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Date 13 June 2012

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AUDIT COMMITTEE

Date: Thursday 21 June 2012

Time: 10am

Venue: Warspite Room, Council House

Members:

Councillor Wheeler, Chair.

Councillor Dr. Mahony, Vice Chair.

Councillors Murphy, Stark and Stevens.

Independent Members:

Mr Clarke, 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.

Bob Coomber
Interim Chief Executive

AUDIT COMMITTEE

AGENDA

PART I – PUBLIC MEETING

1. TO NOTE THE CHAIR AND VICE CHAIR

The committee will be asked to note the chair and vice chair appointed at the Annual General Meeting held on 18 May 2012.

2. APOLOGIES

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

3. DECLARATIONS OF INTEREST

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

4. MINUTES

(Pages 1 - 6)

To confirm the minutes of the meeting held on 16 March 2012.

5. CHAIR'S URGENT BUSINESS

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

6. RECRUITMENT OF INDEPENDENT MEMBER

To note progress on the recruitment of additional Independent Members.

7. INTERNAL AUDIT ANNUAL REPORT 2011/12

(Pages 7 - 42)

The council's internal auditor will submit the Annual Report 2011/12.

8. ANNUAL GOVERNANCE STATEMENT 2011/12

(Pages 43 - 64)

The Director for Corporate Services will submit the Annual Governance Statement 2011/12.

9. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT

(Pages 65 - 72)

The Director for Corporate Services will submit a report.

10. RISK MANAGEMENT - ANNUAL REPORT (Pages 73 - 84)

The Director for Corporate Service will submit a report.

11a. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2011/12 (Pages 85 - 180)

The Director for Corporate Services will submit the Annual Report on Treasury Management Activities for 2011/12.

11b. TREASURY MANAGEMENT REVIEW - from March 2012 meeting

The Director for Corporate Services will provide a verbal update.

12. STATEMENT OF ACCOUNTS 2011/12

The Director for Corporate Services will provide a verbal update.

13. INTERIM REPORT AND UPDATE TO FINANCIAL AUDIT PLAN 2011/12 (Pages 181 - 198)

The Council's external auditor, Grant Thornton, will submit a report.

14. EXTERNAL AUDIT PLAN PROGRESS REPORT (Pages 199 - 202)

The Council's external auditor, Grant Thornton, will submit a report.

15. EXTERNAL AUDIT ARRANGEMENTS

The Council's external auditor, Grant Thornton, will provide a verbal update.

16. EXTERNAL AUDIT FEE LETTER

The Council's external auditor, Grant Thornton, will provide a verbal report.

17. AUDIT COMMITTEE FORWARD WORKPLAN 2012/13 (Pages 203 - 206)

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

18. 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.

Audit Committee

Friday 16 March 2012

PRESENT:

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

Co-opted Representatives: Mr Clarke and Mr Stewart

Also in attendance: Mike Hocking (Head of Corporate Risk and Insurance), Martin Gould (Internal Auditor), Barry Morris (a representative of Grant Thornton External Auditors), Chris Trevitt (Head of Capital and Assets), David Northey (Head of Finance) and Helen Rickman (Democratic Support Officer).

The meeting started at 10.00 am and finished at 12.00 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.

49. **DECLARATIONS OF INTEREST**

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

50. **MINUTES**

Agreed that the minutes of 16 December 2011 are approved as a correct record.

51. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's urgent business however the advertisement for the vacant independent member post was discussed under this item. The Committee was informed that an advert was published in various local papers in February 2012 – the Committee would await progress.

As a result of this update some Members raised concerns regarding the robustness of the procedure with regards to selecting independent candidates as it was highlighted that two former independent members were currently standing for election for the Conservative party. There was some concern that the independence of some of the independent members was being compromised because of this.

Agreed that the Constitutional working group is asked to consider the recruitment process of independent members as two former independent members are currently standing for the Conservative party.

52. **STRATEGIC RISK REGISTER MONITORING REPORT**

Mike Hocking, Head of Corporate Risk and Insurance, provided the Committee with an update on the Strategic Risk Register Monitoring Report.

The Committee was informed that –

- (a) the information Lead Officers Group would meet for the first time in the week commencing 19 March 2012;
- (b) the risk score for Amber Risk 77 'Carbon Reduction Commitment Energy Efficiency Scheme' had decreased due to commitments being achieved via a number of initiatives.

In response to questions raised it was reported that –

- (c) officers were due to meet to discuss the impact of the National Health Service changes to the Council; it was highlighted that the risks were not being ignored despite them not being listed on the risk register;
- (d) Mike Hocking, Head of Corporate Risk and Insurance, would inform the Director for People of the Committee's concern regarding the risks associated with the National Health Service changes and would ask on the Committee's behalf what efforts the Council was making to have sight of the register;
- (e) with regards to Amber Risk 46 'Information Governance' an Information Lead Officers Group had been established to provide a consistent approach to information governance across the Council;
- (f) Richard Woodfield, Corporate Information Manager, would have information on statistics available on how information requests were dealt with;
- (g) Mike Hocking, Head of Corporate Risk and Insurance, would re-write the last sentence of the Information Governance table on page 15 of the agenda pack so that it stated that the object of the Information Governance group was to look after the interests of the people of Plymouth;
- (h) Mike Hocking, Head of Corporate Risk and Insurance, would provide the Committee with a position statement on the risk associated with the requirement for extra Primary school places in Plymouth.

Agreed that –

1. the report is noted;
2. Mike Hocking, Head of Corporate Risk and Insurance, would inform the Director for People of the Committee's concern regarding the risks associated with the National Health Service changes and would ask on the Committee's behalf what efforts the Council was making to have sight of the register;

3. Mike Hocking, Head of Corporate Risk and Insurance, would re-write the last sentence of the Information Governance table on page 15 of the agenda pack so that it stated that the object of the Information Governance group was to look after the interests of the people of Plymouth;
4. Mike Hocking, Head of Corporate Risk and Insurance, would provide the Committee with a position statement on the risk associated with the requirement for extra Primary school places in Plymouth.

53. **INTERNAL AUDIT ANNUAL PLAN 2012 - 2013**

Martin Gould, the Council's Internal Auditor, provided the Committee with an update on the Internal Audit Annual Plan 2012-13. The Committee was introduced to Rob Hutchings who was to replace Sue Watts, Chief Auditor.

The Committee was informed that –

- (a) the Internal Audit Annual Plan was formulated using a similar plan as last year;
- (b) the plan included the corporate risk register, previous audit work, staffing changes;
- (c) the plan was used to help inform external audit with key financial systems work;
- (d) Internal Audit Officers were analysing the implementation of the new payroll system as well as the health integration transition and the significant risks associated with it; it was recognized that this was a key risk for Torbay, Plymouth and Devon;
- (e) anti fraud and corruption was considered to be a high priority; officers were aiming to increase actively in this areas and systems of work in terms of fraud, testing those areas;
- (f) the previous financial management in schools had been abolished and replaced with the schools financial value standard; this was a less bureaucratic system;

In response to questions raised it was reported that –

- (g) Internal Audit were working closely with various parties with regards to re-commissioning as a result of the Government Health Reforms; officers were ensuring that risks were appropriately managed;
- (h) the total number of audited days, as stated in Appendix I of the report, had reduced by 60 days;
- (i) Academies are required to have an internal audit and Martin Gould and some of his colleagues were undertaking some of this work;

- (j) Martin Gould considered that the appropriate amount of information was provided to the Audit Committee however Barry Morris considered that the number of days for issues to be audited needed to be included in the plan;

Agreed that the report is noted.

54. **AUDIT PLAN 2011 - 2012**

Barry Morris, a representative of Grant Thornton External Auditors, provided the Committee with an update on the Audit Plan 2011/12.

The Committee was informed that –

- (a) the accounting standard for heritage assets had been introduced to the Audit Plan 2012-2012;
- (b) the Council was adopting a new asset register and assets would need to be valued;
- (c) the valuation for the Life Centre needed to be accounted for;
- (d) the accounting treatment for the Tamar Bridge and Torpoint Ferry Committee needed to be amended in order to change the bridge and ferry back into single entity accounts;
- (e) the Annual Governance Statement had not received any challenges for several years;
- (f) value for money for the Council would be assessed;
- (g) there was a 10% reduction on the audit fees in comparison to the previous year;
- (h) the council was required to register and price its heritage assets; a pragmatic approach was required which would specify when the assets were last valued, what the valuations were and if a re-classification of assets was required.

Agreed that –

1. Barry Morris would provide the Committee with copies of the information leaflet entitled 'Is Your Audit Committee Effective?'
2. Mike Hocking, Head of Corporate Risk and Insurance, would provide the Committee with an update on the Royal Parade crossing with regards to the current risks associated in leaving it in its current state.

55. **AUDIT FEE LETTER 2012 - 2013**

The setting of Audit Fees had been deferred due to a procurement process being held by the Audit Commission; Grant Thornton, the Council's external auditor, was successful in the process and would communicate fees in June 2012.

56. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2012 - 2013 UPDATE**

The Head of Finance provided the Committee with an update on the Treasury Management Strategy Statement and Annual Investment Strategy 2012/13.

Members were informed that advice received from Arlingclose, the Council's independent treasury management advisors, suggested that the requirement of a minimum short-term rating should be removed whilst maintaining the long-term rating requirement for new investments at A-.

In response to questions raised it was reported that –

- a) a policy review would be incorporated into the Committee's work programme in order to assess the success of the strategy;
- b) the definition of short term with regards to 'short term rating' was considered to be 30 days;
- c) officers were happy to provide treasury management specific training for members.

Agreed that the Audit Committee recommend to Full Council that –

1. the removal of the short-term rating requirement from the criteria required for the inclusion of organisations on the Council's list of proposed Counterparties for new investment in 2012-13;
2. the organisations and Counterparty limits as set out in Appendix A.

57. **AUDIT COMMITTEE FORWARD WORK PLAN**

The Committee noted the work programme for 2011/12 and agreed to include the following items:

- Treasury Management Review – for discussion in June 2012;
- Audit Fee Letter – for discussion in June 2012.

Under this item Councillor Evans raised a vote of thanks to the Chair and the Committee; the Chair, in response, thanked the Committee and the help provided by Officers.

58. **CENTRALISATION OF TREES UPDATE**

Chris Trevitt, Head of Capital and Assets, provided the Committee with an update on the centralisation of trees.

The Committee was informed that –

- (a) there were lots of risks to members of the public associated with trees, including tripping over roots and parts of trees falling on passers by;
- (b) a risk assessment was undertaken on ex Housing Revenue Account funded land and the Council's Street Scene Services had been contacted to monitor and maintain the land;
- (c) Street Scene Services had undertaken 75 tree rectification works resulting in the risk being reduced from red to amber;
- (d) the highway's department were responsible for maintaining pavements, as part of the public highway, in Plymouth;
- (e) schools would need to contact Street Scene Services to do a tree risk assessment.

Agreed that the report is noted.

59. **EXEMPT BUSINESS**

There were no items of exempt business.

CITY OF PLYMOUTH

Subject: Internal Audit
Committee: Audit Committee
Date: 21 June 2012
Cabinet Member: Councillor Lowry
CMT Member: Director for Corporate Services
Author: Martin Gould, Head of Devon Audit Partnership
Contact: Tel: (01752 (30) 6710
e-mail: martin.gould@devonaudit.gov.uk
Ref: AUD/MG
Key Decision: No
Part: I

Executive Summary:

This report summarises the work undertaken by Devon Audit Partnership during 2011/12, reviews the performance and effectiveness of the Internal Audit service, and provides an audit opinion on the adequacy of internal control. The report is particularly relevant, therefore, to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulation 2011.

Corporate Plan 2012-2015:

The work of the Internal Audit team 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.

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

None.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversion and Community Cohesion:

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

Recommendations and Reasons for recommended action:

It is recommended that:-

- 1) the report be noted;
- 2) the Audit Committee endorse the adequacy and effectiveness of Plymouth's internal audit for the year ended 31 March 2012.

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.

Background papers:

Internal Audit Annual Plan 2011/12

Sign off:

Fin	AB 1206	Leg		HR	MG 1206	Corp Prop		IT		Strat Proc	
Originating SMT Member: Martin Gould, Head of Devon Audit Partnership											

1 INTRODUCTION

1.1 The Audit Committee, under its Terms of Reference contained in Plymouth City Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

1.2 The Internal Audit plan for 2012/13 has already been presented and approved by Audit Committee on 16 March 2012. The following report and appendices set out the background to audit service provision, reviews work undertaken in 2011/12, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

2 BACKGROUND

2.1 *Service Provision*

2.1.1 The Internal Audit (IA) Service for Plymouth City Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

2.2 *Regulatory Role*

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- **Section 6 of the Accounts and Audit Regulations (England) Regulations 2011** which states that ".....a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"
- ".....a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit"
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including CIPFA's Code of Practice for Internal Audit in Local Government and the Institute of Internal Auditors' Standards and Guidelines.

2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

2.2.4 The Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the audit function.

3 OBJECTIVES AND SCOPE

3.1 This report compares the work carried out with the work that was planned; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements; and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

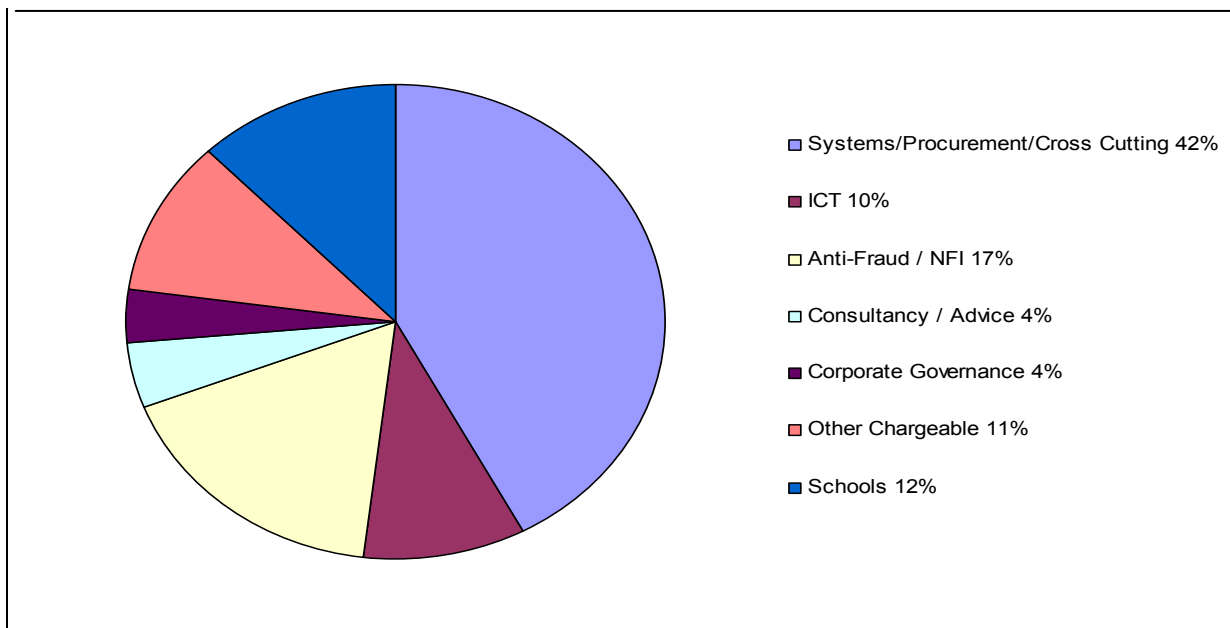
3.2. The Chief Internal Auditor is required to provide the Council with an assurance on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2011/12, including those audits carried forward from 2010/11;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

4 INTERNAL AUDIT COVERAGE 2011/12

4.1 *Delivery Against Plan*

4.1.1 The pie chart below shows the proportion of direct days provided in the year ended 31 March 2012, by type of audit.



4.1.2 .Appendix 1 shows the actual days of audit delivery in 2011/12 against the audit plan. It will be noticed that there was a small shortfall in the total number of audit days provided during the year; we provided 1790 days against a plan of 1974 days. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review. In such instances we expect that a more senior officer will be able to complete the review in less time than a junior and also the need for managerial review of working papers will be less.

4.1.3 Appendix 2 to this report provides a summary of the audits undertaken during 2011/12, along with our assurance opinion. Where a “high” or “good” standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “improvement required” has been provided then issues were identified during the audit process that required attention. We have provided a summary of some of the key issues reported that are being addressed by management. It should be pointed out that we are content that management are appropriately addressing these issues.

4.2 Systems / Procurement / Cross Cutting

4.2.1 Systems audits account for a large element of the audit plan for the year and these are summarised in Appendix 2, together with the individual audit opinions.

4.2.2 DAP has continued to attend and support a number of Project Boards and Project Teams set up to oversee significant and high profile procurement, construction, or system / service implementations projects.

4.2.3 Project work has included continued involvement with the South West Devon Waste Partnership Waste PFI project in particular advising on governance and risk issues.

4.2.4 DAP were also invited to provide advice and support to the team tasked with the purchasing of 15 refuse collection vehicles. DAP 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.

4.2.5 Projects involving the implementation of new systems or services include the procurement and implementation of new HR / Payroll systems. DAP 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.

4.2.6 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 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.

4.2.7 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 in respect of 2010/11. Further work is planned for the 2011/12 returns which have to be submitted in July.

4.3 ICT (Computer Audit)

4.3.1 With the agreement of the former Assistant Director for ICT, the 2011/12 ICT Audit Plan was aligned with the Information Technology Infrastructure Library (ITIL) service model in order to provide a more structured approach to the review of the Council's ICT service as a whole. The review of specific ITIL areas will inevitably result in lower 'audit opinions' than would otherwise have been given as part of a more traditional control based review. However, in the interest of achieving the goal of an ITIL based service delivery model, it has been agreed that the IT auditors act as a "critical friend" and measure against the standards to which ICT are striving to attain.

4.3.2 A review of the organisational controls and workforce planning arrangements in place within the ICT department concluded that ICT is operating within the Council's framework of approved corporate policies, strategies and plans and that it has sound procedures in place to manage its workforce planning, development and training needs.

4.3.3 The good progress made by ICT in embedding of the ITIL methodology throughout the service serves to regulate the delivery of individual projects. However our review of overall ICT Programme Delivery found that the sheer number of projects that ICT are required to deliver remains a serious concern. The volume of work streams and projects currently identified by ICT now exceeds 200 and our review confirms that PCC's ICT service is being run in an extremely 'lean' manner.

This resourcing issue was reinforced by a review of the ICT Service Level Management arrangements, where it was found that improvements are also required. The current workload of the ICT department is extremely challenging and the risk of taking on more than can realistically be delivered and failing to fulfil customer expectations is ever present. Customer expectations have changed in recent years and there is a recognised need for improved service level management and customer communication procedures, to ensure that these expectations are managed effectively. Effective service level management is a prerequisite of effective service delivery and it will become increasingly important as partnership working and shared services arrangements become more common.

4.3.4 Our audit of ICT Availability and Capacity also identified that improvements to the service strategy and design phases will enable ICT to improve availability and capacity management and

achieve better value for money. Crucially, the individual business area will receive the level of service that they have requested at a cost that is affordable and potentially remove the need for ICT management to make decisions based on cost alone.

4.3.5 Other ICT audit work included a review of the ICT aspects of partnership working arrangements. This found a lack of clear corporate procedures to govern the arrangements and implementation of operational partnerships. Individual business areas inevitably focus on service delivery without always understanding, or recognising the existence of, the technical ICT elements of any proposed solutions. Controls need to be put in 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.

4.3.6 ICT advice and consultancy work during 2011/12 included the development of a simple 'tool kit' that would be of positive benefit to the Council's ICT project management process, by ensuring that business managers understood the corporate implications of implementing any externally hosted business application (Cloud Computing Facilities). The tool kit was designed to allow potential users of externally hosted computer systems and services, to demonstrate that they have considered the risks involved and that they have complied with the Council's approved policies and procedures for acquiring such systems.

4.3.7 Throughout the year, the IT audit team have also maintained watching briefs and provided a wide range of advice and support in a number of key areas of the Council's current and emerging activities. For example, we have:

- Actively reviewed progress on the implementation of information management arrangements within the organisation and maintained a presence on the newly formed Information Lead officers Group;
- Advised on the process of selecting contractors for the fitting out of the data processing centre at Windsor House;
- Followed progress and provided advice regarding compliance with Government Connect and the Payment Card Industry security standards;
- Advised and mediated with regard to the Advanced Payment Card system pending full implementation as part of the new personal budget process.
- Monitored activity relating to business continuity developments and attended Steering Group meetings called in response to specific incidents.

4.4 Special Investigations and Anti-Fraud Work

4.4.1 Throughout the year, Internal Audit have been informed of instances of possible fraud or irregularities which have either led to advice being given to management on courses of action and improvements to controls, or auditors conducting formal investigations into the allegations.

4.4.2 In 2011/12, Internal Audit received 20 matters requiring investigation which came from officers and members of the public. Investigations into 15 of those concerns have now been completed and investigations are on-going in respect of the remaining cases. Results of these investigations included one member of staff being dismissed and seven other employees receiving disciplinary sanctions.

4.4.3 The Whistleblowing Policy 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.

4.4.4 A total of two Whistleblowers came forward during the year, and both investigations which are included in the 20 cases referred at 4.4.2 above, have been concluded. The investigations related to:-

- Allegations concerning the decision making of a member of staff which was contrary to the Council's working practices and procedures for which no further action was deemed necessary, and
- Allegations regarding a failure to comply with financial regulations concerning the safeguarding of an asset, inappropriate payments and poor financial procedures which resulted in a verbal warning.

4.4.5 Throughout 2011/12, a significant amount of audit resource has been provided to a complex on-going investigation into alleged major financial irregularities within a Plymouth school. The case was passed to the police and auditors have continued to assist them during their subsequent investigations. The case has received a large amount of media coverage and is currently going through the court process. Remedial action has been taken by the school to address matters from our report for school improvement.

4.4.6 Data matching investigation work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued throughout 2011/12. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error.

4.4.7 In February 2011, the Council received a total of 15,060 data matches as a result of the exercise of which, the Audit Commission categorised 2,892 as the highest priority. In December 2011 the Council submitted its most recent electoral registration and single person's discount data as part of a separate exercise and a further 2,382 matches were received back in February 2012. Since that time, Devon Audit Partnership has engaged with the departments affected and agreed action plans to deal with the matches received. This has resulted in the cancellation of 380 blue badges and concessionary travel passes (where the holders appear to be deceased) and will prevent these badges / passes from being re-issued. In addition, £54,881 in 'savings' has been identified to date in respect of housing benefit overpayments.

4.5 Consultancy / Advice

4.5.1 Internal Audit was consulted by all sections of the Authority on many and varied topics including, for example, document retention, tenders, financial procedures and good practice etc.

4.5.2 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.

4.6 Schools

4.6.1 The audit plan to schools has been completed in full. Of the 34 school audits included in the 2011-12 plan, 30 were carried out across the year, three schools were deferred to the new year at the schools request and one further school has not bought audit services. All prior year deferrals have been completed. Schools have again been very appreciative of the quality of our service provided. The requirements to meet the challenges of the former FMSiS were significant for schools in their first attempt; the majority of schools met the standard prior to its abolition in November 2010. The accreditation still holds value and its status prioritised our work for achievement of its replacement, the "Schools Financial Value Standard (SFVS). We completed our audits to the new standard from inception in September 2011.

4.6.2 Revised and improved audit processes have been implemented to benefit the audit service provided to schools including the incorporation of the SFVS into the audit programme. New school audit processes have been implemented and we have been able to complete the audits generally within time allocations. The Partnership has again allowed much cross working and sharing of best practice across the Schools Team where the process is now more efficient.

