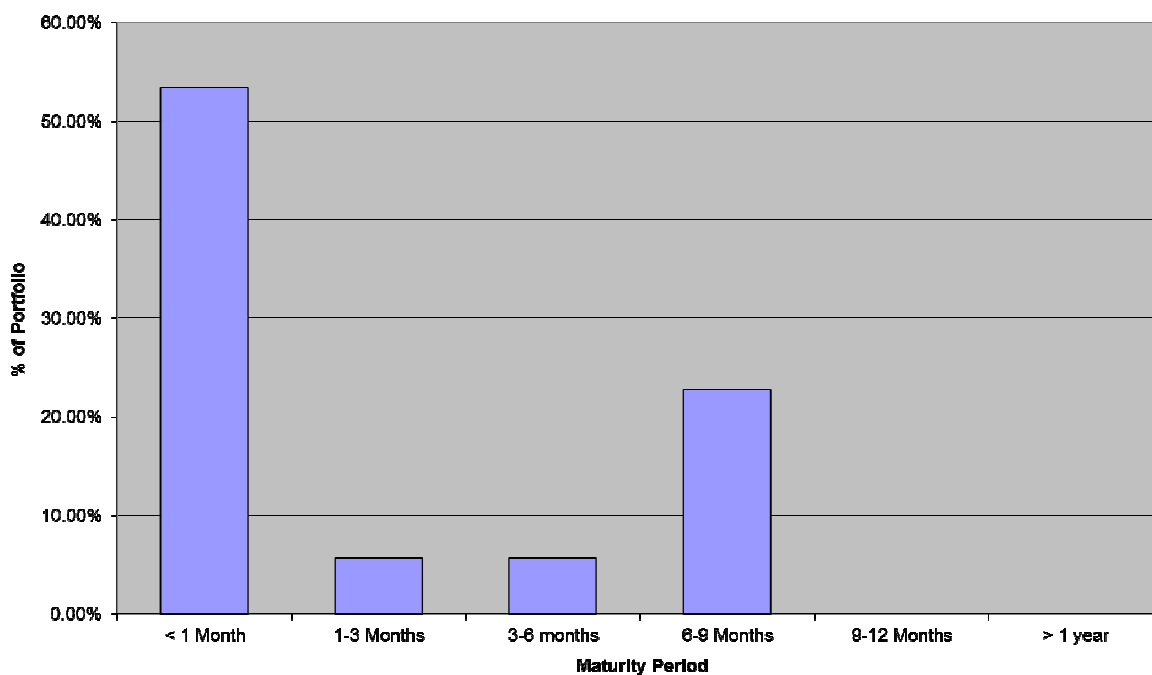
**DEPOSITS BY BANK/GROUP AT 18th NOVEMBER 2011**  
**- Total Deposits £88,112,068.46**



- 1.4 Following advice from Arlinclose, in order to give greater flexibility, whilst maintaining the agreed investment strategy of first considering security, second liquidity and finally the yield of investments, it is proposed that the minimum long-term rating for new investments be reduced to A- or equivalent for deposits. This will give the Director for Corporate Support the flexibility to react to changing credit conditions.

- 1.5 Adopting the revised credit ratings will enable the council to formally re-instate the following banks to its list of institutions for placing new deposits
- Clydesdale Bank
  - Lloyds Banking Group including Lloyds TSB and Bank of Scotland
  - Nationwide Building Societies
  - Royal Bank of Scotland Group including RBS and NatWest
- 1.6 The Director for Corporate Support will manage investments within these proposed limits reacting to any changes in credit conditions. The Treasury Management Board continues to meet regularly to discuss the actions in respect of borrowing and investments in accordance with the approved strategy.
- 1.7 Maturity limits on Investments have also reduced with the majority of deposits made in liquid call accounts in order to minimise risk. Although our existing strategy enables us to deposit money up to a maximum of two years, operationally, based on professional advice at a given time, we work to much shorter duration limits. The current maturity profile of our investments is as follows:

**Plymouth City Council Investment Maturity Profile 18th November 2011**



- 1.8 A full revision of the Council’s Treasury Management Strategy will be presented to the audit committee in January 2012.