4.6.3 Schools' audit reviews and programmes of testing are designed to provide assurance that there are effective internal controls in place and compliance with the Authority's funding scheme for schools, Financial Regulations and the School's Finance Policy. In addition, Internal Audit is responsible for completing the informal, assessment (i.e. it is not an accredited review) of schools arrangements against the DfE's Financial Management Standards.

4.6.4 Our opinion - based on the work to date is that the systems and controls in schools are of a "Good to High Standard" and generally mitigate the risks identified. The most common areas arising from the audits are the:

- effective demonstration of leadership and governance
- demonstrable financing of school improvement plans and;
- poor management of imprest / petty and inventories

4.6.5 Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.

4.6.6 Schools Financial Value Standard (SFVS) – Five schools were targeted as not having ever completed the former financial management standard FMSiS, and were specifically requested to make their returns by the 31 March 2012. All of these schools are, from a light touch review, considered to have met the key expectations of SFVS. Of the 13 schools we have reviewed in total, all meet most of the key expectations of the standard. The key issues arising are the lack of skills assessment of governors, business continuity plans and poor financing of school development plans.

4.6.7 All schools will need to make a return this year on their ability to comply with the SFVS and will continue to have to make annual returns from here on. Model answers are available on the DAP website (devonaudit.gov.uk) to help schools and training is planned for the autumn term.

4.6.8 We were part of the DfE pilot study on the SFVS which in general received positive comment from the pilot schools. Comments have been restricted to procedural aspects of its completion and the need for training and support. We fed back similar comments and the need for LA's to positively engage with the schools following review of their SFVS self-assessments.

4.6.9 Academies - 11 secondary and 2 primary schools have now become academies. DAP are in the process of marketing and bidding for internal audit services to academy schools across Devon. We have been successful in winning work for 30 schools in 15 academies across the wider Devon and are hopeful of more. Work is being re-scheduled in light of the changing market. It is considered that retention (where possible) of the internal audit for these schools will be beneficial to the school audit service as a whole.

5. INTERNAL AUDIT PERFORMANCE

5.1.1 There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

Local Performance Indicator (LPI)	2011/12	2011/12
	Target	Actual
Percentage of Audit plan Completed (Inc Schools)	90%	90.24%
Actual Audit Days as percentage of planned (Inc Schools)	90%	91%
Percentage of fundamental / material systems reviewed annually	100%	93%
Percentage of chargeable time	65%	69%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	80%
Final reports produced within target number of days (currently 10 days)	90%	93%
Average level of sickness absence (DAP as a whole)	2%	5.2%
Percentage of staff turnover (DAP as a whole)	5%	8.5% (3 people)
Out-turn within budget	Yes	Yes

5.1.2 Overall, performance against the indicators has been maintained, even against the backdrop of high, but unavoidable, instances of staff absence. The 7% shortfall on material systems relates to one review which is nearing completion and will ensure that the Authority has received 100% coverage in this area of the plan. It is particularly pleasing to see that customer satisfaction remains very high, which is much to the credit of the audit staff involved.

5.1.3 In addition, we have undergone a restructure exercise with the aim of reducing our costs by 10% in 2012/13 and a further 10% in 2013/14. As a result we have reduced our management team by three and restructured our operations to ensure that we can continue to deliver the high standard of work expected by our customers.

6. INTERNAL AUDIT OPINION

6.1.1 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.

6.1.2 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.

6.1.3 Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2011/12 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be accompanying its published Statement of Accounts for 2011/12.

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

Appendix 1

Progress Against Plan - 2011/12

	Planned Days	%	Actual Days	%
Systems / Procurement / Cross Cutting	948	48	756	42
ICT	176	9	174	10
Anti-fraud / NFI	250	12	309	17
Consultancy / Advice	90	5	77	4
Corporate Governance	90	5	68	4
Contingency	100	5	-	-
Other Chargeable Activities	110	6	188	11
External Clients – Schools	210	10	218	12
Total Audit Days	1974	100	1790	100

Summary of Audit work completed and Audit Opinions

Corporate Services (excluding ICT)				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Material Systems				
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	<p>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.</p> <p>The Overview and Scrutiny Management Board have again provided robust challenge and review of the proposed budget for 2010/11.</p>
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	Final	High Standard	<p>Working processes are highly 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	Final	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 but the lack of in claim management does pose a risk to the integrity and quality of benefit claim data.</p> <p>Fraud work would also benefit from a more intelligence led, proactive approach to ensure resources are targeted at areas of highest risk.</p>

Asset Register	2010/11	Final	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	Final	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	Draft	Good Standard	<p>The consistent application of internal controls ensures that the main accounting system continues to operate to a good standard. The Joint Finance and Performance reports are now well established and report key financial information to Cabinet on a quarterly basis.</p> <p>The Overview and Scrutiny Management Board have continued to provide a robust challenge and review of the budget. Reconciliations continue to operate to a good standard.</p>
Revenues & Benefits System Parameters	2011/12	Final	Good Standard	<p>The procedures operating in respect of the Academy system are longstanding and applied consistently. Statutory rates and policy are applied to the system in a timely manner and the application is subject to secondary officer checks.</p>

Creditors	2011/12	Draft	Good Standard	The review found that internal controls continue to operate to a 'Good Standard' and work is ongoing to streamline processes and further strengthen the system of control. This includes the planned implementation of automatic payment authorisation.
Debtors	2011/12	In-progress	N/A	Field work is nearly complete.
Payroll (Combined business & ICT)	2011/12	Final	High Standard	<p>Existing internal working procedures, including internal control systems, remain highly evolved. Further assurance is provided by the extensive library of operational procedures, which are of the highest quality and demonstrate knowledge, attention to detail and a desire to achieve and retain high standards.</p> <p>Existing internal working procedures provide a good benchmark from which to develop effective and efficient procedures for the new Midland iTrent system to be implemented.</p> <p>Maintenance contracts for key SAP system hardware components have been extended to cover the decommissioning period and no serious outages have occurred during the current financial year. Furthermore, it is envisaged that more automated monitoring of systems will be conducted by ICT in the near future to provide more timely warnings of pending issues or component failures.</p>
Council Tax	2011/12	Draft	Improvements Required	<p>Continuing economic problems have made 2011/12 another challenging year for council tax collection. However, although collection rates are likely to fall short of the performance target set recovery have increased the collection rate for the third consecutive year.</p> <p>Progress has been made since the 2010/11 audit in respect of the monitoring of student exemptions. However, the development of an on-going review process in respect of single person's discount (SPD) which reduces gross liability by 25%, remains outstanding.</p>

NNDR	2011/12	Draft	Good Standard	An increase in empty properties and businesses entering administration are contributory factors in collection rates being below target despite consistent application of internal controls and sound debt recovery practices but overall, the NNDR system continues to operate to a good standard.
Housing Benefits	2011/12	Draft	Improvements Required	Due to the economic climate, the benefits caseload has continued to increase in 2011/12., averaging 30,000 cases. During the same period the service underwent a significant restructure but despite these factors, combined time to process new claims and change events have improved. However, performance was stronger in respect of actioning change events over new claims and it is important that the service strives to achieve a greater balance between the two.
Loans & Investments	2011/12	Draft	Good Standard	An overall opinion of 'Good Standard' has been given based on the continued evidence of clear governance and operational processes. . The use of Call Accounts has been central to the current Treasury Management activity as these have been able to offer the best rates of return within the advice provided by the external consultants, Arlingclose whose contract was renewed in January 2012. Cash flow forecasting and the management of the Council's main bank account is considered to be operating well.
Asset Register	2011/12	Draft	Good Standard	Monitoring of the Capital Programme was carried out throughout the year by senior officers and Cabinet. The five-year rolling programme for the revaluation of assets continues to be maintained. Depreciation charges for fixed assets follow the straight line method and were being accurately applied in the samples tested.

Cash Collection	2011/12	Draft	Good Standard	It is recognised that changes brought about by the recent restructure has placed additional pressure on staff but internal controls continue to operate to a good standard which is a credit to all involved. Senior Officers continue to work to streamline processes and identify efficiencies.
ICT Helpdesk Access Controls	2011/12	Draft	Improvements Required	<p>The ICT Service Desk team now administer access to the most of the Council's key financial systems and there is a complete audit trail for each request raised. The 2010/11 review identified that requests under the new system took longer to action but these now form part of a 'Service Level Agreement' and timescales have improved.</p> <p>User training and induction on 'key financial' systems is an area that needs to be strengthened and could be improve if there was better communications between the Service Desk and individuals within Departments responsible for organising training sessions.</p> <p>Adequate procedures are in place for all the systems reviewed to ensure that staff who leave or change positions within the organisation are identified, allowing their access to be reviewed</p>
Material Systems IT Issues (11/12)	2011/12	Draft	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.</p> <p>It is anticipated that once all of the planned improvements have been fully implemented and the issues included in the report have been addressed, the ICT department procedures will then be of a High Standard.</p>

Corporate Services - ICT				
New Data Centre	2010/11	Final	N/A	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.
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>
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	Final	Good Standard	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.

Organisational Controls	2011/12	Final	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 whilst, at the same time, its project workload does not exceed its ability to deliver in accordance with customer expectations and agreed time scales.</p>
Housing Benefits (IT)	2011/12	Final	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	N/A	DAP continue to attend the Authority's Business Continuity Strategy Group to provide advice and support.

Hosted Services	2011/12	Final		<p>This was a piece of advice and consultancy work and did not involve the review of any existing systems or procedures upon which to give a standard audit opinion. Although the Council does have sound corporate procedures in place for the development of ICT business systems, there have been occasions when individual service departments have failed to comply with them.</p> <p>The purpose of this exercise was to produce a simple 'tool kit' that would be of positive benefit to the Council's ICT project management process, by ensuring that business managers understood the corporate implications of implementing any externally hosted business application (Cloud Computing Facilities). The tool kit was designed to allow potential users of externally hosted computer systems and services, to demonstrate that they have considered the risks involved and that they have complied with the Council's approved policies and procedures for acquiring such systems.</p>
Information Security	2011/12	On-Going	N/A	DAP continue to attend and support the Management Information Security Forum (MISF) which also reports to the newly established Information Lead Officers Group (ILOG) in which Internal Audit has a role. DAP have also provided support and advice to officers on individual cases.
Capacity and Availability	2011/12	Draft	Improvements Required	<p>There are considerable benefits associated with getting things right at the earliest stage providing tangible improvements to new services passing through transition into live service operation. The audit identified that improvements to the service strategy and design phases will enable ICT to improve availability and capacity management and achieve better value for money. Crucially, the individual business area will receive the level of service that they have requested at a cost that is affordable and potentially remove the need for ICT management to make decisions based on cost alone.</p> <p>The use of automated alerts for review as part of the Service Desks morning operations routine is not only more efficient, but also more effective and greatly reduces the risk of human error or oversight. At present no bandwidth management tools are used to mitigate against the risk of poor network performance. This is likely to become an increasingly important issue as more business processes consume greater and greater network resources. This area will also be impacted by any future 'Shared Services' arrangements that the Authority enters into.</p>

Service Level Management	2011/12	Draft	Improvements Required	<p>The current workload of the ICT department is extremely challenging and the risk of taking on more than can realistically be delivered and failing to fulfil customer expectations, is ever present. Customer expectations have changed in recent years and there is a recognised need for improved service level management and customer communication procedures, to ensure that these expectations are managed effectively and that the department's workload does not exceed its ability to deliver in accordance with customer expectations and agreed time scales.</p> <p>It is imperative that adequate resources are made available to create and maintain a comprehensive ICT Service Catalogue by developing the Service Design Packages, Service Level Agreements and Supplier Management arrangements necessary to support it.</p> <p>The ICT department has made significant progress in aligning its structure and working practices to the business requirements of the Council but additional resources are now required in order to develop robust Service Level Management arrangements to a level that will meet the needs of the organisation in the coming years.</p>
Access Management	2011/12	Draft	N/A	<p>A briefing note has been issued identifying the key issues that will impact on PCCs access management in the near future. As the Council becomes increasingly joined up with its partners within the city and provides the local community with electronic means of accessing services and obtaining information, so the historic corporate network boundaries become less distinct and more difficult to administer.</p> <p>The new AX platform being implemented as part of the new Transformational Change HR/Payroll system project provides the opportunity to capture all logical and physical access requirements as part of a "role based" approach. However, there is a danger that this opportunity will be lost if the resources required to achieve this are not provided. Without role based access, it is likely that there will be an increasing access management overhead as the range of access provided changes. Furthermore, there is likely to be an increased risk to the computerised information assets that have been previously well protected within the boundaries of the corporate network.</p>

Programme Management	2011/12	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>
CareFirst	2011/12	On-Going	N/A	<p>The CareFirst Programme Team continues to provide the necessary day-to-day coordination and governance as the application continues to develop. Business process re-engineering is adding value to the services where this has already been undertaken and it is expected that this will be achieved as processes are improved in new areas.</p> <p>Reporting arrangements have been transformed and the continued development in this area is seen as genuine good practice, adding to both managerial and operational performance, as well as assisting in improving data quality. A further transformation has occurred in how CareFirst is now viewed in a positive way by most practitioners, particularly where processes have been re-engineered or use of new technology has been introduced. The introduction of new technologies to interact with CareFirst, such as CM2000, is viewed by internal audit as both an opportunity and, if not implemented properly, a potential threat.</p>
Delivery Plans - ICT	2011/12	Final	Good Standard	<p>The process followed by ICT to administer its delivery plans was found to be robust, with sound practices being supplemented by improving governance and procedural structures within ICT (based on ITIL practices and project management principles). The ICT monitoring data includes any additional financial pressures which have been identified in order to (where possible) provide a net position.</p>

Corporate Services - 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	<p>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> <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>

Payroll Procurement & Transfer from SAP	2011/12	In Progress	N/A	<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>
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 was 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 were delivered at the request of the department.
Review of Refuse Collection Vehicle Procurement	2011/12	Final	N/A	A review of the 2007 procurement exercise was requested by the Director for Corporate Support, ahead of a similar exercise that took place during the 2nd Quarter of 2011. The review found that a radical, innovative but untried solution in terms of vehicle specification and ways of working drove the procurement. The recommendations made following the review were taken into consideration by the team undertaking the 2011 procurement.
Delivery Plans – Invest to Save	2011/12	Final	Good Standard	<p>The governance arrangements of two ‘Invest to Save’ projects within the Department for Services for Children and Young People where reviewed and found to be of a good standard. These projects will support the Authority in delivering its key objectives and the achievement of ongoing revenue savings. The projects were:-</p> <ul style="list-style-type: none"> • ASD and Complex Needs • Parent and Child Assessment Team

Data Quality	2011/12	Not Started		Due to the use of audit resources elsewhere in the 11/12 Audit Plan , this audit was not undertaken
Local Performance Framework	2011/12	Final	N/A	<p>The Corporate Plan 2011/14 set out the shared vision and priorities for the City and the Council and a range of high level long term and medium term outcome measures along with a variety of partnership indicators have been agreed to measure achievement against delivering the priorities.</p> <p>The following priority measures were reviewed and it was found that the systems and methodologies in place to collect and report on these indicators were operating effectively.</p> <ul style="list-style-type: none"> • Percentage of attendances at Sports Development Unit activities by people from deprived neighbourhoods • First Time Entrants to the Youth Justice System aged 10-17 • Number of Young People Re-Offending • Number of Visitors to Museums and Archive Services • Library Visits per 1,000 Population • Number of Enquiries to the Tourist Information Centre • Number of Inward Investment Enquiries • Number of Category 1 Hazards Removed
Payment to Consultants & Advisors	2011/12	Draft	Improvements Required	<p>The system introduced in November 2011, to determine an individual's employment status prior to engagement is effective.</p> <p>This process, in the main, is compliant with HMRC best practice and will provide the Council with the necessary evidence that individual employment status has been correctly determined. However the review has identified that the process is not yet completely embedded and there are inconsistencies in compliance with it. Further improvements to the level of information obtained and recorded for future reference would improve the robustness of the process and provide the Council with demonstrable evidence that would mitigate any risk of HMRC challenge.</p>
Procurement & Management of Consultants & Advisors	2011/12	Not Started		Initial research was undertaken as part of Payment to Consultants & Advisors audit (see above). However, detailed fieldwork not undertaken due to lack of resources.

Capital Programme – Delivery	2011/12	Not Started		Due to the use of audit resources elsewhere in the 11/12 Audit Plan, this audit was not undertaken
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Place				
Plymouth Market	2011/12	Final	Improvements Required	The review had identified that although not complete at the time of the audit, considerable progress has been made in implementing the improvement plan resulting from the January 2010 audit review. The Market now appears to have effective governance arrangements and a good team environment which would be further enhanced through the successful recruitment of an Assistant Manager.
Section 106	2011/12	Final	Good Standard	<p>The systems and procedures currently in place to identify and record Section 106 Planning Obligations are sound overall. They ensure that if a planning application includes Section 106 Obligations it can be easily identified. However, there is still a major element of human input required and therefore a risk that individual obligations could be missed or input incorrectly.</p> <p>The processes for identifying and reporting that Section 106 funds are available were found to have improved greatly and are more efficient as a result of the redevelopment of the Section 106 database and the overall level of knowledge of those officers involved in the audit review appeared to be very good.</p>
Planning Applications and Appeals	2011/12	Final	High Standard	A robust governance structure is in place with defined processes and procedures that ensure probity within the City of Plymouth's Local Planning Authority. Procedures in place for the processing of planning applications and appeals were clearly defined and understood. Planning applications and appeals were found to be effectively and efficiently recorded and processed with decisions being made in accordance with planning legislation and policy.

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.
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. DAP was present at the evaluation of the submissions received from bidders in respect of the Pavilions project and at the de-brief session with the unsuccessful bidder.
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.
Chelson Meadow Restoration Final Account	2011/12	Complete	N/A	At the request of the Council, DAP oversaw an audit of the Waste Infrastructure Delivery Contract at Chelson Meadow, undertaken by Mott MacDonald. The review was as the result of a significant and sudden variance to the forecast costs for completion, presented by the contractor in October 2011. A final report produced by Mott MacDonald was reviewed by DAP, prior to it being issued in May 2012.
Blue Badges	2011/12	On-Going	N/A	Initial discussions with relevant officers involved in the administration and monitoring of blue badges to identify ways of tackling misuse in the City and assess impact of new Government reforms.
Local Carbon Framework	2011/12	Complete	N/A	Grant Certification

New Growth Point 10/11	2011/12	Complete	N/A	Grant Certification
Urban Bus Challenge 10/11	2011/12	Complete	N/A	Grant Certification
Contaminated Land Capital Projects Prog 10/11	2011/12	Complete	N/A	Grant Certification
Community Infrastructure Fund	2011/12	Complete	N/A	Grant Certification

People				
PCH Monitoring 10/11	2010/11	Final	Good Standard	<p>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 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</p>

				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.
PCH Monitoring 11/12	2011/12	Final	N/A	<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, 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>
PCH Monitoring 10/11 Follow-Up	2011/12	Not Started		To be carried out in 2012/13
Choice Based Lettings 10/11 F/U	2011/12	Not Started		To be carried out in 2012/13.

Supporting People	2010/11	Final	High Standard	<p>There have been changes in the past year, the main one being the integration 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> <p>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..</p> <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)	Final	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 deadline.</p> <p>Devon Audit Partnership supported the performance team by carrying out data accuracy validation checks on the ASC-CAR and key areas of the RAP.</p>

				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.
Client Finance Services	2011/12	Final	High Standard	<p>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.</p> <p>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.</p>
Commissioning & Contracting (inc Supporting People)	2011/12	In-progress	N/A	The audit commenced in March 2012 and the majority of the fieldwork has been carried out.
Non Residential Services Billing (NSIBS)	2011/12	Draft	Good Standard	<p>With progress being made towards Personalisation and Self-Directed Care, it is now expected that NSIBS will no longer be required in the medium to long-term and therefore, there are no longer plans for a replacement system.</p> <p>There is a possibility that this transition could take longer than anticipated. It is also possible that some clients may refuse direct payments or pre-loaded cards and insist on retaining their commissioned services. In the interim and for those clients who wish to retain commissioned services there will still need to be a system in place for client billing and for the payment of providers.</p> <p>It is understood that a decision has been made that no new services are to be added to NSIBS from April 2012 as there will be no more commissioned services. There should be some clear direction on how commissioned services are to be dealt with in the future and who will be responsible for making decisions on how the cases that do not "fit" into the personalisation criteria will be recorded, paid for and client's billed. These cases will need to be identified and solutions found before NSIBS is phased out.</p>
Domiciliary Care	2011/12	Ongoing	N/A	To be carried out in 2012/13 following service restructure as part of Reablement.

Personalisation	2011/12	Ongoing	N/A	To be picked up further as part of service restructure 2012/13.
CareFirst Implementation / Charteris	2011/12	Ongoing	N/A	To be picked up further as part of service restructure 2012/13.
CareFirst Residential Care Payments F/Up	2011/12	Not Started	N/A	Rescheduled to early 2012/13.
Safeguarding Adults (F/Up)	2011/12	Not Started	N/A	Rescheduled to 1 st quarter of 2012/13 due to delays in finalisation of draft report.
Commissioning & Contracting (Children)	2011/12	Draft	Good Standard	<p>The Children and Young People's Plan (C&YPP) 2011-2014 has been developed following a comprehensive programme of work that included a complete needs analysis and input from service users, providers and stakeholders through a range of engagement mechanisms.</p> <p>The Commissioning Intentions Plan should be recognised as an excellent tool for implementing joint commissioning of services and should be further developed and embedded within the planning, delivery and evaluation of services to Children and Young People. This should in turn enable the outcomes identified in the C&YPP to be achieved and provide a solution to commissioning services at a time of reduced funding.</p> <p>The Finance and Commissioning Programme Board is an effective medium through which C&YP finance and commissioning plans are considered, agreed and enabled. Business cases for commissioning the appropriate services to deliver priority outcomes set out in the Commissioning Intentions Plan are submitted for consideration and approval. Reporting of these to the Departmental Management Team (DMT) and the C&YP Trust Board is via the Finance and Commissioning Programme Board.</p>
CareFirst Fostering	2011/12	Draft	Improvements Required	<p>The review of the payment process identified a number of areas where improvements need to be made including full and accurate completion of supporting paperwork and the clarification of the perceived value of the authorisation stages. The payment process is predominantly manual which increases the risk of errors being made or missed.</p> <p>The use of standardised paperwork ensures that carer details are obtained in a</p>

				uniform manner and it is recognised that staff work hard to ensure that foster carers receive their payment each week.
'Diversion of Children from Care' Plan	2011/12	Suspend Audit work at request of auditee.	N/A	DAP was informed that it was not a good time for this piece of work as a decision had been made to re-plan the DfC project. Children's Services Finance & Commissioning Board 18 th January 2012 agreed to revisit / re-profile the project plan - to inform a refreshed Phase 2. Suggest audit taken forward into the 2012/13 financial year.
School Transport Delivery Plan	2011/12	Final	N/A	Overall the school transport delivery plans are likely to provide savings during 2011/12. The need for alternative savings was identified to meet the full savings target. Other areas within Learner and Family Support (Catering and Selling Services to Academies) were identified to meet the shortfall and these are on target to meet their objectives (taken from the Quarter 3 Delivery Plan - December 2011). Concessionary Transport and Re-Routing of Special Educational Needs (SEN) transport were examined during this audit review.
CareFirst Care Leavers (Follow Up)	2011/12	Final	N/A	The follow-up review found that good progress had been made in implementing the recommendations made.
Data Quality Children's EMS (Follow Up)	2011/12	Not Started	N/A	Awaiting response from department as to convenient time to commence the 'Follow Up'.
Children's Independent Sector Placements (Follow Up)	2011/12	Final	N/A	The follow-up review found that good progress had been made in implementing the recommendations made.
School Construction Projects	2011/12	On-Going	N/A	DAP have continued to support and advise the Tor Bridge High and High View construction projects. DAP were asked to support the construction project at Boringdon Primary.

Academies Delivery Project	2011/12	On-Going	N/A	DAP were invited onto the Project Board overseeing the delivery of £21m investment at two of the city's Academy schools. DAP have been providing assurance over project governance, risk management and compliance with procurement practices and procedures.
Basic Needs Programme	2011/12	On-Going	N/A	DAP have been able to support the Basic Needs Programme, offering advice and assurance on process and procedures involving procurement, risk and governance.

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PLYMOUTH CITY COUNCIL

Subject: Annual Governance Statement 2011/12
Committee: Audit Committee
Date: 21 June 2012
Cabinet Member: Councillor Peter Smith
CMT Member: Director for Corporate Services
Author: Mike Hocking, Head of Corporate Risk and Insurance
Contact: Tel: 01752 304967
mike.hocking@plymouth.gov.uk
Ref: CRM/MJH
Key Decision: No
Part: I

Executive Summary:

Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement (AGS).

The purpose of the AGS is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified.

The Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.

The 2011/12 Code of Practice on Local Authority Accounting also now requires that, within the AGS, there should be a statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

This report outlines the process followed in order to produce the AGS for 2011/12 and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Director of Corporate Services.

The report also provides an opinion on the effectiveness of the internal audit system for the same period.

The proposed Statement for 2011/12 is attached to the report.

Corporate Plan 2012-2015:

Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

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

None arising specifically from this report.

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

The Risk Management Strategy specifically supports the processes which underpin the production of the Annual Governance Statement.

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to:

- a) Note the processes adopted for the production of the 2011/12 Annual Governance Statement.
- b) Endorse the adequacy and effectiveness of the system of internal audit.
- c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director of Corporate Services.

Alternative options considered and reasons for recommended action:

Not applicable.

Background papers:

Accounts and Audit (Amendment)(England) Regulations 2006
Accounts and Audit (England) Regulations 2011

Sign off:

Fin	DJN1 213.0 06	Leg	LT14 937	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Tim Howes, Asst Director, Democracy and Governance											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1. Introduction

This report outlines the background to the statutory requirement to produce an Annual Governance Statement (AGS) and describes the process followed in producing the AGS for 2011/12 for publication with the Annual Statement of Accounts.

2. The Council's Statutory Responsibility

- 2.1** Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement).
- 2.2** There is also a requirement under the Accounts and Audit (Amendment) (England) Regulations 2006 for the AGS to include a review of the effectiveness of the internal audit system.
- 2.3** The 2011/12 Code of Practice on Local Authority Accounting also now requires that, within the AGS, there should be a statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 2.4** The purpose of the AGS process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, in order to give assurance as to their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.
- 2.5** The AGS is required to be approved at a committee of the Council and this sits most comfortably with Audit Committee, as its terms of reference include both internal control and risk management.
- 2.6** The proposed Annual Governance Statement for 2011/12 is attached to this report.

3. Effective Review and the Control of Risk

- 3.1** The statutory responsibility to publish an Annual Governance Statement requires the Council to review its key risks, and to identify and publish the actions that it intends taking to improve or resolve those risks.
- 3.2** These risks primarily relate to the achievement of the Council's core objectives and strategies and, therefore, the AGS provides an opportunity to formally review governance structures and processes that underpin their delivery.

4. Scope of the AGS

- 4.1** The AGS spans the whole range of local authority activities and includes those controls designed to ensure:
 - the authority's policies are put into practice
 - the organisation's values are met
 - laws and regulations are complied with
 - required processes are adhered to
 - financial statements and other published information are accurate and reliable,
 - governance arrangements are in place for significant partnerships
 - human resources and other resources are managed efficiently and effectively

- 4.2** In establishing and defining the system of internal control the AGS provides a mechanism by which the authority can maintain, review and keep up to date its control environment. It links internal audit findings, external audit and inspection reports and the risk management process and provides an effective review of the Council's risk management and control mechanisms.
- 4.3** The Council's control environment is managed through a number of core processes and procedures which are defined within the body of the AGS.
- 4.4** The AGS has been compiled by carrying out an annual review of the control environment which has involved researching and formally recognising and recording the processes already in place across the Authority.
- 4.5** Recognising that preparation of the AGS is a wide-ranging and corporate issue that should not be owned by any one department, a Working Group of key officers was established to oversee the process. This Group comprised:
- Head of Corporate Risk and Insurance
 - Assistant Director of Democracy and Governance
 - Audit Manager, Devon Audit Partnership
 - Head of Finance
 - Senior Policy , Performance and Partnerships Adviser
 - Head of Legal Services
- 4.6** The Working Group is responsible for producing the AGS which is then approved by the Corporate Management Team and Cabinet Planning prior to ratification by the Audit Committee.
- 4.7** The Council's external auditors will consider the arrangements in place to enable preparation of the AGS, including the degree to which the Council recognises and can demonstrate corporate ownership of its governance arrangements.

5. The Assurance Gathering process

- 5.1** Those with responsibility for signing the AGS need to feel confident that the information used to review the control environment is complete and accurate. The AGS is therefore required to be signed by the most senior officer and the most senior member (ie the Chief Executive and the Council Leader). It is also signed by the Director of Corporate Services as the officer responsible for overseeing the production of the AGS.
- 5.2** Although the production of the AGS is required by the Accounts and Audit Regulations, and the AGS is included with the Statement of Accounts, the responsibility for securing effective internal control does not rest solely with Finance staff.
- 5.3** Preparation of the AGS has therefore involved a variety of people charged with delivering corporate governance:
- Directors, Heads of Service and managers assigned with the ownership of risk and the delivery of services
 - the Chief Financial Officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts
 - the Monitoring Officer in meeting his statutory responsibilities

- Elected Members (e.g., through Audit or Scrutiny Committees)
- others responsible for providing assurance (e.g. Internal Audit and Risk Management)

5.4 The primary source of information which informs the content of the AGS comes from Assurance Questionnaires completed by Directors, Heads of Service and other senior managers covering key questions around the internal control and governance framework.

5.5 When completing these questionnaires respondents are asked to review a number of sources where internal control/governance weaknesses may be identified:

- Risks identified in Strategic and Operational Risk Registers
- Issues arising from Internal Audit Reviews completed in 2011/12
- Issues arising from external inspections
- Audit Commission Annual Audit and Inspection Letter

6. Code of Corporate Governance Self-Assessment/Annual Review

6.1 In accordance with the CIPFA/SOLACE framework document *Good Governance in Local Government*, the Council has adopted a local Code of Corporate Governance which was approved by Audit Committee on 31st March 2008.

6.2 The framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with the six core principles of good governance set out in the Code.

6.3 The AGS Working Group has carried out this annual review and is satisfied that the governance framework described more fully in the Governance Statement attached to this report satisfies the compliance requirements of the CIPFA/SOLACE model Code.

7. Review of Internal Audit System

7.1 Continuous review of the effectiveness of the Council's internal audit system is conducted by the Audit Committee whose terms of reference (paragraph 2.2) include, specifically, inter alia:

- To agree the annual Internal Audit Plan
- To monitor the progress and performance of Internal Audit
- To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council

7.2 The Chief Auditor's annual report is being considered at the same time as this report and invites Members to endorse the adequacy and effectiveness of the system of internal audit for the year ending 31st March 2012.

7.3 It is recommended that this endorsement forms part of the Annual Governance Statement for 2011/12.

8. Partnerships Governance

8.1 The Council has drawn up a register of partnerships which are assessed for significance.

- 8.2** The most significant partnerships have their own risk registers and manage risk as a routine part of performance management.
- 8.3** A draft Code of Good Practice for partnership management has been produced and is due to be consulted upon and will be used to improve consistency and provide a standard approach to managing partnerships and, in particular, managing risk and sharing good practice.

9. Identifying control weakness significant for the purpose of the AGS

- 9.1** Whilst there is no absolute definition of the term, the following indicators (provided by CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:
- it seriously prejudices or prevents achievement of the principal objective of the authority;
 - it has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
 - it has led to a material impact on the accounts
 - the Audit Committee advises it should be considered significant for this purpose;
 - the Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
 - the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
 - the issue has resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer

10. Conclusion

- 10.1** The attached AGS identifies the outcome of the review of the effectiveness of Plymouth City Council's governance arrangements, covering internal audit, internal control and risk management systems and also identifies significant governance issues together with details of actions being taken to address them.

11. Recommendations

- 11.1** Members of the Audit Committee are recommended to:
- a) Note the processes adopted for the production of the 2011/12 Annual Governance Statement.
 - b) Endorse the adequacy and effectiveness of the system of internal audit.
 - c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director of Corporate Services.

PLYMOUTH CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2011/2012

Scope of Responsibility

Plymouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Plymouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

Plymouth City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on our website under "Constitution".

This Annual Governance Statement explains how the Council has complied with the Code and also how it meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Plymouth City Council for the year ended 31st March 2012 and up to the date of the approval of the Annual Report and Statement of Accounts.

The Governance Framework

The internal control environment comprises all the processes and procedures in place for the sound running and well being of the Council. It is designed with the intention of:

- establishing and monitoring the achievement of the Council's objectives
- facilitating policy and decision making

- ensuring compliance with established policies, procedures, laws and regulations
- identifying, assessing and managing risks that threaten the delivery of the authority's objectives
- ensuring the economical, effective and efficient use of resources and securing continuous improvement in the way in which the authority's functions are exercised
- managing performance to reduce impact on the environment and managing environmental risks
- managing and reporting of financial information for the authority
- managing performance of the authority and subsequent reporting

The following is an overview of the key elements of Plymouth City Council's control environment. It is not meant to be exhaustive but indicative of the controls adopted by the Council in meeting its aims and objectives. The Council has a number of measures in place to establish and monitor its key aims and objectives and to ensure that the resources used in delivering those objectives are utilised in an economical, effective and efficient way.

Plymouth has a strong vision to become one of Europe's finest, most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone. The vision is driven by "Plymouth 2020" – the local strategic partnership of public, private and third sectors. It provides the context in which services and investments can be delivered in a more responsive, better co-ordinated and sustainable way.

The partnership has subsequently produced the Plymouth Report in 2010 which provided a comprehensive analysis of need and capacity in the city and laid the foundations for agreement around four priorities that will drive and help realise the city's vision:

- Deliver growth
- Raise aspirations
- Reduce inequality
- Provide value for communities

These are supported by a number of long term and medium term outcome measures, which have again been agreed across the partnership. Plymouth 2020 and the Council are in the process of building on the city's vision, the Local Development Framework's Core Strategy and the requirements in the Localism Bill to develop an overarching Plymouth Plan 2011-31 into which other strategies and plans will feed.

The Council produces a **Corporate Plan** which sets out where it is now and its challenges and ambitions for the next three years in relation to transforming the organisation, improving customer experience, making efficiency savings and contributing to the four shared priorities.

The Corporate Plan 2012–2015 was approved by Council in February 2012 and sets out the Council's strategic direction. It is about to be amended to reflect the new administration's focus on a Cooperative Council and 100 delivery commitments. The focus of the City's vision and four priorities will be retained.

The Corporate Plan also provides the framework used by departments in developing their **Business Plans** which establish and monitor the achievement of objectives at service and team level.

The Annual Audit and Inspection letter (November 2009) found that the Council had sound arrangements in place across all areas of use of resources, with particularly strong performance in

managing finances. The Council's organisational assessment concluded that it performed well, that performance management arrangements are much improved and that it has the leadership, capacity and capability it needs to deliver future improvements, while the city received a green flag under Comprehensive Area Assessment for the way it works in partnership to address civil emergencies. At the September 2011 Audit Committee, our external auditors Grant Thornton stated that the conclusion of the audit was that the council had sound financial and budgetary controls in place.

The **Constitution** aids the financial management of the Authority and is complemented by **Financial Regulations** and **Standing Orders**, which document protocols and procedures for members and officers in conducting the business of the Council.

Ensuring the Council complies with **Law and Regulations** is ultimately the responsibility of the Assistant Director for Corporate Support (Democracy and Governance), who is the Council's statutory Monitoring Officer, and a series of controls are in place to address compliance issues.

In March 2008 the Council adopted a **Code of Corporate Governance** based on best practice as recommended by CIPFA (The Chartered Institute of Public Finance and Accountancy) and SOLACE (The Society of Local Authority Chief Executives). The Code is reviewed annually as part of the preparation of this Governance Statement.

The **Financial Management** of the Council is based upon a semi-devolved structure – the Statutory Finance Officer role rests with the Director of Corporate Services with a Head of Finance reporting to the Assistant Director for Finance, Efficiencies, Technology and Assets. There are two Strategic Finance Managers one based in each major location..

There is a Cabinet Member with responsibility for Finance who meets regularly with the Director for Corporate Services. Regular one to one meetings are also held with each Director and the Director for Corporate Services.

Regular, timetabled meetings are held between the Director of Corporate Services, the Assistant Director for Finance, and the Head of Finance; there are also regular scheduled meetings of the senior finance managers who sit on the management teams of departments and who provide financial management advice and guidance.

A key element of **budgetary control** is the **budget monitoring process**. For 2011/12, at the start of each month, Finance provided departmental finance reports to all budget managers. These are reviewed at the next Department Management Team meeting and variances discussed and action taken as appropriate followed by monthly monitoring "scorecard" reports to the Corporate Management Team. Formal quarterly joint Finance and Performance reports go to the Corporate Management Team, Cabinet meetings and to the Overview & Management Scrutiny Panel. This will continue for 2012/13.

The Finance Management Team (FMT) comprising the Strategic Finance Managers and Head of Finance meet fortnightly to manage this process and to review all financial matters.

Compliance with CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council is aware of the CIPFA statement "Delivering Good Governance in Local Government" and the "Role of the Chief Financial Officer". In response to both statements, the Council is satisfied that the governance arrangements in place satisfy all of the requirements.

Robust mechanisms are in place to capture the risks and to ensure sign off and understanding by individual directors and the collective Corporate Management Team, together with the Cabinet.

Tamar Bridge and Torpoint Ferry Joint Committee

Previously as part of the Council's Annual Statement of Accounts we have included a section on Group Accounts.

This section ensured that we informed our stakeholders and readers of the accounts of those entities which under accounting rules met the definition of a group company, that is, a separate company from PCC but one where we were able to exert some direction, from our investments and/or members sitting on the board.

In previous years the list of group companies has included the jointly controlled (with Cornwall Council) Tamar Bridge and Torpoint Ferry (TBTF) Joint Committee.

From the 2011/12 Statement of Accounts it has been agreed with external auditors that the Council's 50% share of this entity will now form part of our total accounts. This recognises that the Council has a 50% ownership of the enterprise, which brings with it a 50% share of any future liabilities.

However, from a Governance point of view, the TBTF Joint Committee produces and monitors its own Governance arrangements, including the preparation of a separately published Annual Governance Statement covering the operations of the joint committee.

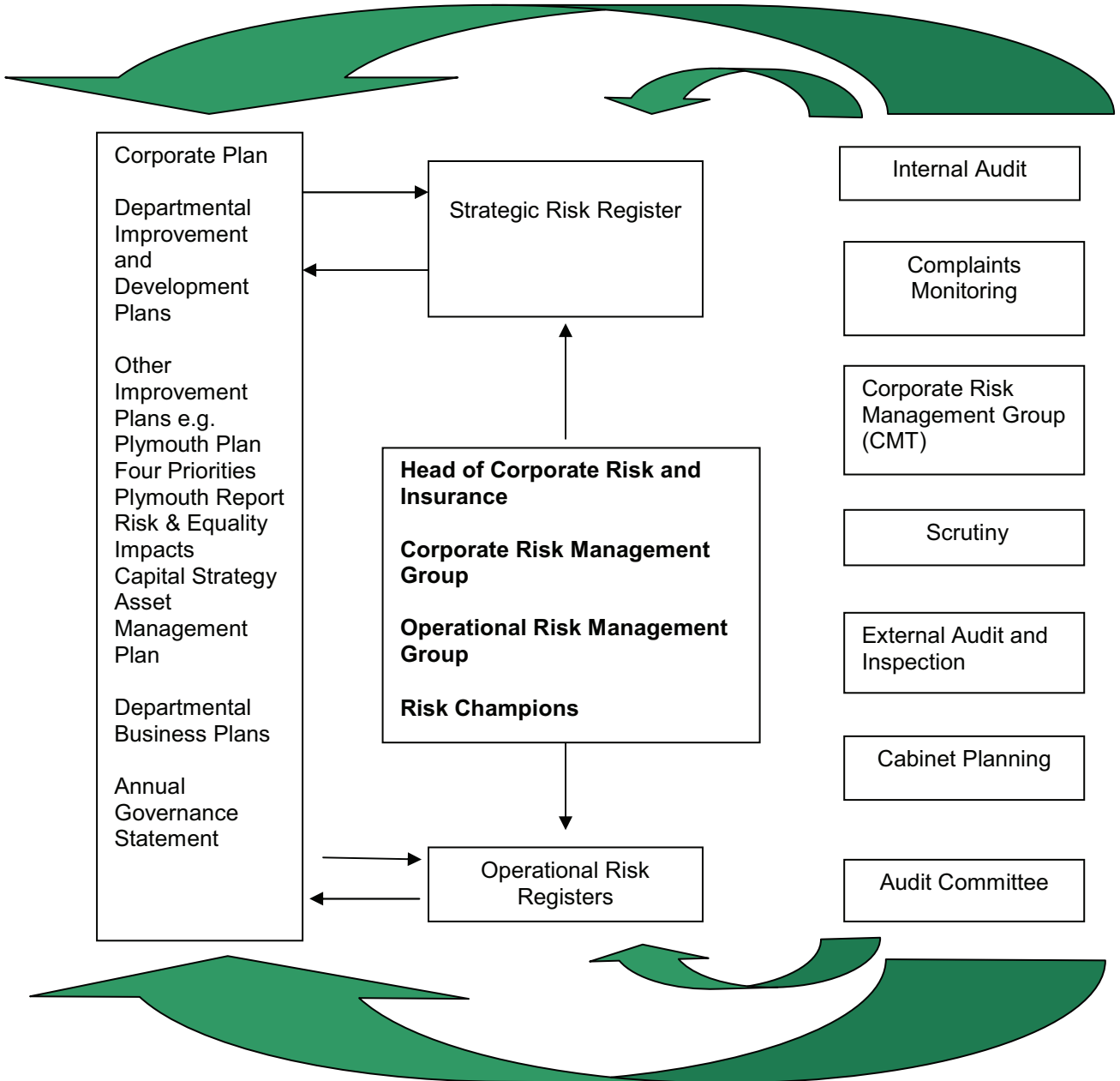
Competency Framework

The Council has adopted a Competency Framework covering all employees as part of its commitment to ensure that there is a clear set of standards that underpin the performance, behaviours, work, knowledge and skills of its staff to help the Council deliver its vision and the key priorities in the Corporate Plan.

The Management of Risk

The overall framework for managing risk is illustrated by the following diagram:-

Monitoring and Review process



How the Council Monitors Risk

The Council maintains Strategic and Operational Risk Registers to record and monitor progress against the key risks which threaten the Council's corporate and service objectives. Registers record, against each of these risks, controls which are already in place and also identify additional controls to enhance the control environment, acting as an action plan to address and improve risks at all levels.

Objectives identified in operational level Business Plans include links where appropriate to the Corporate Plan to ensure that each Service can identify where it contributes to the delivery of the Council's key strategic aims.

The Council invests significant resources into the management of risk through Strategic and Operational Risk Management Groups. A Risk Management Strategy and Policy Statement has been developed and risk registers are monitored alongside the corporate performance management system, as well as creating links to Business Plans and key performance indicators.

Registers and controls are continuously monitored and are updated regularly at a departmental level and through meetings of the Strategic and Operational Risk Management Groups with Member input at Cabinet Planning and subsequent ratification at Audit Committee.

Operational Risk Registers allow departments to monitor potential risks that may threaten the delivery of their service objectives and to escalate a risk to the strategic level for inclusion in the Strategic Risk Register if it is a cross-cutting risk or if it is considered to threaten the strategic objectives of the Council.

Operational Risk Registers are now being fully integrated with Service objectives in line with corporate Business Planning arrangements.

The authority acknowledges its responsibilities with regard to environmental risks and is taking action to identify and mitigate future impact.

The Council's Civil Protection Unit, in partnership with the Local Resilience Forum, Devon and Cornwall Police and other key partners, works to identify and manage potential environmental risk and the impact of civil emergencies.

Partnerships Governance

The Council increasingly delivers services via partnership delivery mechanisms and recognises that this creates risks as well as opportunities.

Accordingly, the Council has produced a Partnerships Register which assesses each partnership for significance.

Senior Officers and/or Members sit on the board of most of Plymouth City Council's main partnerships and group organisations and therefore take an active part in discussions/decisions

Significant partnerships have their own risk registers and risk is managed as a routine part of performance management.

In order to improve consistency and produce a standard approach to partnerships, particularly with regard to the management of risks and opportunities, the Council has produced a draft

Partnerships Code of Practice which will be consulted upon with key stakeholders. The Council has also developed formal protocols on the sharing of information and knowledge.

These include regular meetings and working groups to prepare for and review key activities including Plymouth City Council's Group Statement of Accounts..

Group organisations have recently been asked to produce assurance questionnaires or their own governance statements to ensure robust governance arrangements are in place. These questionnaires will be reviewed by Plymouth City Council officers who will work together with the Group organisation to resolve any control weaknesses or risks.

Complaints Monitoring

The Council also addresses the management of risk through its internal complaint procedures.

The Standards Committee monitors issues raised through the Local Government Ombudsman to ensure learning and improvement to prevent repetition.

A complaints database has been developed and improvements in the reporting facilities database have helped the Council to monitor and respond quickly to its customers needs.

The Role of Audit

Internal Audit

Internal Audit undertakes an objective programme of audits to ensure that there is sound and adequate risk management and internal control in place across the whole of the City Council. It also supports the authority in accounting for and safeguarding the Council's assets and interests from error, fraud, waste, poor value for money or other losses.

Independent advice, continuous appraisal of systems and other processes are provided to all levels of management on, for example, risk identification, internal controls, anti-fraud and other corporate policies and regulations.

The scope of Internal Audit also includes new developments and government initiatives such as partnership working and other corporate governance issues.

Internal Audit forms an intrinsic part of the risk management and scrutiny function, which ensures that there are robust arrangements for monitoring and review, and that adequate processes are in place for managing the Council's internal affairs and its relationship with key stakeholders, which are required to demonstrate effective corporate governance.

Continuous review of the adequacy and effectiveness of the internal audit system is included in the terms of reference of the Audit Committee and a formal annual review is conducted by that Committee based on the Chief Auditor's annual report.

The Internal Audit services have been provided by Devon Audit Partnership (DAP). This is a shared services arrangement between Plymouth City Council, Devon County Council and Torbay Council and is constituted under section 20 of the Local Government Act 2000.

The benefits of the partnership are:-

- staff resources can be deployed more flexibly and are better able to cope with vacancies and / or ad hoc work;
- sharing of best practice and access to a larger pool of specialist knowledge;
- economies of scale e.g. training, resourcing specialist skills such as IT and contract audit;
- providing for flexible deployment if and when necessary whilst allowing staff to build up specialist knowledge of the council(s) they are working within;
- providing better opportunities for staff to further careers within the internal audit function;
- applying common technology and methodology across all teams to improve efficiency, value for money and skills.