**2. OPERATIONAL BANK**

- 2.1 The Co-operative Bank Plc is the Council’s bankers for all operational banking activity and transactional business. Our contract with the Co-operative bank runs to 31<sup>st</sup> March 2013 and Council officers are in the process of reviewing bank services with the option to go out to tender.

- 2.2 The recent credit rating in UK banks also included the downgrading of the Co-operative Bank Plc by Moody's credit rating agency to - A3 long-term; P-2 short-term. This is equivalent to its Fitch rating of A- long-term F2 short-term.
- 2.3 As the Co-operative bank Plc is the Council's operational banker, although it does not meet the current minimum credit rating of A+ (or equivalent) long term or the proposed new limit of A- long term and F1 short term, it will still need to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. This use needs to be classified as a non-specified investment as it does not meet the credit rating criteria considered "high credit quality" in the proposed update to the Treasury Management Strategy Statement.

### **3. COUNTERPARTY RISK MANAGEMENT**

- 3.1 The Director for Corporate Support is responsible for setting a prudent criteria and the Council's treasury advisors will provide guidance and assistance in setting this criteria for assessing and monitoring the credit risk of investment counterparties.
- 3.2 The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings and other alternative assessment of credit strength including statements of potential government support, Credit Default Swap information for Countries and individual banks. The Council will also take account of information on corporate developments of and market sentiment towards investment counterparties.
- 3.3 Credit ratings will be used as supplied from one or more of the following agencies: -
  - Fitch Ratings
  - Moody's Investors Services
  - Stander & Poors

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[Local government](#)[Health](#)[Fraud](#)[Audit regime](#)[Audit Practice](#)

## Update on the procurement of audit services

Dear Mr Keel

On 21 September, I wrote to update you on the progress of the current procurement exercise to outsource the work of the Commission's in-house audit practice and to provide further details of the timetable.

We have now reached another significant milestone in the process, having issued Invitations to Tender (ITT) for the principal bodies' procurement to 13 potential providers.

We have published [a copy of the ITT](#) on our website. The bidders invited to submit tenders are:

- BDO LLP
- DA Partnership Ltd
- Deloitte LLP
- Ernst & Young LLP
- Grant Thornton (UK) LLP
- consortium led by Haines Watts
- KPMG LLP
- Menzies LLP
- consortium led by MHA Audit LLP
- consortium led by Moore Stephens LLP
- PKF (UK) LLP
- pwc LLP
- RSM Tenon Audit Ltd.

In accordance with the published timetable, potential suppliers have until 16 December to submit tenders.

The process has three key stages:

- making decisions about the award of contracts;
- determining the length of contracts; and
- appointing auditors to individual bodies.

The arrangements for each stage are set out below.

Award of contracts

The Audit Commission is running the procurement process, and all key decisions relating to it are being taken by the Commission Board. The Board has appointed a Procurement Panel, a sub-committee of the Board, comprising Board members with a range of skills and experience of the different sectors, to oversee the procurement in more detail, and to make recommendations to the Board as to the award of contracts following the evaluation. This Procurement Panel includes an independent member, Mike More, the Chief Executive of Westminster City Council.

The outsourcing strategy is based on 10 contract lots covering local government, NHS, police and other local public bodies - over 650 in total - in different parts of the country. The bids for each lot will be assessed on the qualitative and financial criteria set out in the ITT. Those are the only factors that will determine a contract award.

As the Commission has determined that TUPE applies to the outsourcing process, the majority of the Commission's Audit Practice staff will transfer to the successful bidders in each area at the end of October 2012.