External Audit

Grant Thornton LLP continued to provide external audit services during 2011/12. They provide improvement, assessment and assurance services. In carrying out audit work they comply with the following statutory requirements:

- The Audit Commission Act 1998
- The Code of Audit Practice
- The Local Government Act 1999
- Accountancy and Audit Regulations 2003

They work with the council on the improvement planning process to ensure that the work they perform is co-ordinated and targeted on the Council's key areas for improvement.

The Audit Commission's Relationship Manager also co-ordinates the work of other inspectors as part of this process.

Audit Commission

In August 2010 the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing England's local public bodies.

The Audit Commission carried out a procurement exercise in 2011 to outsource the work of the Commission's in-house audit practice and Grant Thornton were successful in winning the contract for the south-west region with effect from 1 September 2012. This will be a continuation of service for the Authority as Grant Thornton are the current provider of the external audit service. The contract is for five years.

Audit Committee

The Council's Audit Committee comprises five Councillors and three Independent Members supported by the Head of Finance, Devon Audit Partnership's Assistant Head of Partnership and the Head of Corporate Risk and Insurance.

The Committee has responsibilities with respect to both Internal and External Audit, and monitors the nature and scope of audit work performed. It reviews reports and annual audit letters with departmental management, makes recommendations to Cabinet and oversees the interaction of the Council with its external auditor.

The Audit Committee has responsibility to:

- Approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the Council
- Monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders
- Review external audit report and annual audit letters, together with management response and make recommendations to the Cabinet
- Respond to any other concerns of the external auditors
- Monitor the progress and performance of Internal Audit
- Consider significant findings of Internal Audit reviews and investigations together with management responses and monitor implementation of agreed recommendations
- Consider Internal Audit's annual report and comment annually on the adequacy and effectiveness of internal control systems
- Monitor the performance of the Treasury Management function
- Review and advise the Cabinet and Council on the content of the Annual Governance Statement and Statement of Accounts
- Keep under review corporate policies e.g. the Anti-fraud Strategy

Internal and External Audit work closely together to maximise opportunities for synergy between the two services.

Overview and Scrutiny

The Council has previously reviewed and updated its scrutiny arrangements and established an Overview and Scrutiny Management Board to co-ordinate the scrutiny function.

The Board challenges and supports the Cabinet and provides checks and balances by examining major policies, plans, services and financial issues. It is responsible for monitoring, reviewing, selecting and scrutinising decisions made by and on behalf of the Council. The Board was also responsible for scrutiny of the Local Strategic Partnership.

From May 2012 the Board is made up of twelve non-executive members (appointed on political proportionality) and two co-opted representatives which makes scrutiny independent of the Cabinet. The Chairs of the five Overview and Scrutiny Panels and seven other Councillors carry out the work of the Board.

There are five Overview and Scrutiny Panels each of which has a responsibility for scrutiny of a particular area of Council operation. The panels also discharge the Council's statutory function with respect to scrutiny of health and the crime and disorder reduction partnership. When carrying out their investigations, the Panels have the authority to ask Cabinet Members and Officers of the Council to attend meetings to answer questions the Panel might have about their work, the reason for decisions and why any problems have occurred within the Council's performance.

Review of Effectiveness

Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control, including a review of the effectiveness of the system of internal audit. Assurance is sought from a number of sources including a review of Internal and

External Audit and Inspection reports, review of current action and improvement plans, review of internal audit arrangements by the Audit Committee and through dialogue with key officers.

The Council is subject to a number of audits and inspections. These help to inform the development of a strong control environment and to develop risk management processes. The Council has an established Risk Management Policy.

In reviewing the current control environment, reports issued by external bodies (Audit and Inspection) and reports produced by Internal Audit have been reviewed to ensure that a comprehensive assessment of the current control issues has been made and that all potential areas of significant risk are being addressed within the internal control environment.

Directors complete an Assurance Questionnaire reviewing the control environment within their Department and the results of the questionnaires have been used to inform the assessment of significant governance issues for the Council.

Significant Governance Issues

As part of the review of the effectiveness of the system of internal control the governance issues summarised below have been assessed as being significant for the purposes of this Statement:

Medium Term Financial Strategy/Capital Strategy

The Council's Medium Term Financial Strategy (MTFS) was updated and presented to Cabinet following the Comprehensive Spending Review announcements of 20 October 2010 and earlier announcements from the Coalition Government. The strategy was subject to further review as part of the 2011/12 detailed budget exercise and following the 2010/11 outturn position, and presented to Cabinet 7 June 2011. With the outturn result for 2011/12 now agreed by the Corporate Management Team, it will presently be put to Cabinet. Incorporating data from this result, such as one-off versus on-going pressures and savings, a revised MTFS covering the period 2012 to 2016 is also ready to be presented to Cabinet to sign off.

The Comprehensive Spending Review (CSR) was published in October 2010 and national headlines are a real terms reduction of 28% in local authority budgets over the next four years. The fall in grant is more than 7% a year. However, we were only given clarity of our funding for 2011/12 and 2012/13. For the remainder of the MTFS period we are still working on our best available information, including national and local government briefings and working closely with our Unitary Treasurers colleagues and close neighbours Devon and Torbay.

The revised Medium Term Financial Strategy, (MTFS), covers the period 2012-16. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period against reduced funding.

There remain a number of significant financial pressures that the council will face in the medium to long term including:

National context

- The uncertainty around future funding levels for 2013/14 and beyond;
- Welfare Reform including changes to Council Tax Benefits and National Non Domestic Rates (NDR) collection
- School funding reform; this could have a major impact on the balance of funding between primary and secondary funding

Local context

- The reliance on full delivery against our budget saving plans which step up by £7m in 2012/13 and a further £10m in 2013/14 to balance our resources to our expenditure.
- Utility costs are escalating at a far greater pace than inflation with price rises in the region of 15% quoted
- significant shortfall in the funding of the council's pension fund;
- known budget volatilities such as Adult Social Care, Children, Waste
- un-costed contingent liabilities

Building on the three year spending plans developed as an integral part of the 2011/12 budget, each department has developed Budget Delivery Plans, which for 2011/12 totaled £13m; for 2012/13 these step up to £20m and cumulative £30m by 2013/14. It is essential that we continue to ensure robust, regular monitoring of progress against these plans.

Our ability to generate income also remains under pressure. We continue to strive to improve our income collection rates in all major areas including council tax, NNDR and sundry debtors. Challenging income targets have again been set for 2012/13 however there is a risk that the economic climate could impact on our ability to be able to achieve these targets.

Alongside existing financial pressures there is a need for significant future investment in our ICT systems. The council needs to fundamentally change the way in which it works to meet the challenging diminishing resources that we face and better joined up systems, integrated around the customer, will be crucial. Council has recently approved a capital investment of £3m and business plans are being developed which will ensure this investment is allocated to projects which will allow the further transformation of the way we work, whilst providing efficiency savings and improved delivery of services to our customers.

We still have an ambitious and significant investment programme in physical assets and local infrastructure. However the council has reviewed and updated its medium term capital programme considering the current economic climate, accounting for future risks around government capital allocations and achievability of capital receipts.

The situation is being closely monitored through visits to DMTs 3 times a year. Improvement Boards are also in place to oversee the "Major Change" agenda. The MTFS is being updated on the back of the 12/13 budget setting process and is due to be presented to Council June 2012. A new Programme Management Office was established in May 2012, reporting into the Corporate Services Directorate. This office will ensure the major transformation projects agreed by CMT and the new administration are prioritised and adequately resourced to meet the challenging deadlines required for success.

Civic Centre Listing issues

The listing of the Civic Centre as a Grade II building by English Heritage continues to have a potentially significant financial impact on the Council.

In order to properly address the impact of the Grade II Listing, the Council worked with English Heritage and Avanti Architects, to identify the scope of a variety of potential refurbishment options for the building.

Following the completion of the joint EH/PCC Feasibility Study the Council progressed with analysis of the Options arising from the Study and conducted a soft market exercise of the

Council's freehold interest in the Civic Centre, Council House and the Civic Centre car park. Expressions of interest from developers were received and a number of development options were considered in the context of the Council's overall Accommodation Strategy and current property market conditions.

As on-going work the Council continues to inspect, repair and maintain the premises taking appropriate action, given the restrictions of the listing, to mitigate any health and safety risks.

A formal procurement process is being developed commencing in Summer 2012. Whilst it is believed that there will be a viable private-sector solution to achieve the renovation of the building, if there is no solution following that process the Council would be forced to carry out necessary works to bring the building into a 'fit for purpose' condition.

Waste PFI/Future Landfill Allowance Trading Scheme Liabilities

The project to secure a long term waste treatment solution for the Council continues to programme for an anticipated operational commencement in late 2014.

Planning approval for the development was formally granted by Plymouth City Council Local Planning Authority in Feb 2012 although a judicial review challenge has been lodged which could amend or quash the planning approval decision. This legal challenge is being monitored by PCC senior managers and defended by PCC LPA with expert legal advice being obtained. An Environmental Permit to operate the facility has been issued by the Environment Agency although this may also be subject to a legal challenge.

The project implementation phase continues to be steered and monitored by a formally appointed Partnership Joint Committee of Councillors and a Partnership Project Executive consisting of senior officers from each of the three Councils. The project and Partnership arrangement is monitored by the Devon Audit Partnership.

A project risk register is frequently refreshed by the project delivery team to recognise the project delivery risks and this is regularly reviewed by the Partnership Project Executive. The impact of a delay to operational commencement has been partly mitigated within the Contract and continued waste disposal can be maintained through existing landfill contracts - however continued landfill disposal will have significant budget implications.

The Council's LATS liabilities will cease after 2012/13 with the 2011 announcement that this legislation is being cancelled. As PCC's biodegradable waste tonnage being disposed of in landfill continued to reduce in 2011/12, the Council's consequential liability has also been reduced. The Council will need to purchase LATS allowances in 2012/13 to cover an expected shortfall although this purchase will be made during 2013.

Information Governance

Information is the raw material used by the council to plan for and deliver all its services and reducing the risk that describes the availability and quality of information for staff, decision makers and citizen use, as well as the protection of sensitive information, is a continuing process.

This is due to the requirement to work cooperatively with partner agencies and therefore apply common standards, so that information can be obtained once and then reused for different service delivery objectives within different organisational settings.

There is also the imperative of minimising potential financial and reputational effects on the council arising from the intervention of a regulator if information management is not successfully implemented across all council activities.

Responsibility for the strategic management and delivery of consistent governance principles and processes in respect of the Council's information asset has now been established with a corporate Information Lead Officers Group that reports to the Senior Information Risk Officer - the Director of Corporate Services.

Impact of Health and Social Care Reforms

Together with our partners, most notably in health, we face a very challenging health agenda.

This covers the assimilation of public health into the Council; the integration of health and adult social care; the setting up of a Health & Wellbeing Board; development of a Health Strategy based on a clear evidence base provided by the Joint Strategic Needs Analysis (JSNA); the introduction of new commissioning arrangements, health service delivery and user engagement mechanisms; and health inequalities which have been identified in the Plymouth Report as the most pressing equality issue in our city (with significant differences in life expectancy between different Neighbourhoods and between men and women).

The Council has set up a shadow Health & Well Being Board which will give further focus on health inequalities and identify need through a Joint Strategic Needs Assessment. The Council is also working on plans for the transfer of Public Health from the Primary Care Trust to the Council, which will support this agenda.

We have a shadow Health and Wellbeing Board in place to provide strategic direction, a clear programme of work, influenced by a risk assessment, and a programme team to support its delivery. The key areas of focus are:

- Development of Health and Wellbeing Board
- Development of a City Health and Wellbeing Strategy informed by the Joint Strategic Needs Assessment
- Co-location of key Health functions to be hosted in Windsor House
- Managing fragmentation and integration of public health functions into PCC
- Development of a Joint Commissioning Partnership
- Commissioning of Healthwatch

Prior to this work, the Council together with Plymouth 2020 partners, set targets to close the health inequalities gap. An interim action plan was delivered last year to help address health inequalities, and this will become integrated in the Health and Well Being Strategy.

The expected benefits of this programme cover improving customer experience, reducing health inequalities and making efficiency savings - as follows:

- Bringing together commissioning for the Local Authority in one place.
- Focusing on an outcomes framework designed to encourage organisations to think wider than their own service areas in developing and commissioning services and to provide a structure and mechanism to integrate shared areas of responsibility.

- Driving forward the transformation of the joint services agenda by influencing strategic planning / resource allocation of the NHS and vice versa, and by improving communication between frontline teams.
- Integration of public health functions will create closer alignment with current LA services that have an impact on public health including economic development, environmental health, transport, schools, leisure services, and housing.
- Local authority commissioning of Local Healthwatch and an independent advocacy service will allow locally designed services to address specific inequalities within the city.
- Health and Wellbeing Board, through the Health and Wellbeing Strategy and integrated commissioning structure will provide the mechanisms to target collective resources at priority areas including health inequalities.
- Potential opportunities to provide commissioning support to Clinical Commissioning Groups.
- Inter-operability between IT systems (Western Locality Clinical Commissioning Group, NHS, PCC).
- Opportunity to develop joint workforce development plans.

In addition, we have a well-developed transformation programme in place that is modernising adult social care.

Impact of Police and Crime Reforms

The changes to governance of policing and crime reduction present challenges. A single Police & Crime Commissioner for our Force area will be elected in November to replace the Police Authority and councils are expected to establish a Policy & Crime Panel to scrutinise the role.

The Commissioner will not only have responsibility for policing policy but will also hold significant community safety budgets previously allocated to the Council (and other Councils across the Force). This means that effectively influencing the Commissioner's policy, priorities and budget allocation will be crucial to delivery of our community safety priorities for Plymouth. Plymouth, as the largest urban location in the Force area, has the most significant crime challenges.

We have led the work to develop a Police & Crime Panel for our area, in liaison and negotiation with other councils. This has been challenging because of issues regarding proportionality and the composition of the Panel within restrictive legislation, leading to different opinions amongst councils. However we are close to agreement and have produced a draft document covering Panel Arrangements which will be considered at a shadow meeting of the panel. We are also offering to host the panel until at least March 2013.

We are also working closely with Community Safety Partnerships across the Force area to produce a Force-wide partnership Strategic assessment of Crime and Disorder which forms the platform for objective identification of priorities. Our Community Safety Manager is working closely with the LGA and Home Office at national level to share and influence work on Panel development, and associated issues.

This work, together with direct discussions between Plymouth the Commissioner, will maximise opportunities to exert influence over the Commissioner's work.

Children's Social Care Costs

There was a 13% increase in referrals shown on the 11/12 outturn compared to 10/11 and an increase of 50% over the last 5 years. This has implications for the frontline advice and assessment service and means that universal pre referral work is not yet reversing the trend. The impact of

this increase in referral rate and levels of assessments has resulted in a recent 10% reduction in assessments being completed within timescales.

Children with child protection plans (CPP) have remained static in 11/12. Rate of throughput has proved key particularly in CPP where there were nearly 400 plans started in 11/12. Children in care numbers increased by 5% in 11/12. This compares well with evidence of a national increase of at least 10% in the same period.

A refreshed multi agency early intervention and prevention strategy is in development to provide appropriate and early support to children and families with additional needs. This includes: the troubled families agenda, the CAF assessment and team around the child process, a multi-agency locality delivery model. This intervention should have the positive effect of reducing referral numbers to children's social care.

Within children's social care much effort is being focused on preventing children from escalating through the system i.e. from children in need to child protection to children in care. Intensive professional family support services are in place; improved services for the parents of children in need of protection are in place and include support for domestic violence victims/perpetrators and those with drug and alcohol problems.

There is a strong focus on increasing sufficiency of in house foster placements to reduce dependency on expensive independent sector foster placements.

Smarter commissioning via a preferred provider list and cost and volume discounts has resulted in reduced costs of independent foster placements. We are now refocusing our commissioning efforts on effective market management of independent residential sector provision. The costs and quality of residential child care is both variable but also very high. We are currently undertaking a soft market test with residential providers aimed at encouraging them to operate within the City at reduced cost but improved outcomes for children and young people.

In keeping with government family justice review and adoption action plan we are working with key partners to promote earlier decision making and improved planning to speedily move children onto permanence via adoption, where appropriate.

Impact of Welfare Reforms

The government's reform of welfare processes to make them more effective and cost less present significant risk, placing additional pressures on customers including the most vulnerable, and requiring significant process changes

The reforms mean Plymouth has greater challenges in meeting citywide priorities due to the socio-economic impact of welfare reforms on customers, partners and internally, particularly reducing inequalities e.g. child poverty and worklessness. There will be increased levels of deprivation and related demands on service budgets e.g. homelessness and information/advice. There will also be increased levels of debt owed by customers to PCC if they cannot afford to pay, e.g. Council Tax, and there may be inadequate resources to run local welfare schemes.

Planning our response to welfare reform has been established as one of the Council's "big ticket" items within the Corporate Plan and a cross-directorate officer working group has been meeting since November 2011. The group has identified six work streams which seek to mitigate the risks

Certification

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for further improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

To the best of our knowledge, the internal control environment as defined above has operated effectively during the year.

Bob Coomber
Interim Chief Executive
Dated

Cllr Tudor Evans
Leader of the Council
Dated

Adam Broome
Director of Corporate Services
Dated

PLYMOUTH CITY COUNCIL

Subject: Operational Risk Management Update Report
Committee: Audit Committee
Date: 21 June 2012
Cabinet Member: Councillor Peter Smith
CMT Member: Director for Corporate Services
Author: Mike Hocking, Head of Corporate Risk and Insurance
Contact: Tel: 01752 304967
mike.hocking@plymouth.gov.uk
Ref: CRM/MJH
Key Decision: No
Part: I

Executive Summary:

At the meeting of the Audit Committee on 21 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 99, comprising 3 high (red) risks, 53 medium (amber) risks and 43 low (green) risks.

The risk reduction is mainly due to the deletion of out of date risks within the Executive Office who are currently revising their risk register following their restructure.

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.

Corporate Plan 2012-2015:

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 delivery of a key corporate objective.

**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.

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

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

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to:

- Note and endorse the current position with regard to operational risk management.

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.

Background papers:

Plymouth City Council Risk Management Strategy and Policy Statement
 Operational Risk Registers and associated working papers
 Business Plan guidance and template 2012-2015
 Previous reports on risk management to Audit Committee

Sign off:

Fin	DJNI 213.0 08	Leg	LT14 937	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Tim Howes, Asst Director, Democracy and Governance											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1. Introduction

- 1.1** At the meeting of the Audit Committee on 21 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 2012-2015 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 99, comprising 3 high (red) risks 53 medium (amber) risks and 43 low (green) risks.
- 1.5** The risk reduction is mainly due to the deletion of out of date risks within the Executive Office who are currently revising their risk register following their restructure.
- 1.6** 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 embedded across the Council.
- 3.2** In drawing up their Business Plans, Assistant Directors and Head 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:

- **People**

- Homes & Communities & Joint Commissioning and Adult Social Care.

As a result of the senior management restructure, 18 operational risks have been transferred to other areas and 4 risks transferred to Homes & Communities. Risks will be routinely discussed at 6 monthly senior management meetings (DMT) to review, raise awareness and encourage an opportunity for support and challenge.

- Children’s Social Care

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.

- **Place**

- The Directorate is currently updating its risk register following the senior management restructure.

- **Corporate Services**

- Customer Services/Revenues & Benefits/Transaction Centre

Risks have been revised following last year’s restructure and will be monitored under one risk register.

- Democracy & Governance

Risks continue to be monitored in line with the department’s business plan.

- Finance, Efficiencies, Technology and Assets (FETA)

There are currently robust risk registers for Finance and Capital and Assets, the latter of which will need to be reviewed in the coming months to reflect structure changes that are monitored at management meetings and via one to one meetings with the Heads of Service. The Finance Assets and Efficiencies (FAE) risk register is updated by the Assistance Director on a one to one basis but will also need to be reviewed to address the changes to this area. The Assistant Director for FETA gives final approval to the Capital and Assets and Finance elements and provides updates on the cross cutting elements of this register.

- **Executive Office**

Following the recent department re-structure a new Risk Champion has been appointed. Risks were the focus of discussion during a team “away day” at the end of April and a risk register is currently being compiled in line with the revised business plan.

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:

Risk Category	No. of Risks – Dec 11	No. of Risks – Jun 12	Deleted Risks Jun 12	New Risks Jun 12
Red (High)	1	3	0	0
Amber (Medium)	66	53	16	10
Green (Low)	46	43	14	6
Total	113	99	30	16

4. Red Risks

4.1 The “red” risk identified in December 2011 remains whilst two other risks have been escalated as indicated below:

Department	Potential Risk	Comments / Mitigation
EXISTING RED RISK Finance, Efficiencies, Technology & Assets	Medium Term Financial Strategy issues	This risk is also monitored via the Strategic Risk Register. The situation is being closely monitored through visits to DMT's 3 times a year. The MTFS is being updated on the back of the 2012/13 budget setting process and is due to be presented to Council in June 2012.
NEW RED RISK (formerly amber) People (Homes & Communities)	Increasing homelessness as a direct result of the Local Housing Allowance (LHA) & Welfare Reform changes	Homelessness has risen over the last few months. We have an increase in the use of temporary accommodation including the use of Bed & Breakfast. Work with stakeholders continues to help people prevent their homelessness. We are working with partners to find new ways to prevent homelessness, as well as working to increase access to the private rented sector. We have recently received information on the 150 households due to be affected by the benefit cap and are able to work with partners to proactively help them avoid homelessness where possible.
NEW RED RISK (formerly Green) People (Lifelong Learning)	Duty to deliver sufficient childcare including 2 year olds (Ensuring sufficient affordable accessible childcare places in areas of need as per Childcare Act 2006)	The statutory duty to provide sufficient free places to eligible three and four year olds has been extended to include 700 disadvantaged two year olds from the term after their second birthday, by September 2013. Previously there was a lack

		<p>of demand for two year old places in the disadvantaged localities. The new entitlement now exerts a pressure in these areas especially where the three and four year old entitlement is delivered in the maintained sector and a significant increase in places will need to be established in these areas. The Early Years Service has drawn up an action plan and is working with the Capital Projects Team to identify potential new builds or extensions to existing provision.</p>
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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 2010/11 Devon Audit Partnership conducted a review of information management arrangements and reported a finding of "fundamental weaknesses" which was reported to this Committee.
- 6.2 Subsequently, in response to the audit findings, the Head of ICT recommended the formation of a corporate Information Lead Officer Group (ILOG) to co-ordinate a more consistent approach to all areas of information management across the Council.
- 6.3 The ILOG's inaugural meeting was held on 22 March and the group is drawing up an action plan to identify and address key information governance issues.
- 6.4 The first of a series of corporate communications on information governance was sent to Team Plymouth on 20 March. These key communications will be designed to raise corporate awareness and improve understanding of information governance issues and principles.

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 continues to be 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 is structured around People, Place and Resources and "Challenges and Risk" 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** – The Council's embedded approach to managing risk at strategic, operational and project level is supported by a competency framework that recognises and encourages the management of risk as a core management skill. This ensures that the step changes we are currently making are taken with the confidence that risks will be effectively minimised and opportunities fully embraced. Figures recently obtained from Human Resources for the Alarm/Cipfa Benchmarking exercise confirm that 99.2% of staff assessed on this competency achieve or excel in the level required for their role.

- **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** – Departmental Risk Champions continue to make good progress in embedding the corporate risk management process to enable service level Operational Risk Registers to be brought in line with the business plan guidance and template 2012-2015.

- **Challenge Reports** – 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. Conclusion

8.1 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.