#### Contract length

The decision whether to award contracts for three or five years is about value for money, but is also linked to the government's timetable for the introduction of, and transition to, new local public audit arrangements, and for the disbandment of the Commission. The government has indicated that it wants to talk to the different sectors about the trade-off between the value for money of awarding three or five year contracts and the benefits of the proposed new public audit arrangements, once we have a better sense of the difference that the outcome of the procurement makes to audit fees from 2012/13.

#### Auditor appointment

The Commission has a statutory duty to consult local government audited bodies on the appointment of the auditor. We will also consult NHS bodies. Consultation with all audited bodies on appointments from 2012/13 onwards will take place after the contracts have been awarded. We have allocated sufficient time within the process to allow for meaningful consultation.

Where a body is currently audited by the Commission's Audit Practice, we will propose the winning firm in each contract area as the appointed auditor, unless there are good reasons that prevent this. Our contract strategy ensures the Commission will have the option of appointing a different firm to an audited body should this be necessary.

Where a body is currently audited by a firm, we do not expect to have to change the appointment from 2012/13. However, we must wait until the procurement is completed before we can confirm the national picture on auditor appointments.



We plan to set out early in the new year how we will go about the consultation process and specify the grounds on which we will consider representations from audited bodies about proposed auditor appointments,.

The new auditor appointments for 2012/13 will take effect from 1 September 2012. We are putting in arrangements to ensure a smooth handover to the incoming auditor.

#### Next steps

We will keep you updated on the progress of the procurement and the associated developments. I will write to you again early in the new year, setting out the process we propose to follow in consulting on 2012/13 auditor appointments. If you wish to clarify any of the points in this letter or ask other questions about the content, please email: [audit-appointments@audit-commission.gov.uk](mailto:audit-appointments@audit-commission.gov.uk) or contact Marcine Waterman or Andrew Davies on 0844 798 2447.

Yours sincerely

Eugene Sullivan  
Chief Executive

#### Timetable

<b>Key milestone</b>	<b>Date</b>
Deadline for submission of tenders	16 December 2011
Approval of contract awards by the Commission Board	w/c 20 February 2012
Consultation with audited bodies on auditor appointments for 2012/13	23 April - 13 July 2012
Appointments for 2012/13 commence	1 September 2012
Audit Practice staff transfer to firms awarded contracts	31 October 2012

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**Audit Committee Work Plan 2011/12**

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Internal Audit Annual Report	Cllr Bowyer / DfCS (Sue Watts)	27									
Statement of Accounts 2010/11	Cllr Bowyer / DfCS (Sandra Wilson)	27									
Operational Risk Management - Update Report	Cllr Bowyer / DfCS (Mike Hocking)	27						16			
Risk Management Annual Report	Cllr Bowyer / DfCS (Mike Hocking)	27									
Annual Governance Statement	Cllr Bowyer / DfCS (Mike Hocking)	27									
Strategic Risk Register Monitoring Report	Cllr Bowyer / DfCS (Mike Hocking)				23						16

**Audit Committee Work Plan 2011/12**

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Six Month Internal Audit Progress Report	Cllr Bowyer / DfCS (Sue Watts)							16			
Internal Audit Annual Plan	Cllr Bowyer / DfCS (Sue Watts)										16
Interim Report and Update to Financial Audit Plan 2010/2011	External Auditor Grant Thornton	27									
Review of Procure to Pay Project	External Auditor Grant Thornton	27									
Annual Report to Those Charged with Governance (ISA260 Report) 2010/2011	External Auditor Grant Thornton				23						
Financial Resilience Review	External Auditor Grant Thornton							16			

**Audit Committee Work Plan 2011/12**

		2011							2012		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Project Management Review	External Auditor Grant Thornton				23						
Annual Audit Letter 2010/2011	External Auditor Grant Thornton							16			
Certification Work Report 2010/2011	External Auditor Grant Thornton							16			
Audit Plan 2011/2012	External Auditor Grant Thornton										16
Audit Fee Letter 2012/2013	External Auditor Grant Thornton										16

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