8.2 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 2012/13 with regular reporting on a risk rated basis to the Corporate Management Team.

- 8.3** 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 to reducing the Council's overall budget deficit and to meeting the challenges of the current financial climate.
- 8.4** 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.
- 8.5** 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.
- 8.6** 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.
- 8.7** The next report will be presented to Audit Committee in December 2012.

9. Recommendation

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

PLYMOUTH CITY COUNCIL

Subject: Risk Management - Annual Report
Committee: Audit Committee
Date: 21 June 2012
Cabinet Member: Councillor Peter Smith
CMT Member: Director for Corporate Services
Author: Mike Hocking, Head of Corporate Risk and Insurance
Contact: Tel: 01752 304967
mike.hocking@plymouth.gov.uk
Ref: CRM/MJH
Key Decision: No
Part: I

Executive Summary:

This report summarises the work carried out during 2011/12 to develop the Council's approach to risk management and covers:

- Corporate and Operational Risk Management Groups
- Risk Registers
- Challenge Reports and Business Planning
- Annual Governance Statement
- Risk Management and the Competency Framework
- Partnerships Governance
- Intranet Risk Management Guidance
- Information Lead Officer Group (ILOG)
- ALARM/Cipfa Benchmarking Club 2012
- Risk Champion Training
- Review of Major Incidents/Business Continuity
- Focus for 2012/2013

Corporate Plan 2012-2015:

Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

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

None arising specifically from this report.

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

The Risk Management Strategy specifically supports the Council's overall governance arrangements.

Recommendations & Reasons for recommended action:

The Audit Committee is recommended to:

- Note the Annual Report.

Alternative options considered and reasons for recommended action:

Not applicable.

Background papers:

Strategic and Operational Risk Registers

Previous Audit Committee Reports

Sign off:

Fin	DJNI 213.0 07	Leg	LT14 937	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Tim Howes, Asst Director, Democracy and Governance											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1. Introduction

1.1 This report summarises the work carried out during 2011/12 to further develop the Council's approach to risk management.

1.2 The review covers:

- Corporate and Operational Risk Management Groups
- Risk Registers
- Challenge Reports and Business Planning
- Annual Governance Statement
- Risk Management and the Competency Framework
- Partnerships Governance
- Intranet Risk Management Guidance
- Information Lead Officer Group (ILOG)
- ALARM/Cipfa Benchmarking Club 2012
- Risk Champion Training
- Review of Major Incidents/Business Continuity
- Focus for 2012/13

2. Corporate and Operational Risk Management Groups

2.1 Members will be aware that the risk management strategy involves a two tier approach.

2.2 The Corporate Management Team (CMT) acts as the Corporate Risk Management Group (CRMG) with responsibility for the Strategic Risk Register and the overall risk management strategy.

2.3 CRMG has met four times in the past twelve months to receive and approve monitoring reports and to consider strategic risk issues prior to Cabinet Planning giving approval for reports to be presented to Audit Committee.

2.4 Directors have engaged fully in the risk management process in taking ownership of the Strategic Risk Register both formally at CRMG meetings and throughout the year in proposing amendments to the Register in line with changing circumstances and priorities for the Council.

2.5 As a result the Strategic Register has now been through 19 revisions since it was first drawn up nine years ago which is good evidence of the dynamic nature of the risk management process and its embeddedness at a strategic level.

2.6 Portfolio-holders at meetings of Cabinet Planning have also been engaged in considering and challenging risk management monitoring reports.

2.7 Matters of day to day operational risk management are the responsibility of the Operational Risk Management Group (ORMG) which is chaired by the Head of Corporate Risk & Insurance and comprises Risk Champions from each Directorate and/or Service.

2.8 The ORMG has met every 6-8 weeks to review and monitor Operational Risk Registers, to promote and develop a consistent approach to risk management and also to consider bids from departments for financial assistance from the Risk Management Fund towards risk reduction initiatives.

2.9 The Risk Management Fund is currently £50,000 per annum and is used as a pump-priming fund to enable departments to implement risk reduction initiatives in areas such as physical security improvements (fire/intruder alarms, CCTV etc), training, health and safety improvements etc.

2.10 A list of those projects supported by the Fund in 2011/12 is attached for information at Appendix A.

3. Risk Registers

3.1 Both Strategic and Operational Risk Registers are the subject of formal monitoring on a six-monthly basis with the results discussed and agreed firstly at CMT and secondly at Cabinet Planning prior to a monitoring report being presented to this Committee.

3.2 Monitoring reports are now routinely considered at each meeting of this Committee with Strategic and Operational risk updates provided to alternate meetings. Reports outline the direction of travel for all risks identified in risk registers and provide commentary on the effectiveness of the risk management processes in place.

4. Challenge Reports and Business Planning

4.1 Information on all risks scored 16 and above is included in Challenge Reports to CMT and Directorate DMTs. These reports provide a “dashboard” of headline issues and, as well as high level risk information, include statistics on performance, delivery plans and budget information.

4.2 Departmental Risk Champions continue to make good progress in embedding the corporate risk management process to enable service level Operational Risk Registers to be brought in line with the business plan guidance and template 2012-2015.

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

4.4 This work is key to continuing to demonstrate embeddedness of risk management considerations into the Council’s corporate business processes.

5. Annual Governance Statement

5.1 The system of internal control in the Council is based on an ongoing process to identify and prioritise the risks or threats to the achievement of policies, aims and objectives and to evaluate the likelihood of those risks being realised and the impact should they occur.

5.2 In accordance with the CIPFA/SOLACE framework document *Good Governance in Local Government*, the Council has adopted a local Code of Corporate Governance which was approved by Audit Committee on 31 March 2008.

5.3 The framework recommends that the Council carries out annually a self-assessment of how it complies with the six core principles of good governance set out in the Code.

5.4 The AGS Working Group has carried out this annual review and is satisfied that the governance framework described in the Governance Statement satisfies the compliance requirements of the CIPFA/SOLACE model Code.

5.5 The monitoring processes now in place to manage risk through the Council's approach to risk management is proving to be an effective tool in contributing to the delivery of this statutory responsibility, with the Strategic Risk Register in particular largely informing the content of the AGS.

6. Risk Management and the Competency Framework

6.1 In 2009 the Council adopted a new Competency Framework covering all employees as part of its commitment to ensure that there is a clear set of standards that underpins the performance, behaviours, work, knowledge and skills of its staff to help the Council deliver its vision and the key priorities in the Corporate Plan.

6.2 Risk Management performance is one of five core management competencies in the Framework so that senior managers are now assessed on their contribution towards the delivery of the Corporate Risk Management Strategy as part of their annual appraisals.

7. Partnerships Governance

A Guide to Managing Risk in Partnerships was updated in September 2011. This guide forms part of the overall corporate governance partnership framework document – Managing Partnerships Guide which has been produced by the Policy, Performance and Partnerships Team and which 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.

8. Intranet Risk Management Guidance

8.1 The Corporate Risk Management Team continues to develop guidance material which is available to managers and staff within a comprehensive risk management page on the Staff Room intranet site.

8.2 Current guidance covers the following frequently asked questions:

- What is a risk?
- What is risk management?
- Why is risk management important?
- How do I report a risk?
- What is the process for monitoring risks?
- Who is my risk champion?
- How do I apply for risk management funding?
- How does risk management fit with the Competency Framework?
- How do I arrange risk management training?

8.3 Information is also provided on risk management in business planning and the Council's Code of Corporate Governance.

8.4 The latest version of the Strategic Risk Register, once approved by this Committee, is also published on the site.

9. Information Lead Officer Group (ILOG)

- 9.1** In 2010/11 Devon Audit Partnership conducted a review of information management arrangements and reported a finding of “fundamental weaknesses” which was reported to this Committee.
- 9.2** Subsequently, in response to the audit findings, the Head of ICT recommended the formation of a corporate Information Lead Officer Group (ILOG) to co-ordinate a more consistent approach to all areas of information management across the Council.
- 9.3** The ILOG’s inaugural meeting was held on 22 March and the group is drawing up an action plan to identify and address key information governance issues.
- 9.4** The first of a series of corporate communications on information governance was sent out to Team Plymouth on 20 March attaching a set of key actions for staff to follow about their specific operational obligations and the way they should handle information, including incident reporting procedures. Managers were asked to cascade this communication to their staff and encourage discussion at team meetings.
- 9.5** Further key communications will be sent out during the year which will be designed to raise corporate awareness and improve understanding of information governance issues and principles.

10. ALARM/Cipfa Risk Management Benchmarking Club 2012

- 10.1** The Council joined this year’s national risk management benchmarking club to compare our performance against Alarm’s National Performance Model for Risk Management.
- 10.2** The Council last took part in this exercise in 2010 the results of which were reported to this Committee on 27 June 2011.
- 10.3** 55 local authorities have signed up this year and are required to complete a survey questionnaire designed to enable participants to test their organisation’s performance against the major risk management standards, expectations of inspection bodies and criteria that inform the risk management element of the Annual Governance Statement.
- 10.4** Our results this year show an increase in our average score from 73% in 2010 to 85% which raises our performance level from “embedded and integrated” to “driving” the business which is the top score on both the “Enablers” and “Outcomes” sections of the questionnaire.
- 10.5** The completed questionnaire has been submitted and we await the overall survey results and comparison data in July following which a report will be brought to September’s Audit Committee.

11. Risk Champion Training

- 11.1** Risk Champions attended a two day Essentials of Risk Management training course at Mount Edgcumbe Country Park on 16 and 17 May 2012. The course is accredited by the Institute of Risk Management (IRM) and was provided free of charge as part of our insurance brokers risk consultancy package.

11.2 The objective of the course was to provide a broad yet comprehensive introduction to the subject of risk management, to include:

- An understanding of the emergence of risk management as a discipline and how it links to corporate governance.
- Knowledge of the definition of risk, and the various models for managing risk, including an understanding of the concept of risk as both positive and negative (opportunity and threat).
- Exploring in detail and through practical exercises the activities involved in the management of risk including risk assessment, risk treatment, risk monitoring and the development of risk registers and their integration with resource and business action planning.
- A clear vision of the benefits and positive outcomes to be expected from good risk management.
- Identification of the barriers to embedding risk management within an organisation and knowledge of the critical success factors for making risk management work.

11.3 The course was well received by all the delegates who were awarded a certificate endorsed by the IRM to confirm their successful completion.

12. Review of Major Incidents/Business Continuity

12.1 The Council's ability to respond to major incidents, both external and internal, in terms of public protection and the ongoing delivery of critical services, is co-ordinated by the Civil Protection Unit.

12.1 Business Continuity arrangements are aligned to the current British Standard BS 2599 parts 1 and 2 and will migrate to ISO 22301 as the work continues. The strategy that has embedded Business Continuity across the organisation has included:

- The identification of potential risks and the impact on business processes/activities through a program of business impact analysis (BIA)
- The creation of a Corporate Business Continuity Incident Management Plan and Departmental Recovery Plans which are constantly monitored and updated
- The Corporate Plan sets out a protocol for receiving, documenting and responding to any national (external) or local (internal) risk
- It also sets out the procedure for invoking a Business Coordination Centre including the protocol for receiving, evaluating and disseminating information to the organisation. This centre is able to operate across the Corporate estate as it uses the Lync system as the key resource but there is also a paper based system for resilience
- Where real time incidents have not occurred there is an ongoing training and exercise program to ensure proper execution of the plan

12.2 Evidence of Business Continuity being embedded across the organisation has been during the National Strikes in November 2011 and the potential fuel tankers driver strikes in the spring of 2012. On both occasions the Business Continuity Strategy Group met immediately when reliable intelligence was received to indicate the potential for widespread disruption.

12.3 National Strikes November 2011

_____The Strategy Group undertook planning to ensure that communications to staff were robust. It also ensured that information was assessed and documented to ensure that corporate buildings were able to remain operational, the impact on waste collection was understood and

information was received in advance regarding the closures of schools under Local Authority control. On the day of the strike the Business Coordination Centre was activated and by 1030 hrs it had a comprehensive information picture of the impact to both the organisation and service users. This meant Plymouth City Council was able to communicate to customers that there was no adverse affect on waste collections which was a key objective in protecting the reputation of the organisation.

12.4 Fuel Disruption

The Strategy Group met as soon as firm intelligence was received and an immediate decision was taken to hire in an additional fuel bunker and a reserve stock of fuel. A full analysis of contracted services that are dependant on fuel was carried out and a protocol for the withdrawal of fuel from the internal storage facilities was created. The net result was that a comprehensive understanding of the organisation's fuel needs was achieved and because additional fuel was placed in reserve there was a saving to the organisation that covered the initial cost of the bunker hire.

- 12.5** In addition to the external incidents a recent outage of the Windows 7 program occurred in the ICT department and embedded business continuity procedures were used to evaluate the impact and put in place counter measures. This included ensuring that public access phone numbers for vulnerable persons were kept operational and a communication strategy to keep staff up to date with progress of the recovery.

13. Focus for 2012/2013

- 13.1 Review of Risk Management Strategy** - The Risk Management Strategy is being revised and will include guidance on "opportunity" risk management and the achievement of positive outcomes. Risk is most commonly held to mean "hazard" however, improving public services requires innovation and seizing new opportunities and managing the risks involved is a key part to the successful achievement of our objectives.

- 13.2 Information Governance** – Continued support of ILOG in developing and implementing action plans to enable the information asset to meet the council's service delivery goals and ensure on-going legislative compliance and therefore mitigate the risk of information governance breaches.

- 13.3 Public Health Transition Plan** – To ensure governance arrangements are in place to monitor the effectiveness of delivery mechanisms for the joint transition planning between NHS Cluster of Devon, Plymouth, Torbay and Devon County Council.

14. Conclusion

- 14.1** There is now good evidence of the development of a risk management culture within the Council with proactive engagement of Members, Directors and Heads of Service, and senior operational managers – this culture is supported by a mandatory assessment of risk management performance as part of the Competency Framework annual appraisal process.
- 14.2** The Council now has well-developed and proven risk management processes in place which have been integrated into business planning, budget, project and performance management.
- 14.3** This Annual Report should therefore give Audit Committee members assurance as to the adequacy and effectiveness of the internal control arrangements and, in particular, the contribution of risk management to the overall governance framework.

14.4 Further work is planned in 2012/13 to ensure that these arrangements continue to be developed and enhanced.

15. Recommendation

15.1 The Audit Committee is recommended to note the Annual Report.

RISK MANAGEMENT BIDS APPROVED 2011/12**1. Community Services (Libraries) – Replacement water heaters (11/01)**

Upgrade of water heaters at Peverell and Southway Libraries as existing not suitable for blending valves to be fitted.

£1,074.67

2. Corporate Property – Replacement water heaters at Southway Youth Centre (11/02)

Replacement water heaters as existing not suitable for blending valve to be fitted.

£653.78

3. Community Services – Partition wall at Tourist Information Centre (11/03)

Partition wall to provide a safe working environment for staff dealing with cash and provide privacy when holding meetings.

£844.83

4. Community Services (Libraries) – Emergency lighting and fire alarm system at St Budeaux Library (11/05)

Emergency lighting and upgrade of fire alarm system.

£3,862.00

5. Services for Children & Young People – Validation of warning indicators on the Carefirst database (11/06)

Resource to validate warning indicators on the Carefirst database and remove indicators that cannot be supported by evidence.

£1,252.00

6. HR & OD – Cost of interface design for Customer Relationship Management System (11/07)

Resource to design an interface that will run alongside CRM system which allows members of the public to find support and assistance relating to health and safety incidents.

£5,186.86

7. HR & OD – Cost of consultant to design self-service portal for schools (11/08)

Penetration testing for the self-service portal to be used by all schools and academies.

£2,850.00

8. HR & OD – Resources to design a security model for the Enterprise Resource (11/10)

Resource to design security model that will be future proof and ready for other departments to use.

£4,854.95

9. Community Services (Libraries) – CCTV for History Room at Central Library (11/11)

Extended CCTV at the Central Library following an assault of a member of staff.

£1,138.59

10. Environmental Services – Vehicle scissor lift at Prince Rock Depot (11/12)

Cost of a vehicle scissor lift to allow safer cleansing of vehicles at Prince Rock depot.

£7,500.00

11. Democracy & Governance – Funding of venue for 2 day Enterprise Risk Management Training (11/13)

Venue hire and catering for above training provided to Risk Champions by Gallagher Health.

£780.00

12. Corporate Property – Legal registration of areas of PCC land with Land Registry (11/14)

To complete the legal registration of residual areas of PCC land at the Land Registry.

£7,500.00

13. Corporate Property – Updating of asbestos register (11/15)

Cost of resource for inputting asbestos register information into the Tech Forge database.

£7,500.00

Total (13) £44,997.67

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PLYMOUTH CITY COUNCIL

Subject:	Annual Report on Treasury Management Activities for 2011/12
Committee:	Audit Committee
Date:	21 June 2012
Cabinet Member:	Councillor Lowry
CMT Member:	Director for Corporate Services
Author:	Andrew Liddicott (Senior Accountant)
Contact:	Tel: (01752) (30)7873 e-mail: andrew.liddicott@plymouth.gov.uk
Ref:	Acct/AL
Key Decision	No
Part:	I

Executive Summary:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its Treasury Management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2011/12 including the final position on the statutory Prudential Indicators.

The Council's external loans at 31 March 2012 stood at £206.398m. The borrowing strategy for the year was to reduce the Council's underlying level of its long-term debt meeting any borrowing requirement with short-term loans (less than 1 year) or the use of internal resources. However due to the movement in interest rates and gilts which made early repayment of debt expensive in terms of premature redemption penalties, long-term borrowing has remained unchanged at £191.398m. Total loans have reduced by £79.985m with the reduction of short-term borrowing as credit condition worsened in the second half of the year.

The reduction in short-term loans has also led to a reduction in investments at year end of £81.872m, leaving total investments of £83.975m including £21.49m invested on behalf of the Heart of the South West LEP in respect of the Growing Places Fund. Of the overall amount £46.92m was invested in instant access call accounts and could be withdrawn without penalty should circumstances require.

In terms of the impact against the revenue budget, an overall favorable variance of (£0.388m) was achieved in the year. This is mainly as a result of savings in the MRP charge to revenue and additional interest income achieved from using short-term loans as an alternative to the use of internal balances to cover capital financing requirements.

In line with the recommendations in the Code of Practice, this report is submitted to Audit Committee as the Committee responsible for scrutiny of the Treasury Management function.

This report is required to be submitted to Full Council.

Corporate Plan 2011-2014:

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

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

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

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

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

Recommendations & Reasons for recommended action:

1. Audit Committee note the Treasury Management annual report for 2011/12.
 2. The report be referred to Full Council as required by the CIPFA Treasury Management Code of Practice (TMP note 6).
 3. Audit Committee approve the Treasury Management Practices for 2012-13 as outlined at Appendix 3.
-

Alternative options considered and reasons for recommended action:

None- requirement to report to Council on the Treasury Management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 21 January 2011
 - 2011/12 Budget Papers – presented to Full Council 28 February 2011
 - Mid Year Review report to Audit Committee 16 December 2011
 - Joint Finance and Performance report for 2010/11 to Cabinet 12 June 2012
-

Sign off:

Fin	DJN121 3.009	Leg/ Dem& Gov	TH0048	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

Annual Report on Treasury Management Activities for 2011/12

I. Introduction

- I.1 Treasury Management in Local Government is underpinned by the CIPFA Code of Practice on Treasury Management in the Public Services (The Code) and in this context is the “*the management of the Council’s investments and cash flows, its banking, money market and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*”.
- I.2 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy, and as a minimum, formally report on their treasury activities and arrangements to Full Council at least twice a year- mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.
- I.3 This report outlines the Treasury Management activities in 2011/12, providing information on progress and outcomes against the approved strategy, and builds on the mid year report presented to Audit Committee and Full Council in December 2011.
- I.4 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 Services, and in 2011-12 was overseen by a Treasury Management Board consisting of senior officers within Finance, Efficiencies, Technology and Assets and the portfolio Member for Finance, Property and People.
- I.5 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP’s). These are required to be updated annually. The TMP’s applicable to 2011/12 were approved by Audit Committee at its meeting of 27 June 2011.
- I.6 The Council works closely with its treasury management advisors Arlingclose who assist the Council in formulating views on interest rates when determining the Treasury Management Strategy, regular updates on economic conditions and interest rate expectations, and advice on specific borrowing and investment decisions.
- I.7 This report:
- a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
 - b) presents details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2011/12;
 - c) provides an update on the risk inherent in the portfolio and outlines actions taken by the authority during the year to minimise risk;
 - d) gives details of the outturn position on treasury management transactions in 2011/12;
 - e) confirms compliance with treasury limits and Prudential Indicators (PI’s) and outlines the final position on the PI’s for the year.

1.8 In accordance with TMP note 6, the report is required to be presented to Full Council.

1.9 The Treasury Management Practices for 2012/13 have been updated for changes in the 2012-13 Treasury Management Strategy and the revised CIPFA Treasury Management Code of Practice. The updated practices are attached at Appendix 3. These require approval by Audit Committee.

2. The Economy and Events in 2011/12

2.1 Before reviewing the Council's performance for the year it is appropriate to outline the national and economic background within which Council Officers operated during 2011/12:

2.2 At the time of determining the 2011/12 strategy in January 2011, there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth was expected to be slow and uneven as the austerity measures announced in the 2010 Comprehensive Spending Review were implemented in order to bring down the budget deficit and government borrowing and rebalance the economy and public sector finances. Inflation measured by the Consumer Price Index (CPI) had remained stubbornly above 3%. Unemployment was at a 16 year high at 2.5 million and was expected to rise further as the public and private sector contracted. There was a also high degree of uncertainty surrounding Eurozone sovereign debt sustainability.

2.3 Inflation :

During 2011-12 inflation remained high with CPI (the official measure) and RPI rising in September to 5.2% and 5.6% respectively primarily due to escalating utility prices and the January 2011 increase in VAT to 20%. Inflation eased slowly as reductions in transport costs, food prices, intensifying competition amongst retailers and supermarkets and the VAT effect falling out in 2012, pushed February 2012's CPI down to 3.4% and RPI to 3.7%. This, however, was not enough to offset low wage growth and, as a result, Britons suffered the biggest drop in disposable income in more than three decades.

2.4 Growth, Employment, House Prices :

Growth, on the other hand, remained elusive. The Bank's Quarterly Inflation Reports painted a bleak picture as the outlook was downgraded to around 1% in 2011 and 2012 alongside. The unresolved problems in the Eurozone weighed negatively on global economic prospects. UK GDP was positive in only the first and third calendar quarters of 2011; annual GDP to December 2011 registered just 0.5%. Unemployment rose to 2.68 million and, worryingly, youth unemployment broke through the 1 million barrier. House prices struggled to show sustained growth and consumer confidence remained fragile.

2.5 Monetary Policy :

It was not surprising that the Bank of England's Monetary Policy Committee maintained the status quo on the Bank Rate which has now been held at 0.5% since March 2009, but increased asset purchases by £75bn in October 2011 and another £50bn in February 2012 taking the Quantitative Easing (QE) total to £325bn.

The policy measures announced in the March 2012 Budget statement were judged to be neutral. The government stuck broadly to its austerity plans as the economy was rebalancing slowly. The opinion of independent Office for Budget Responsibility (OBR) was that the government was on track to meet its fiscal targets; the OBR identified oil price shocks and a further deterioration in Europe as the main risks to the outlook for growth and in meeting the fiscal target.

2.6 United States of America:

The US economy continued to show tentative, positive signs of growth alongside a gradual decline in the unemployment rate. The US Federal Reserve (the Fed) committed to keeping policy rates low until 2014, although a modest shift in the Fed's language in March, alongside an improvement in economic activity, cast doubts about the permanence of the Fed's policy commitment.

2.7 Europe:

In Europe, sovereign debt problems for some peripheral countries became critical. Several policy initiatives were largely ineffectual; two bailout packages were required for Greece and one for Portugal, and the contagion spread to Spain and Italy whose sovereign bonds came under increased stress in November. Standard & Poor's downgraded nine European sovereigns and the EFSF bailout fund. The successful Greek sovereign bond swap in March 2012 shortly after its second bailout package allowed it to avoid bankruptcy later that month, but it was not a long-term solution. The ECB's €1.3 trillion Long-Term refinancing Operations (LTROs) flooded the financial markets with ultra-cheap 3-year liquidity and relieved much of the immediate funding pressure facing European banks in 2012, but markets ultimately took the view the LTROs simply served to delay a resolution of, rather than addressed, the fundamental issues underpinning Euroland's problems.

Markets sentiment oscillated between 'risk on'/'risk off' modes, this swing becoming the norm for much of 2011/12 as investors shifted between riskier assets and the relative safety of higher quality government bonds. Gilts, however, were a principal beneficiary of the 'risk-off' theme which helped push yields lower. There was little market reaction to or impact on gilts by the decision by Fitch and Moody's to change the outlook on the UK's triple-A rating from stable to negative. Over the 12-month period from April 2011 to March 2012, 5-year gilt yields more than halved from 2.40% to 1.06%; 10-year gilt yields fell from 3.67% to 2.25%; 20-year yields fell from 4.30% to 3.20% and 50-year yields from 4.20% to 3.35%. PWLB borrowing rates fell commensurately (see table 2 in appendix 2), but the cost of carry associated with borrowing longer-term loans whilst investing the monies temporarily until required for capital financing remained high, in excess of 4.1 % for 20-year PWLB Maturity borrowing.

2.8 Credit:

Europe's banking sector was inextricably linked with the sovereign sector. Sharp moves in sovereign CDS and bond yields were fairly correlated with the countries' banking sector performance. The deterioration in the prospects for real growth had implications for earnings and profit growth and banks' creditworthiness. The European Banking Authority's banking stress tests of 70 EU banks undertaken in October 2011 identified a collective €106 billion

shortfall to banks' Core Tier 1 ratio of 9%. The slowdown in debt and equity capital market activity also had implications for banks' funding and liquidity. These principal factors, as well as a reassessment by the rating agencies of future sovereign support for banks, resulted in downgrades to the long-term ratings of several UK and non-UK financial institutions in autumn 2011.

2.9 Appendix 2 outlines the various Interest rates in force during the year.

3. The Council's Strategy for 2011/12

3.1 The Council's Treasury Management Strategy was approved by full Council on 28th 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.

3.3 The mid-year report outlined the deterioration of credit condition through the year with the increase in sovereign debt problems in the Eurozone changing the strategy 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 was subject to constant review reacting to any changes in credit conditions.

Review of the Council's Performance 2011/12

4. Treasury Portfolio

4.1 Table I shows the Council's overall Treasury Portfolio at the end of 2011/12 compared to 2010/11.

Table I

31/3/2011 £m	Average Interest rate %		31/3/2012 £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	1.1668
94.985	0.4800	Bonds	15.000	0.2900
		Temporary Borrowing		
286.383	3.3222	Total PCC Borrowing	206.398	4.4098
		Long-term liabilities		
31.753	8.7300	PFI Schemes	31.017	8.7300
3.263	n/a	Finance leases	2.585	n/a
35.016		Total Long term Liabilities	33.602	
321.399		Total External Debt	240.000	
(165.802)	1.7207	Total Investments	(83.975)	1.0564
155.597		Net Borrowing/(Net Investment) Position	156.025	

- 4.2 The total external debt as shown above includes long term liabilities in respect of PFI schemes or finance leases as these liabilities are seen as a credit arrangement thus increasing the Council's total debt and must be taken into account within the statutory borrowing limits. The Council has one PFI scheme, the contract with Pyramid to build and run the schools at Woodview campus and Riverside. The move to producing statutory accounts on an International Financial Reporting Standard (IFRS) basis has resulted in a reclassification of a number of leases from operating to finance leases. These were added to the Council's Balance Sheet in 10-11 and previous years Balance Sheets restated as appropriate.

The total investments include £21.49m invested on behalf of the Heart of the South West Local Enterprise Partnership (LEP) in respect of the Growing places Fund. This balance was received in two payments with £6.978m received on 21st February 2012 and £14.51m on 29th March 2012. These funds were deposited in call accounts with interest credited to the fund balance. The fund will be distributed subject to approved bids across the LEP region and over time the amount invested by the Council on behalf of the LEP will reduce.

5. Borrowing

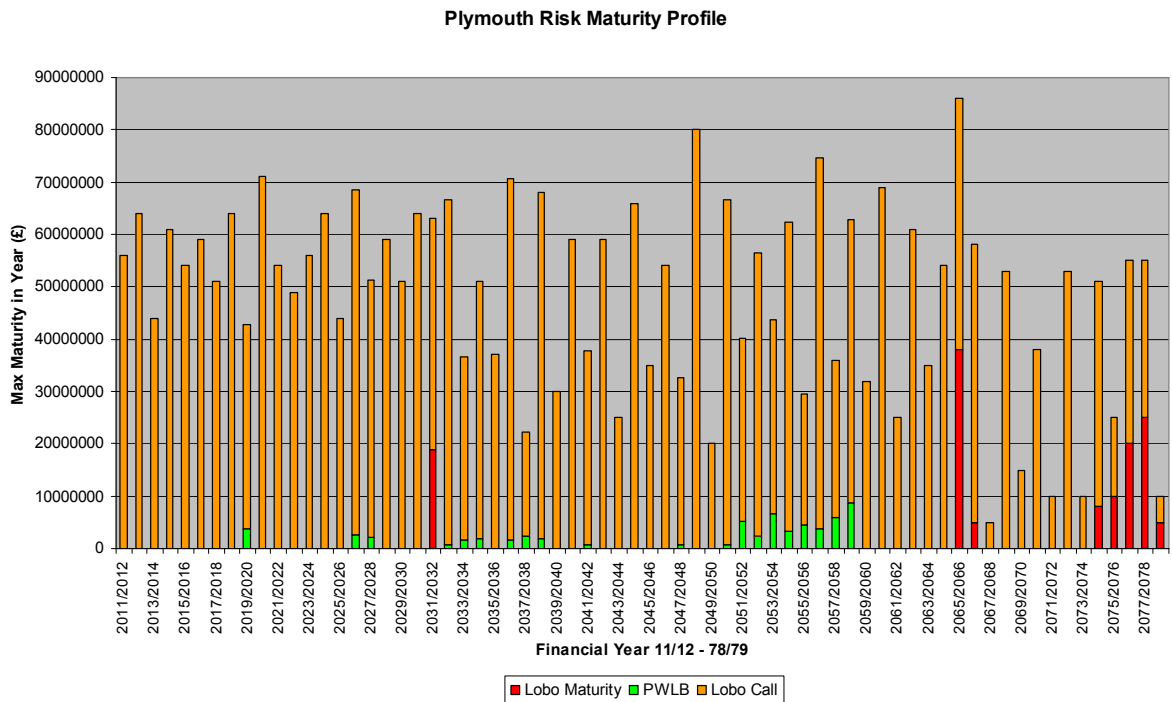
- 5.1 The borrowing strategy for the year, should market conditions allow, was:
- To reduce the underlying level of long term debt.
 - To manage out the risk inherent in the existing portfolio in terms of market loans to PWLB by exercising call options on Lobo's where the opportunity was available.
- 5.2 After considering the risks inherent in the existing portfolio and the outlook for interest rates in the short term, the capital financing borrowing requirement for

2011/12 was to be financed from short-term fixed rate borrowing or variable rate borrowing where rates were lower than those available to the Council on it's 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.

5.3 Figure I below shows the maturity profile of the long term debt for the Council as at 31 March 2012.

5.4 The debt portfolio continues to include £130m of LOBO (market) 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 amber) to enable officers to risk manage the Council's cashflows. During the year £56m of LOBO loans entered the period where they could have been called, but options were not exercised by the relevant banks.

Figure I



5.5 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 – This is the statutory limit which should not be breached. This can only be amended with the approval of Full Council.
- The Operational Boundary – This is based on the same estimate as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

5.6 The borrowing limits for 2011/12, originally approved by Council in March 2011, were as follows:

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

The revised prudential indicators, as approved by Council on 27 February 2012, reduced the limits to fall in line with the Council's strategy to reduce debt when credit conditions worsened as was the case in the second half of the year. The approved updated limits were as follows:

- Authorised limits £291m
- Operational Boundary £271m

5.7 The Director for Corporate Services confirms that there were no breaches to the Authorised Limit and Operational Boundary during the year. The maximum debt outstanding during 2011/12 was £325.959m on 11 April 2011 (including £35.016m for the PFI and finance lease liabilities). This was within both the authorised limit and the operational boundary. Following the reduction in borrowing limits in February 2012 the maximum debt outstanding reached £241.414m on 20 March 2012. This again was within both the updated authorised limit and operational boundary.

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

Table 2 Movement in Borrowing Portfolio

	Balance on 01/04/11 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/12 £000s	Increase/ (Decrease) in Borrowing
Short Term Borrowing	94,985	(669,585)		589,560	15,000	(79,985)
Long Term Borrowing	191,398				191,398	0
Total Borrowing	286,383	(669,585)	0	589,560	206,398	(79,985)

5.9 In accordance with the Council's treasury management strategy no long term borrowing was taken in 11-12 however as a result of market conditions it was not possible to reduce long term borrowing. Due to the movement in Gilts and the resulting reduction in PWLB rates the cost of repaying any of our PWLB loans early was prohibitive. No lenders options were taken on any of the Council's Lobo loans and as a result we were not able to exercise the Council's option to repay at no cost. Despite this the Council's borrowing reduced from £286.383m to £206.398m, a reduction of £79.985m in short-term loans offset by a reduction in short-term investments.

- 5.10 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2012 was estimated at £270.235m (including PFI and Finance leases).

5.11 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. Matching short-term borrowing with the availability of liquid deposits held in bank call accounts lowered overall treasury risk by allowing flexibility to reduce debt and investment levels at short notice when credit conditions deteriorated during the year.

At the start of the year the Council had £94.985m of short term loans. These are generally taken for periods of less than 30 days, repaid and replenished with new loans as subject to availability and favourable rates during the year. At the end of the year the Council had £15m of short term loans.

The average period of new loans taken in the year was for 24.95 days at an average interest rate of 0.36%. This is below the bank base rate. Short term loans are generally taken from other local authorities.

5.12 Debt Repayment

There was no loan repayments made in 2011-12. The reduction in loans is a result of short-term loans not being replaced on maturity.

5.13 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 the Council's advisers Arlingclose will continue to monitor PWLB interest rates looking for opportunities to repay any debt maximising the savings achieved whilst maintaining a balanced maturity profile.

5.14 Overall Debt Performance for the year

The average interest rate on the Council's borrowing has increased over the course of the year from 3.322% to 4.4098%. This rate reflects the position at the end of each financial year (i.e. 31 March 2011 and 2012). The increase in rates is due to the repayment of low rate short-term loans using internal balances as credit conditions worsened over the second half of the year. Loan transactions were taken at various times throughout the year at various rates and, taking all transactions in the year, the overall average borrowing rate for 2011/12 was 3.9652% compared with a rate of 3.5476% for 2010/11.

6. Investments

Managing Investment Risk

- 6.1 The Guidance on Local Government Investments in England gives priority to Security and Liquidity of investments and the Council's aim is to achieve a Yield commensurate with these principles.

6.2 Security

Security of capital remained the Council's main investment objective. This was 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, although as indicated not all of the instruments were used during the year:

- The Debt Management Office
- Other Local Authorities (not used in 2011/12)
- AAA-rated Stable Net Asset Value Money Market Funds (not used 2011/12)
- Call Accounts and 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 US). (Only deposits with UK banks used in 2011/12)
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank (not used 2011/12).
- Treasury Bills (T-Bills) (not used in 2011/12)

6.3 The long-term credit rating criteria used at the start of the year as per the approved investment strategy for 2011-12 was amended on 29th November 2011 as approved by Cabinet to A-/A3 in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. The downgrades were driven principally by the credit rating agencies' view on the extent of future government support (flowing from the recommendations to the government from the Independent Commission on Banking) rather than deterioration in the institutions' creditworthiness.

6.4 Table 3 summarises the counter parties available during the year together with the approved limits. The Counter Party list is kept under constant review and counter parties removed or limits adjusted as appropriate.

Table 3 Approved Counter Party Listing in force 31 March 2012

Financial Asset Category	Criteria	Maximum Investment	Maximum Investment Term
Government Debt Office	Central Government Office	No Limit	12 Months
UK Banks and Building Societies	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-I S&P – Long-Term A- Short-Term A-I	£30m	12 Months
Foreign Banks	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-I S&P – Long-Term A- Short-Term A-I	£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

- 6.5 The limits placed on deposits with UK Banks and Building Societies and foreign banks were reviewed during the year as credit conditioned worsened with problems in the Eurozone and a number of banks were downgraded. The Investment Strategy for 2011-12 approved by Council in February 2011 allowed for deposits up to 2 years. In practice deposits were limited to shorter periods. In May 2011 limits on deposits with Non-UK banks were reduced from 2 years to 12 months. In August 2011 UK, Australian, Canadian and US bank deposits were limited to 6 months with European banks reduced to maximum maturities of 1 month as credit conditions in the Eurozone deteriorated. In September 2011 all French banks were suspended from the Council's list of available institutions for investments. In December 2011 the maximum limit for any deposit for any deposit was limited to 3 months with all European banks suspended. Towards the year end credit conditions improved and at the 31st March 2012 the limits in place for deposits were as follows:

UK Banks:

Santander UK Plc. up to 35 days
 Barclays Bank Plc up to 100 days
 Lloyds Banking Group up to 100 days
 Royal Bank of Scotland Group up to 100 days
 HSBC Bank Plc up to 6 months
 Standard Chartered Bank up to 6 months

Australian/Canadian/USA banks:

Maximum deposit maturities up to 6 months.

All investments made in 11-12 were with UK banks and the Nationwide Building Society.

- 6.6 Figure 2 below shows the actual split of deposits by country/sector as 31 March 2012. Table 4 provides more detail on the actual deposits by counter party group. These deposits include £21.49m invested on behalf of the Heart of the South West LEP.

Figure 2

**PCC DEPOSITS BY COUNTRY/SECTOR AT 31st MARCH 2012 - Total
Deposits £83,975,019.18**

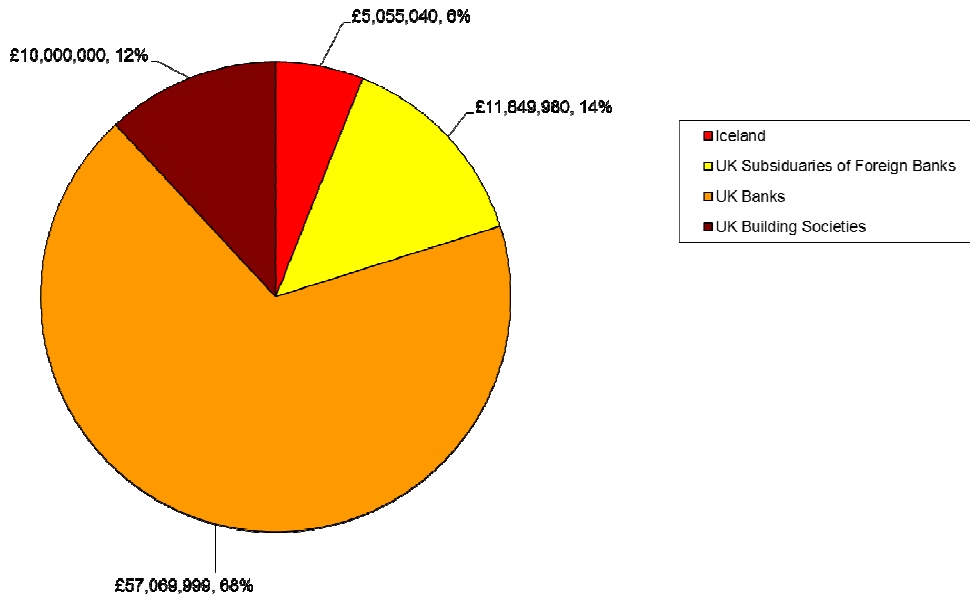


Table 4

Group	Bank/Institution	PCC deposits £m	LEP deposits £m	Total deposits £m
RBS Group	Royal Bank of Scotland	16.600	4.500	21.100
Lloyds Banking Group	Bank of Scotland	11.450	5.750	17.200
Barclays Banking Group	Barclays	13.020	5.750	18.770
Nationwide Building Society	Nationwide Building Society	10.000		10.000
Banco Santander Group	Santander UK	6.361	5.489	11.850
Iceland deposits	Landsbanki Island	2.835		2.835
	Heritable Bank	0.962		0.962
	Glitnir	1.258		1.258
Total Deposits @ 31st March 2012		62.486	21.489	83.975

6.7 The movement in the investment portfolio during the year was as follows:

Table 5 Movement in Investment Portfolio

Investments	Balance on 31/3/11 £000	Investments Made £000	Maturities/ £000	Balance on 31/03/12 £000	Avg Rate % / Avg Life to maturity (days)
Short Term Investments (less than 1 year)	149,802	519,915	(590,742)	78,975	1.39%/ 38days
Long term Investments (over 1 year)	16,000	5,000	(16,000)	5,000	2.65%/ 118 days
Total Investments	165,802	524,915	(606,742)	83,975	

- 6.8 The majority of the short term deposits were held in call or short term notice accounts. In line with the Council's approved investment strategy for 2011/12 the following longer term deposits were taken in the year:

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

- 6.9 The above deposits have been taken above target rates and increased the return on investments in 2011/12. The maximum approved term for new deposits in 2011/12 was 2 years.
- 6.10 CLG investment guidance which came into effect 1 April 2010 recommended that strategies should show details of assessing credit risk. 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); Amended to A- on 29th November 2011.
 - 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.
- 6.11 The Council's treasury advisors, Arlingclose, have developed a matrix to score the credit risk of an authority's investment portfolio. The matrix allocates a numerical score based on the credit rating of an institution, with a AAA rated institution scoring 1, and a D rated institution scoring 15. This is then weighted to reflect both the size of the deposit and the maturity term of the deposit. The aim is to achieve an overall score of 5 or lower on both weighted averages to reflect an investment approach based on security. The lower the score the better the security of the deposit.
- 6.12 Table 6 shows the rating currently attached to the Council's portfolio and its movement during the year using this matrix.

Table 6 Credit Risk Matrix

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2011	4.20	AA-	4.75	A+
30/06/2011	4.24	AA-	4.58	A+
30/09/2011	4.37	AA-	4.68	A+
31/12/2011	5.39	A+	5.35	A+
31/03/2012	5.48	A+	5.42	A+

Note : These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's Counterparty credit quality has reduced over the course of the year. This is due to the credit rating downgrade of the Counterparties used by the Council. All Council deposits in 11-12 have been made with UK banks considered to be systemically important to the UK financial system. The credit risks score has moved above the target of 5 for the year. This target has increased to 7 for 12-13 in light of the credit rating downgrades. Council officers are reviewing alternative invests to reduce the credit score of the Council's investment portfolio. Section 6.15 compares the authority's performance with that of other authorities who are clients of Arlingclose.

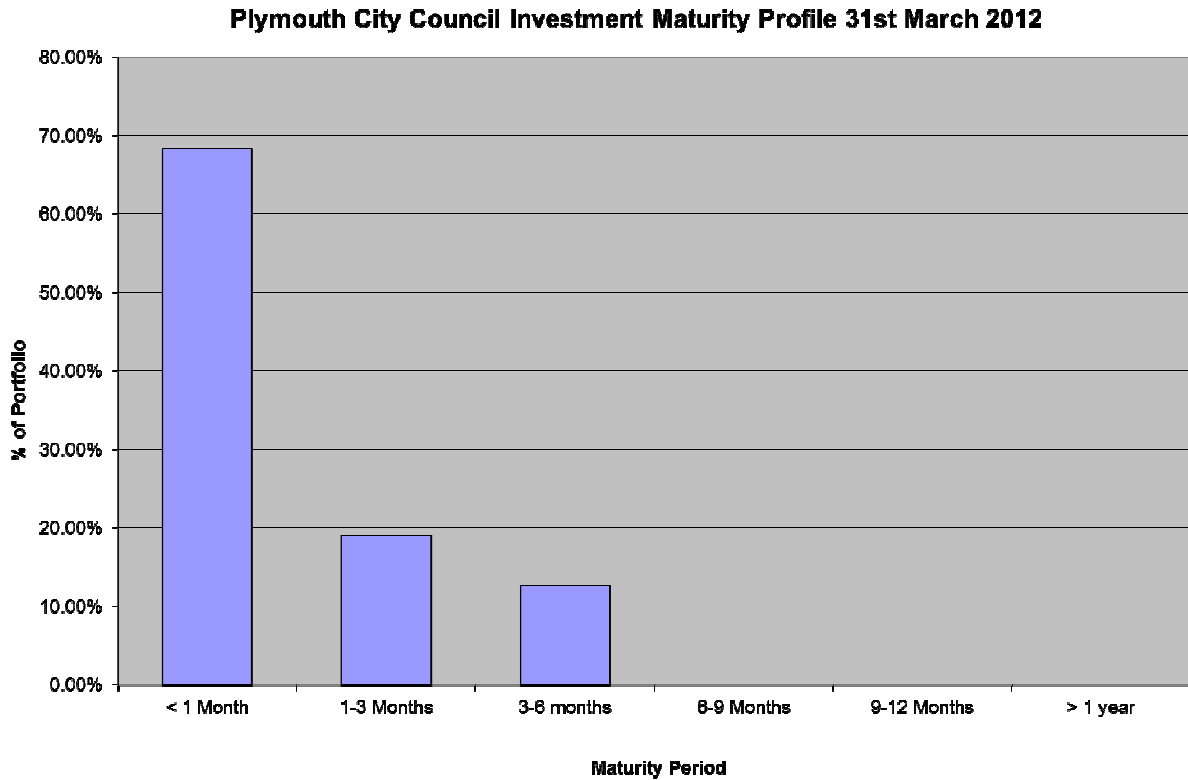
6.13 Liquidity

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and the use of call accounts.

- 6.14 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 cover any adverse changes in market conditions. The Treasury Management Board has set a requirement that at least £15m should remain within callable deposits at all times.

6.15

Figure 3



6.15 Yield- Investment performance for the year

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

6.16 Investments are made short-term to cover cashflow and liquidity requirements and longer-term to maximise and guarantee future income. During 2011/12 the Council invested for a range of periods from overnight to 15 months, dependent on the Council's cash flows, Officer's interest rate view, the interest rates on offer and the economic climate/credit risk. The Council's treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. Table 7 below compares the average return achieved by the in-house team with the benchmark. An average rate of 1.02978% was achieved for new investments (including investments made on behalf of the LEP) in the year against a budget of 1%.

Table 7

	Weighted Average Investment	Benchmark Rate %	Actual Return %
Internally Managed:	£127.035m	0.54	1.3647

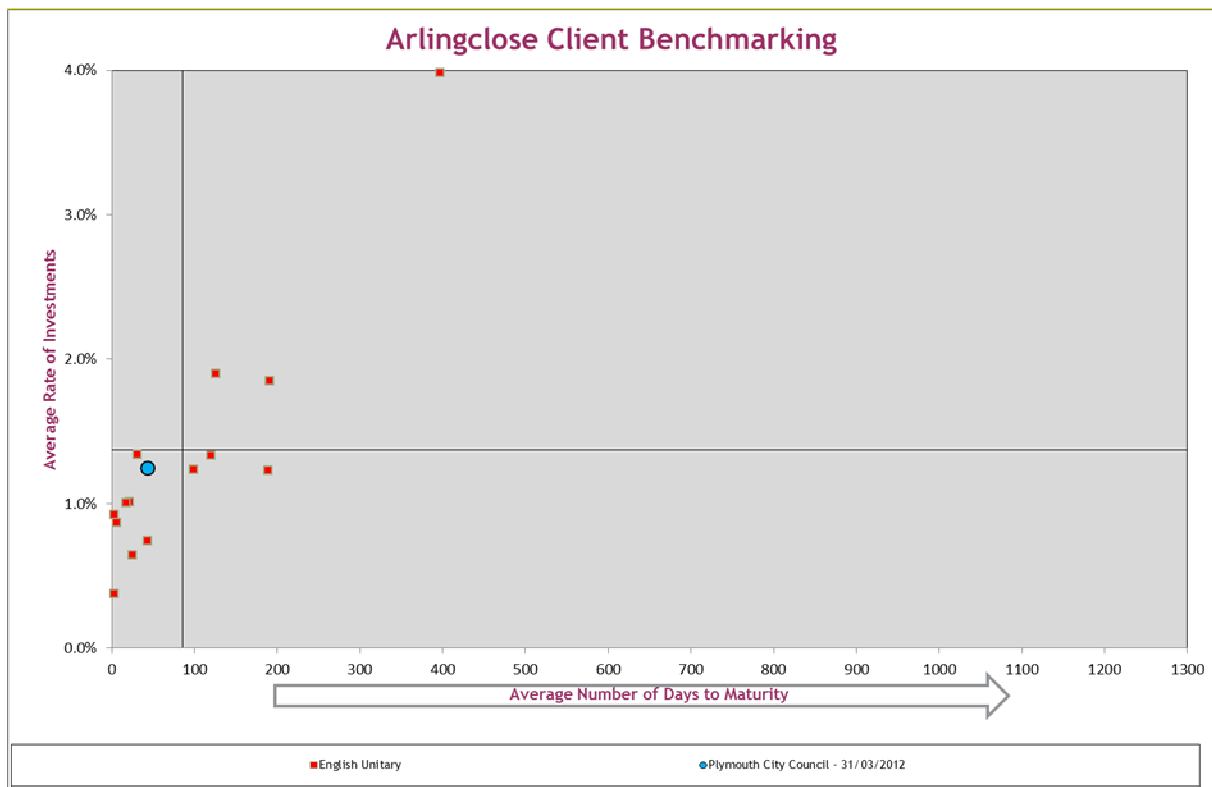
The table shows that the internal performance exceeded the benchmark for the year, despite the restricted investment counterparty list and the tighter limitations placed on deposits in the second half of the year.

6.17 As outlined above, Arlingclose have developed a set of benchmarking criteria to enable comparisons on investment performance to be made on data provided by all their clients. To compare like with like the following graphs compare our investment performance with other Unitary authorities. This is based on data provided to 31 March 2012. The results of the benchmarking are discussed at regular strategy meetings with the Advisors. The benchmarking has to be taken in the context of risk appetite and the legacy investments that the Council has in its portfolio.

6.18 The graphs used for comparison are:

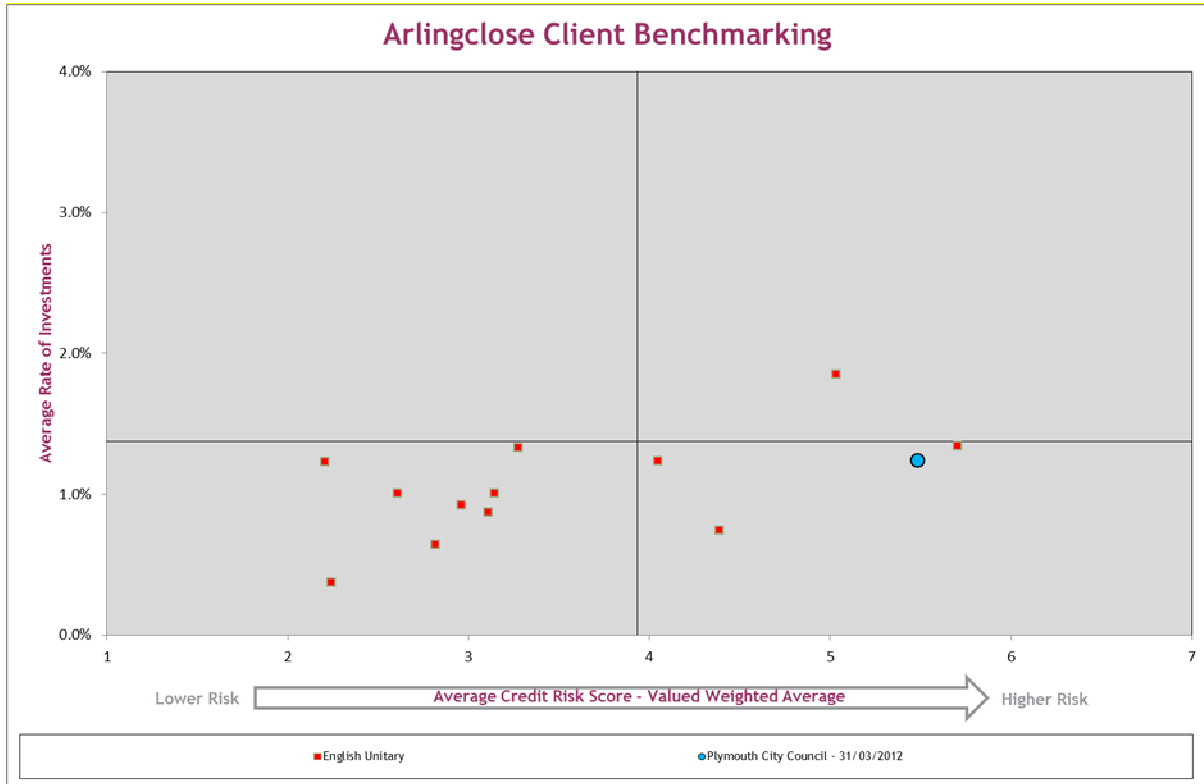
1. Average rate of investments against average maturity period
2. Average rate of investments against value weighted average credit risk score
3. Average rate of investments against time weighted average credit risk score

Graph I Average Number of days to Maturity V Return



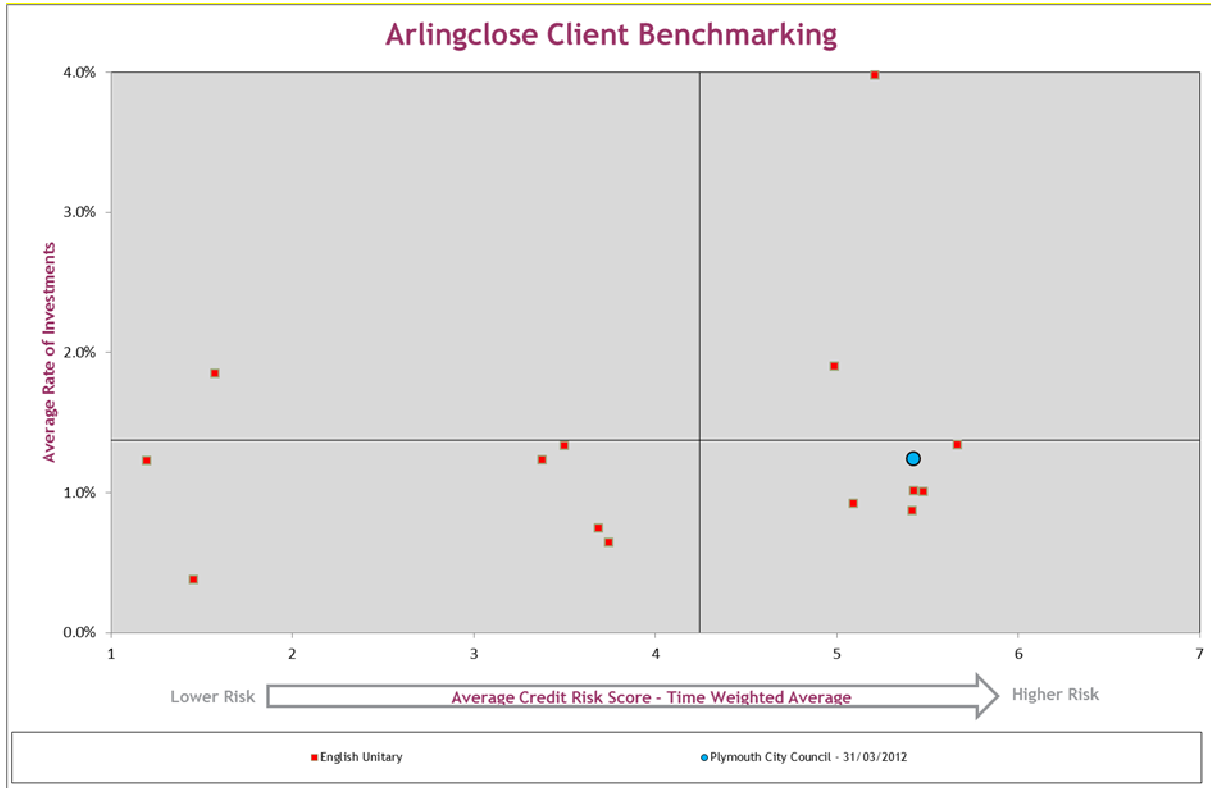
This graph shows the duration of investments against return. It shows the Council's investments have performed well against other unitary authorities. Despite reducing maturity periods of deposits the Council's return on investments as held up as a result higher rates negotiated by the treasury management officer on the Council's call accounts.

Graph 2 Value Weighted Average V Return



As a general rule the 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 to be true in some cases. As can be seen from this graph, Plymouth City Council is converting duration into a higher return than many of their peer group. However with the maturity of some of the higher rate deposit previously held in the Council’s portfolio and the credit rating downgrades for the banks currently used for the Council’s deposits the Council’s score has increased over time. Council officers will look at alternative investment to reduce the credit risk of the Council’s investments.

Graph 3 Time Weighted Average V Return



Longer term investments are inherently more risky. Ideally authorities should move towards the top left hand corner of the 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 the Council’s investment portfolio which has been affected by a number of rating downgrades on legacy investments and on banks currently used increasing the credit risk score. As previously stated Council officers are investigating alternative investments that will reduce the credit risks. However this may impact on the returns achieved by the Council.

7. Icelandic Banks Update

7.1 The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

7.2 Heritable Bank £3m

The Council received further dividends totaling 17.81p in the £ in 2011/12, made up of principal of £0.534m and interest of £0.027m, bringing total dividends paid to 31st march 2012 to 67.92%. A further dividend was received in April 2012 of 3.79p in the £ made up of principal of £0.114m and interest of £0.006m bringing the total dividends paid to date to 71.71%.

7.3 Glitnir £6m

In March 2012 the Council received £5.033m made up of principal of £4.742m and interest of £0.291m.

7.4 Landsbanki £4m

In February 2012 the Council's receipt amounted to £1.230m made up of principal of £1.165m and interest of £0.065m. In May 2012 the Council received a second distribution amounting to £0.517m made up of principal of £0.490m and interest of £0.027m

7.5 Impairment of Icelandic bank deposits

In the 09-10 Accounts impairment was calculated based on an estimate of future collections. At this point the impairment of the deposits was calculated as £5,903,956.28. To cover this impairment a capital direction was applied for and agreed to the value of £5.7m. This allowed the Council to capitalise this expenditure and spread the charge to revenue over 20 years. The remaining balance of £203,956.28 was met by a transfer from the internal Icelandic Bank reserve. This reserve had been created to cover Icelandic legal costs and losses on recovery of the Icelandic deposits. Following the receipt of dividends in 2011-12 and 2012-13 this impairment has been recalculated and reduced by £1,284,162.58 so the impairment is in line with the unrecovered deposits. This reduction means that part of the accounting entries made in 2009-10 can be reversed resulting in a transfer back to the Icelandic bank reserve of £203,956.28 increasing the balance in this reserve to £563,886.77. The remaining adjustment of £1,080,206.30 reduces the Council's borrowing requirement and the annual revenue charge over the next 18 years. Any additional receipts prior to the publication of the 11-12 Statement of Accounts will result in an amendment to these accounts and a further reduction in the impairment.

7.6 Further recoveries

The Council continues to pursue recovery of the outstanding monies through the Icelandic Courts in partnership with the LGA. The cost of the continuing external legal advice has been met from the Council's internal reserve set up for Icelandic bank issues. A sum of £0.020m has been incurred in 2011/12.

8. Revenue Implications of Treasury Management

8.1 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 onto 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. Table 8 below shows the income and expenditure arising from these transactions in 2011/12.

8.2 The net cost of capital financing to the General Fund in 2011/12 reduced by £0.388m from the 2011/12 budget due to a reduction in MRP of £0.267m, reduced treasury management costs of £0.190m and other cost increases of £0.039m. The MRP is a statutory charge to revenue based on the Council's capital expenditure financed from borrowing. The reduction in treasury management costs is due to use of low rate short term borrowing as an

alternative to the use of internal balances to fund capital expenditure and a reduction in debt management costs. Additional MRP and interest payments resulted from PFI schemes however this was matched by grant funding.

Summary of Capital Financing Costs 2011/12

Table 8

	2011/12 Budget £000	2011/12 Outturn £000	Variance £000
External Interest payments	8,872	9,235	3,632
Interest payable (PFI)	0	2,773	2,773
External Interest received	(1,593)	(2,080)	(487)
Interest transferred to other accounts	50	140	90
Premiums / Discounts written out to Revenue	(189)	(189)	0
Debt Management Expenses	130	115	(15)
Treasury Management Cost	7,270	9,994	2,724
Minimum Revenue Provision	7,285	7,018	(267)
Minimum Revenue Provision (PFI)	0	737	737
Recharges for unsupported borrowing	(1,588)	(1,512)	76
Recovered from trading Accounts	(3,332)	(3,480)	(148)
PFI Grant	0	(3,510)	(3,510)
Net Cost to General Fund	9,635	9,247	(388)

9. Compliance with Prudential Indicators

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 compliance of borrowing with the Authorised Limit and Operational Boundary is confirmed in sections 5.5 to 5.7 of this report. The Prudential Indicators for 2010/11 were approved by Council on 28 February 2011 and updated on 27th February 2012 as part of the approved Treasury Management strategy for 2012-13. The latest position on the indicators is set out in Appendix I.

10. Balanced Budget

10.1 The Council complied with the Balanced Budget requirement.

11. External Service Providers

- 11.1 Arlingclose is appointed as the Council's treasury management advisor. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented. The Council paid a sum of £21,000 in 2011/12 for this service.
- 11.2 The Council is also clear that overall responsibility for treasury management remains with the Council.

12. Training

- 12.1 CIPFA's revised Code requires the Director for Corporate Support to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.
- 12.2 The CLG's revised Investment Guidance also recommends that a process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.
- 12.3 The Council commissioned a Treasury Management awareness and training session from external consultants Griffiths Morley and this was delivered on 22 January 2010. The Council subsequently provided an updated session for members on 10 January 2011. Further training will be undertaken in 2012-13 following consultation with the Council's advisors, Arlingclose. The provision of 1 days training is included in the Contract agreed with Arlingclose for the next 3 years.
- 12.4 During the year, the Council's treasury management officer has successfully completed and been awarded a Certificate in International Treasury Management- Public Finance (CERT TM- PF). This is an accredited course for treasury management specialists in the Public Sector, supported by CIPFA. Officers also attend regular workshops and seminars on treasury management.
- 12.5 The Council continues to keep its training requirement under review.

13 Other Items

Potential for reduced PWLB borrowing rates

A brief paragraph in the 2012 Budget Report (March 2012) contained HM Treasury's intention to offer a 20 basis points discount on loans from the PWLB "for those principal local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans" and the potential of an independent body to facilitate the provision of "a further reduced rate for authorities demonstrating best quality and value for money". More detail is awaited and, given that discussion with relevant bodies will be required, it could be some months before either of these measures is implemented. This will be taken into account in future decisions on

any new long term borrowing and updates included in quarterly monitoring reports to Cabinet and the mid-year and annual Treasury Management reports to the Audit Committee and Council.

14. Recommendations

- 14.1 Audit Committee note the Treasury Management report for 2011/12.
- 14.2 The report be referred to Full Council as required under the CIPFA Treasury Management Code of Practice (TMP note 6).
- 14.3 Audit Committee approve the Treasury Management Practices as outlined at Appendix 3.

Prudential Indicator Compliance

I. 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.

	Limits for 2011/12 %	Maximum during 2011/12 %
Upper Limit for Fixed Rate Exposure	225	222.47
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	85	-4.00
Compliance with Limits:	Yes	Yes

2 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.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing in 2011/12		Compliance with Set Limits?
			High %	Low %	
under 12 months	50	0	33.48	5.27	Yes
12 months and within 24 months	70	0	51.2	22.99	Yes
24 months and within 5 years	35	0	16.72	5.22	Yes
5 years and within 10 years	25	0	4.56	1.94	Yes
10 years and within 20 years	25	0	2.5	2.50	Yes
20 years and within 30 years	25	0	5.73	5.37	Yes
30 years and within 40 years	25	0	1.97	0.72	Yes
40 years and within 50 years	35	0	21.5	19.88	Yes
50 years and above	50	0	0	0	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date¹)

(d) **Actual External Debt**

- This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing (short and long-term) plus other deferred liabilities.
- The indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2012	£m
Borrowing	206.398
Other Long-term Liabilities	33.602
Total	240.000

(e) **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 investment policy for 2011/12 was in the main to keep investment maturities to a maximum of 12 months. One investment of £5m was made for a period in excess of 12 months in 11-12 well below the limit set.

(f) **Capital Expenditure**

- This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax.

Capital Expenditure	2011/12 Approved £m	2011/12 Revised £m	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m
Total	85.201	78.662	72.472	58.379	28.493

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2011/12 Approved £m	2011/12 Revised Estimate £m	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital receipts	19.642	20.126	18.526	11.420	5.152
Government Grants	41.169	30.827	27.656	35.705	22.293
Contributions	1.474	2.748	2.321	0.846	0.050
Section 106/Tariff/RIF	6.572	1.857	1.898	1.163	0.050
Revenue Contribution	0.015	0.950	2.096	0.134	0.021
Funds	0.000	2.348	2.141	1.355	0.177
Total Financing	68.872	58.856	54.638	50.623	27.743
Supported borrowing	0.078	0.277	0.217	0.107	0.000
Unsupported borrowing	16.251	19.529	17.617	7.649	0.750
Total Funding	16.329	19.806	17.834	7.756	0.750
Total Financing and Funding	85.201	78.662	72.472	58.379	28.493

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than external borrowing.

(g) **Ratio of Financing Costs to Net Revenue Stream**

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.
- The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Estimate %	2011/12 Revised Estimate %	2011/12 Actual %	2012/13 Estimate %	2013/14 Estimate %
Total	7.29	6.90	6.83	8.56	8.67

(h) Incremental Impact of Capital Investment Decisions

- This is an indicator of affordability that shows the impact of capital investment decisions on Council levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Estimate £	2011/12 Revised £	2011/12 Actual £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	1.96	0.81	1.28	0.92	5.12

(i) Gross and Net Debt

- The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need.

Upper Limit on Net Debt compared to Gross Debt	2011/12 Estimate £m	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m
Upper Limit	80	78.74	80	80
Lower Limit	36	36.39	35	35

N.B. CIPFA has acknowledged that the upper limit does not work as was intended and is working on a revised indicator. This indicator will be amended once revised guidance has been received from CIPFA.

(j) Upper Limit for Total Principal Sums Invested Over 364 Days

- The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2011/12 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m
	25	25	5	25	25

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	1.50
31/07/2011	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
31/10/2011	0.50	0.63	0.55	0.56	0.96	1.25	1.74	1.30	1.42	1.81
30/11/2011	0.50	0.65	0.58	0.64	1.01	1.31	1.80	1.41	1.49	1.76
31/12/2011	0.50	0.50	0.65	0.67	1.05	1.35	1.84	1.31	1.34	1.54
31/01/2012	0.50	0.50	0.70	0.68	1.06	1.38	1.87	1.20	1.23	1.46
29/02/2012	0.50	0.50	0.75	0.67	1.05	1.37	1.87	1.22	1.29	1.54
31/03/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.22	1.30	1.59
Minimum	0.50	0.10	0.35	0.49	0.68	1.01	1.40	1.08	1.23	1.46
Average	0.50	0.47	0.52	0.58	0.89	1.21	1.69	1.36	1.55	1.98
Maximum	0.50	0.65	0.95	0.68	1.06	1.38	1.87	1.95	2.42	3.07
Spread	--	0.55	0.60	0.19	0.38	0.37	0.47	0.87	1.19	1.60

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
30/04/2011	162/11	1.73	3.45	4.61	5.18	5.21	5.17	5.14
28/05/2011	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
30/07/2011	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	376/11	1.51	2.41	3.47	4.35	4.61	4.69	4.69
29/10/2011	418/11	1.45	2.42	3.56	4.29	4.46	4.47	4.44
30/11/2011	462/11	1.32	2.14	3.21	3.84	4.02	4.03	3.98
31/12/2011	501/11	1.21	1.99	3.04	3.86	4.09	4.12	4.08
31/01/2012	042/12	1.29	1.99	3.08	3.89	4.11	4.15	4.12
29/02/2012	084/12	1.31	1.96	3.11	4.04	4.25	4.26	4.21
30/03/2012	128/12	1.28	2.05	3.21	4.17	4.38	4.41	4.36
Low		1.19	1.93	2.98	3.77	3.98	4.02	3.98
Average		1.47	2.53	3.70	4.50	4.65	4.67	4.64
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
30/04/2011	162/11	0.62	2.16	3.42	4.06	4.10	4.02	3.96
28/05/2011	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
30/07/2011	288/11	0.41	1.48	2.86	3.84	3.96	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	376/11	0.38	1.20	2.33	3.26	3.53	3.57	3.55
29/10/2011	418/11	0.34	1.16	2.37	3.16	3.35	3.32	3.26
30/11/2011	462/11	0.21	0.90	2.03	2.71	2.91	2.88	2.81
31/12/2011	501/11	0.10	0.75	1.85	2.72	2.97	2.97	2.90
31/01/2012	042/12	0.18	0.76	1.88	2.76	3.00	3.00	2.95
29/02/2012	084/12	0.20	0.74	1.91	2.91	3.13	3.11	3.03
30/03/2012	128/12	0.17	0.81	2.01	3.04	3.27	3.26	3.19
	Low	0.08	0.70	1.79	2.64	2.87	2.87	2.81
	Average	0.36	1.28	2.51	3.37	3.54	3.51	3.46
	High	0.86	2.44	3.71	4.29	4.31	4.23	4.18

Table 4: PWLB Borrowing Rates – Fixed Rate, EIP 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	-	2.76	3.73	4.83	5.21	5.33	5.36
30/04/2011	162/11	-	2.55	3.53	4.64	5.05	5.18	5.22
28/05/2011	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
30/07/2011	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	376/11	-	1.85	2.48	3.51	4.06	4.36	4.53
29/10/2011	418/11	-	1.80	2.49	3.59	4.07	4.30	4.42
30/11/2011	462/11	-	1.59	2.21	3.24	3.65	3.85	3.97
31/12/2011	501/11	-	1.47	2.05	3.08	3.59	3.87	4.02
31/01/2012	042/12	-	1.50	2.05	3.12	3.64	3.9	4.05
29/02/2012	084/12	-	1.50	2.03	3.15	3.76	4.05	4.19
30/03/2012	128/12	-	1.54	2.11	3.26	3.87	4.18	4.33
	Low	-	1.45	1.99	3.02	3.53	3.78	3.92
	Average	-	1.89	2.60	3.74	4.27	4.51	4.61
	High	-	2.82	3.82	4.92	5.30	5.41	5.44

Table 5: PWLB Repayment Rates - Fixed Rate, EIP 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	-	1.54	2.55	3.70	4.10	4.22	4.25
30/04/2011	162/11	-	1.33	2.34	3.50	3.93	4.07	4.11
28/05/2011	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
30/07/2011	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	376/11	-	0.68	1.30	2.36	2.93	3.24	3.41
29/10/2011	418/11	-	0.70	1.42	2.57	3.05	3.27	3.39
30/11/2011	462/11	-	0.43	1.03	2.10	2.53	2.73	2.85
31/12/2011	501/11	-	0.31	0.88	1.93	2.46	2.75	2.90
31/01/2012	042/12	-	0.35	0.88	1.97	2.51	2.78	2.93
29/02/2012	084/12	-	0.35	0.85	2.00	2.63	2.93	3.08
30/03/2012	128/12	-	0.38	0.94	2.10	2.74	3.06	3.21
	Low		0.29	0.82	1.87	2.40	2.66	2.80
	Average		0.71	1.42	2.59	3.14	3.39	3.50
	High		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			Post-CSR		
01/04/2011	0.67	0.77	0.89	1.57	1.67	1.79
30/06/2011	0.67	0.71	0.79	1.57	1.61	1.69
30/09/2011	0.65	0.65	0.66	1.55	1.55	1.56
31/12/2011	0.58	0.59	0.61	1.48	1.49	1.51
30/03/2012	0.59	0.60	0.62	1.49	1.50	1.52
Low	0.58	0.59	0.60	1.48	1.49	1.50
Average	0.63	0.65	0.68	1.53	1.55	1.58
High	0.69	0.79	0.91	1.59	1.69	1.81

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Plymouth City Council

**TREASURY MANAGEMENT
PRACTICES PRINCIPLES AND
SCHEDULES**

2012-13

1st April 2012

TREASURY MANAGEMENT PRACTICES, PRINCIPLES AND SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by Plymouth City Council. TMPs will be authorised by the Director for Corporate Services and subjected to the scrutiny by the Audit Committee, and will be kept under review and amended from time to time to take account of the current guidance from CIPFA and developments in local authority treasury practice generally, and Plymouth's practice in particular.

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TMPI RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objective of treasury management activities.

General Statement

The Director for Corporate Services will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing. Capital, project or partnership financing, particularly as a result of the counterpart's diminished creditworthiness, and the detrimental effect on the Council's capital or current (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 whom 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 or derivative arrangements.

Schedule:

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

1. The Director for Corporate Services 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.
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: <ul style="list-style-type: none"> • DMADF • Treasury Bills (T-Bills) • Gilts 	No Limit No Limit 20% of overall investment portfolio	12 Months 12 Months 10 Years
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	2 Years
UK Banks	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£30m	12 Months
UK Building Societies	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£30m	12 Months
Nom-UK Banks	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset Value (CNAV). AAA with a Variable Net Asset Value (VNAV) .	20% of overall investment portfolio. Maximum £5m per fund	Call
Bonds Issued by Multilateral Development Banks	AAA or Government Guaranteed	20% of overall investment portfolio	10 years

UK Companies Corporate Bonds	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	12 Months
UK Companies Commercial Paper	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	9 Months
Other Money Market Funds and Collective Investment Schemes	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

5. The maximum period of lending is 12 months for deposits other than in Gilts/Multilateral Development Bank bonds where the limit will be 10 years.
6. The maximum value for any one investment transaction will be unlimited with the DMO (DMADF/T-Bills) 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 a non UK bank will be £5m.
9. The limit on investments with non-UK banks will be 10% per country of total investments.
10. The maximum limit for investments in Money Market Funds will be 20% of the total investment portfolio with a limit in each fund of £5m or 0.5% of the total fund value.
11. The maximum investment in Multilateral Development Bank Bonds will be 20% of the total investment portfolio.
12. The maximum investment in UK Government Gilts will be 20% of the total investment portfolio.
13. The Maximum investment in Corporate Bonds will be 10% of the overall investment portfolio.
14. The Maximum investment in Commercial Paper will be 10% of the overall investment portfolio.
15. The Maximum investment in pooled funds, which meet the definition of a Collective Investment scheme per SI 2004 No 534 and subsequent amendments, will be limited to £10m.
16. **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.

1.1.2 APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING/ REMOVING COUNTERPARTIES

Credit ratings for countries and individual counterparties along with credit default swaps and market sentiment can change at any time. The Director for Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed in 1.1.1 and amend the approved counterparty list when there is a change in the credit quality of individual counterparties or in banking structures e.g. on mergers or takeovers. Any revision to approved counterparties will be based on the advice of the Council's Treasury Management advisors.

The Director for Corporate Services will also adjust lending limits and periods when there is a change in the credit quality of individual counterparties. This is delegated on a daily basis to the Senior Accountant (Technical Accountants) subject to the approval of the Director for Corporate Services following recommendations by the Council's Treasury Management advisers and the Treasury Management Board.

The Senior Accountant (Technical Accountants) is responsible for maintaining the Council's approved lending lists adding or removing counterparties in accordance with approved criteria as authorised by the Director for Corporate Services.

1.1.3 COUNTERPARTY LIST AND LIMITS

A full individual list of counterparties based on the criteria will be maintained and approved by the Director for Corporate Services under delegated authority.

1.1.4 COUNTRY, SECTOR AND GROUP LISTINGS OF COUNTERPARTIES AND LIMITS

Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above as set out in the criteria in 1.1.1.

1.1.5 DETAILS OF CREDIT RATING AGENCIES' SERVICES AND THEIR APPLICATIONS

The Council considers the ratings of all 3 rating agencies (Standard & Poor's, Moody's and Fitch), as supplied by its Treasury Management advisers Arlingclose, when making investment decisions Credit rating information is just one of a range of instruments used to assess creditworthiness of institutions. The Council applies a minimum rating criteria based on the lowest denominator of the 3 rating agencies and where one of the ratings falls below the minimum the counterparty will be removed from the Council's approved list of investment counterparties for new

investments. Where investments are already in place advice is sought from the Council's advisers as to what action should be taken including the possibility of requesting the termination of the investment subject to the agreement of the counterparty.

1.1.6 DESCRIPTION OF THE GENERAL APPROACH TO COLLECTING/USING INFORMATION OTHER THAN CREDIT RATINGS FOR COUNTERPARTY RISK ASSESSMENT

The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share prices. Share prices of the counterparties used for investments are monitored on a daily basis by the Corporate Accountants (Technical) team with any variation in share price reported to the Treasury Management board via e-mail. Where movements are above 10% or within 10% of the year low further investigation is undertaken and/or advice sought from Arlingclose as to reasons and this is reported to members of the Treasury Management Board via e-mail.

In addition the Senior Accountant (Technical) reads quality financial press for information on Counterparties with any news impacting on investments reported to the Treasury Management board and the advice of the Council's Treasury Management advisers sought.

Other information sources used for monitoring the creditworthiness of counterparties are:

- Central Banks
- Government Departments
- Debt management Office
- Multilateral agencies
- Multilateral development banks
- Newspaper and periodicals and internet
- Financial data providers
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Rating agencies
- Bank and Building Society websites

1.2 LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be compromised.

Principle

The Director for Corporate Services will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Schedule:

1.2.1 AMOUNTS OF APPROVED MINIMUM CASH BALANCES AND SHORT TERM INVESTMENTS

CASH FLOW AND CASH BALANCES

The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 12 month cash flow forecast.

The Treasury team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the interest that can be earned.

Borrowing or lending shall be arranged in order to achieve this aim. The Treasury Management Team carries out daily activity with the objective of leaving the Council with a nil balance. The arrangements with the bank are such that no interest is received on balances in hand but an overdraft facility has been provided.

In order to achieve the maximum return from investments a daily cash balance of +/- £100,000 is the objective for the Council's bank account.

SHORT-TERM INVESTMENTS

The Council uses various Reserve accounts/Money Market Funds to manage liquidity requirements. These accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy. To cover liquidity requirements a minimum balance of £15m is available on call at all times.

1.2.2 Details of:

- **Standby facilities**

Up to 3.30 pm (the Chaps payment cut off time) payments can be made to any of the Council's deposit account facilities with approved banks subject to counterparty

limits. Any unexpected surplus funds can be lodged in these accounts. These accounts are available on call to cover daily cash flow requirements. Where funds are received by the Council after 3.30 pm any forecast surplus balance will be deposited in the Council's Co-operative bank Public Sector Reserve account receiving tiered interest rates depending on the size of deposits. These funds will only be held in this account overnight or over the weekend and the balance will be withdrawn to be added to cashflow balances on the next working day.

- **Bank overdraft arrangements**

A £2.4m overdraft has been agreed as part of the bank tender. The overdraft is assessed on a group basis for the Council's accounts. The overdraft rate agreed in the contract with the bank is 2% above base up to £100,000 and 5% above base for over £100,000

- **Short-term borrowing facilities**

The Council has access to temporary borrowing of up to 364 days through approved brokers on the money market. When the Council is able to forecast in advance that it will have a short term borrowing requirement on a particular day, in advance the Council will contact brokers with a view to securing some or all of the required borrowing subject to interest rates at that time. The approved brokers have been provided with the details of staff that are authorised to negotiate deals on behalf of the Council. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

- **Insurance/guarantee facilities**

No liquidity insurance/guarantee facilities have been made.

1.2.3 POLICY IN TERMS OF BORROWING IN AVANCE OF NEED

The Council will consider borrowing in advance to cover the capital programme in future years or to fund future debt maturities as part of its annual strategy. The Director for Corporate Services will monitor interest rates and credit risk and will consider such borrowing only where there is a clear business case for doing so.

1.3 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and using this in formulating its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points. These limits and strategy are set out in the annual Treasury Management Strategy Statement. This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

Principle:

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of the council's approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Schedule:**1.3.1 Minimum/maximum proportion of fixed/variable rate debt interest**

Borrowing/investments may be at a fixed or variable rate.

The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.

In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.

The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.

1.3.2 Details of approved interest rate exposure limits

The Council appointed Arlingclose Ltd. as a treasury management adviser to the council and part of their services is to assist the Council to formulate a view on interest rates. The Council may have exposure to fixed as well as variable borrowing interest rates. The Council's net exposure to variable interest rates is determined by the difference between money borrowed, and money lent out at any point in time which is at variable rates. However, the Council is also mindful that at any time its exposure depends also on fixed rate borrowings and lending which are due to mature within 12 months. In managing overall debt the Council may consider restructuring long-term debt into short-term debt to produce savings during periods

in which short-term borrowing rates are lower and long-term borrowing rates are not expected to rise in the near future. The interest rate exposure limits are stated in the Annual Treasury Management Strategy and adjustments will be made during the year when necessary subject to approval by full Council.

1.3.3 Trigger points and other guidelines for managing changes to interest rate levels

The main impact of changes in interest levels is to monies borrowed and invested at variable rates of interest. The Treasury Management Strategy report outlines the view on interest rates for the year. The expected change in long term as well as short-term interest rates will determine the borrowing strategy to be implemented. Subsequently, in conjunction with the Council's treasury advisers, officers will continually monitor both the prevailing interest rates and the market forecasts and adopt a pragmatic approach to any changing market conditions. More detailed information is provided, along with the limits for fixed and variable rate exposure, in the Council's annual Treasury Management strategy report.

The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.

1.3.4 Policies concerning the use of financial derivatives and other instruments for interest rate management.

a. forward dealing

Consideration will be given to dealing from forward periods dependent upon market conditions. When the term of a loan from deal date to maturity date exceeds 365 days and the term of a deposit from deal date to maturity date exceeds 1 month the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies is required.

b. callable deposits

The Council will use callable deposits as part of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS. Callable deposits with maturity dates beyond 1 month will be taken subject to the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies.

c. LOBOS (borrowing under lender's option/borrower's option)

The Council considers the use of LOBOs as part of its annual borrowing strategy. LOBO rates are periodically monitored and may be taken subject to the approval of the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies.

d. Derivatives to hedge against interest rate risk.

An example would be an interest rate swap used to exchange variable interest rates for fixed interest rates or vice versa reducing the risk of exposure to large levels of variable or fixed debt and balancing this against the mixture of variable and fixed rate investments.

Currently Local Authorities' legal powers to use derivative instruments remain unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently the Authority does not intend to use derivatives.

Should the position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives such as interest swaps and options, but this change in strategy will require Full Council approval.

1.4 EXCHANGE RATE

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle:

The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

1.4.1 Exchange rate risk management

This Council does not, on a day to day basis, have foreign currency transactions or receipts. Any receipt of foreign currency will be converted to sterling at the earliest opportunity.

If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.

At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has also determined that all its investments will be in Sterling.

1.5 REFINANCING RISK MANAGEMENT

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle:

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:**1.5.1 DEBT/OTHER CAPITAL FINANCING MATURITY PROFILING, POLICIES AND PRACTICES**

The Council will establish through its Prudential Indicators the amount of debt maturing in any year/period. The Council debt will be managed within the maturity limits set by the approved Prudential Indicators to ensure that the maturity profile of debt will not expose the Council to high levels of debt requiring refinancing in any one financial year. This takes into account all possible maturity dates for Lobo's which may mature at any option date if the lender alters the interest rate and the Council (borrower) takes the option to repay.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) to fulfill the borrowing strategy stated in the Council's Treasury Management Strategy report
- b) the generation of cash savings at minimum risk
- c) to reduce the average interest rate
- d) to enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

All rescheduling will be reported to Cabinet at the meeting immediately following its action as part of the quarterly budget monitoring report.

1.5.2 PROJECTED CAPITAL INVESTMENT REQUIREMENTS

As part of the Local Government Act 2003 "The Prudential Code" for Capital Finance in local authorities has introduced new requirements for the manner in which capital spending plans are to be considered and approved. The Prudential Code gives local authorities the power to determine their own borrowing levels within a framework based around affordability, prudence and sustainability and

takes account of the next three financial years. The Director for Corporate Services prepares the five-year plan for capital expenditure for the Council in accordance with the statutory guidelines. The capital plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes. Financing of capital expenditure will be met from capital receipts, any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.

As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.

The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

1.5.3 POLICY CONCERNING LIMITS ON REVENUE CONSEQUENCES OF CAPITAL FINANCING.

The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.

In considering the affordability of its capital plans, the Council will act with regard to the Prudential Code for Capital Finance. The Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three-year period.

1.6 LEGAL AND REGULATORY

Legal and regulatory risk is the that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

Principle:

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMPI(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule:

I.6.1 REFERENCES TO RELEVANT STATUTES AND REGULATIONS

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

- CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
- CIPFA Standard of Professional Practice on Treasury Management
- The Local Government Act 2003
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
- Pensions, England and Wales – The Local Government Pension Scheme (Management and investment of Funds) regulations 2009 SI 2009 No 393
- The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
- The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
- The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
- LAAP Bulletins
- Code of Practice on local Authority Accounting in the United Kingdom based on International Financial Reporting Standards
- Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

I.6.2 PROCEDURES FOR EVIDENCING THE ORGANISATION'S POWERS/AUTHORITIES TO COUNTERPARTIES

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

The Council's Financial Regulations contain evidence of the power /authority to act as required by section 151 of the Local Government Act 1972.

The Council prepares, adopts and maintains, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the overriding principles and objectives of its treasury management activities and, as an integral part of that Statement.
- Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

The Council will confirm, if required to do so by counterparties, the powers and authorities under which the Council effects transactions with them.

1.6.3 REQUIRED INFORMATION FROM COUNTERPARTIES CONCERNING THEIR POWERS/AUTHORITIES

Lending shall only be made to counterparties on the Council's authorised lending list, which has been approved by the Council's Director for Corporate Services. This list has been compiled based on the credit ratings supplied by Standard & Poor's, Fitch Ratings and Moody's Investor Services and the advice of the Council's Treasury Management advisers.

The Council will only undertake borrowing from approved sources such as the PWLB, Local Authorities, and organisations such as the European Investment Bank and from commercial banks. Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

The approved sources of borrowing are contained in TMP 4.

1.6.4 STATEMENT ON THE ORGANISATION'S POLITICAL RISKS AND MANAGEMENT OF SAME.

The Director for Corporate Services shall take appropriate action with the Council, the Chief Executive and the Leader of the Administration to respond and manage appropriately political risks such as change of majority Group, Leadership in the Council, change of Government etc.

1.6.4.1 Monitoring Officer

The monitoring officer is the Assistant Director for Democracy and Governance; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.4.2 Chief Financial Officer

The Chief Financial Officer is the Director for Corporate Services; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he/she has concerns as to the financial prudence of its actions or its expected financial position.

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

Principle:

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

- a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c) staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Schedules:**1.7.1 DETAILS OF SYSTEMS AND PROCEDURES TO BE FOLLOWED, INCLUDING INTERNET SERVICES**

Authority:

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the Senior Accountant (Technical) or other authorised officers
- All loans over 1 year and investments over 1 month require the prior approval of the Director for Corporate Services or the Assistant Director of Finance, Efficiencies, Technology & Assets.

Occurrence:

A detailed register of loans and investments is maintained in the Logotech (Treasury Management) system. An authorised member of the Treasury management team independently checks the register to the ledger balance. Adequate and effective cash flow forecasting records are maintained on a spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Cashflow\2012-13\Cash Flow Forecast 12-13 - Updated for actuals.xls) for the following year and updated on a daily balance with actual income and payments supporting the decision to lend or borrow. A manual diary is also kept and updated with all due principal and interest payments. A written confirmation is received promptly from the Council's brokers as well as the lending or borrowing institution. All transactions placed through the brokers are confirmed by a broker note showing details of the loan arranged.

Completeness:

The loan register, which is also maintained as back-up on an Excel spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Dealing\2012-13\dealing record 12-13.xls) is updated to record all lending and borrowing. This includes the date and the amount of the transaction, the name of the lender/borrower, maturity date, interest rates, brokerage fees etc.

Measurement:

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Logotech (Treasury Management) system.

The Logotech system automatically calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders. Average weighted principal interest rates and debt management expenses are calculated monthly using information from the financial ledger, spreadsheet working papers and accrual prints from the Logotech system. Rates generated are compared against the Council's Treasury Strategy Statement and assumed budget rates. These interest and expense rates are then used to calculate the principal, interest and debt management expense charged to the Capital Financing budget.

Timeliness:

The Logotech system prompts the Treasury Officer that money borrowed or lent is due to be repaid, thereby avoiding the incurring of penalties or overdraft charges, which is due to late payment. All future repayments are recorded on the cash flow forecast and the manual diary.

Regularity:

All lending is only made to approved institutions.

All loans raised and repayments made go directly to and from the institutions bank account.

Authorisation limits are set for every institution (see 1.5.1.6.). Brokers have an up to date list of named officials authorised to perform loan transactions. There is adequate insurance cover for employees involved in loan management and accounting. The control totals on the Treasury Management system for borrowing and lending are regularly reconciled with the ledger balance sheet codes by an assistant accountant on the corporate accountancy (technical) team. There is a clear separation of duties in the Section between the repayment of a loan and its checking and authorisation. The bank reconciliation is carried out monthly from the bank statement to the financial ledger. The corporate accountancy (technical) staff dealing with treasury management team also has an up to date financial code list for all interest and principal used for coding of creditors and office cash transactions.

Internet Banking:

The Council's online banking service provided by the Co-operative bank provides details of transactions and balances are available as required, and the system also holds historic data. This service is used to update the Council's cashflow and calculate required/available funds on a daily based used for funding/investment decisions. The service is also used to transmit Chaps payments for deposits/loan repayments and other large payments where same day receipt is required. Officers access to the system is required for account/balance enquiry, the input of chaps and the authorisation of Chaps payments.

Security:

The Logotech system can only be accessed by a password.

Payments are only authorised in a formal CHAPS transfer request document by officers authorised to approve such transactions. The bank transfer (Chaps) facility system (Financial Director) provide by the Co-op bank is also password protected with internal controls for input and approval. Each officer authorised to use the internet banking system is issued with a pin protected random number generator which is required to be entered on log-in to the site to enable access. Officers set up on the internet banking service to input/authorise Chaps payments are as follows:

Input:

Senior Accountant (Technical)
Accountants (Technical)
Assistant Accountant (Technical)

Authorisation:

Director for Corporate Services
Assistant Director of Finance, Efficiencies, Technology & Assets.
Head of Finance
Head of Value for Money & Efficiencies
Strategic Finance Manager
Group Accountant

Substantiation:

The Treasury Management system balances are proved to the balance sheet ledger codes at the end of each quarter and at the financial year-end. Working papers are retained for audit inspection.

A debt charge/investment income listing is produced every time the debt charges/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year-end and this document is retained for audit inspection.

The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with best value ACOP accounting practice by reflecting the market value of the fund in the balance sheet. This will be agreed with Council's external auditors.

Internal Audit:

Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

1.7.2 EMERGENCY AND CONTINGENCY PLANNING ARRANGEMENTS

There are a number of systems/procedures essential to the workings of the treasury management team in the management of the council's cash flow and borrowing and investment activities. The key items are:

1. Treasury Management files held on S:\Corporate Resources\New Finance\Treasury Management
2. Logotech loan/investment register system
3. Connection with the Co-op Bank
4. Contact with brokers and counter-parties
5. Office Cover

1.7.2.1 Treasury Management files

The files held on the S drive of the Council's network are essential for:

- the recording and forecasting the Councils cash flow for anything up to one year ahead (especially critical to ensure cash available to cover creditors/payroll one or two days ahead);
- recording and calculating the cash available/need on a daily basis from financial data downloads from the Co-op Bank;
- recording all loans/investments undertaken by the Council together with deposits into the Council's various bank Deposit accounts;
- a variety of other administration tasks such as dealing confirmations.

As the TM files are held on the S drive these are backed up at the end of the day along with all other PCC corporate drives. This should suffice as a safeguard. There is also the added safeguard in that all Council loans and deposits are held on the Treasury Management system (Logotech) – see below.

A manual diary is also kept recording all major receipts and payments including future Chaps payments that need to be made.

1.7.2.2 Logotech Loans/Investment register

This system records all loans and deposits activity of the TM team. It is reconciled to the ledger quarterly and provides reports, accruals and back up information for monitoring and the annual accounts. It also produces paperwork for deposits used in the input and authorisation of Chap payments.

This is an essential system for the control and upkeep of the council's loans and deposits. Loss of this data would cause major disruption to the work of the TM team and risk inaccurate records in the accounts along with delaying the production of these accounts. This system is held on the C drive of a PC. To safeguard this data daily backups are made to the S drive. Records of loans and deposits are also held on the S drive in the Treasury Management folder.

1.7.2.3 Internet Banking

In the event of complete failure of Financial Director due to system or internet problems it will be necessary to telephone the FD helpline on 08457 616616 for status update and if necessary to provide balance information to ensure that investment/borrowing decisions can be based on adequate information.

Financial Director also enables the Council to make Chaps payments for deposits, loan repayments and other large creditor payments. Should FD fail there are back-up procedures in place where Chaps payments can be made manually. This requires a fax to be sent to the Co-op bank on 0161 8392163. This fax requires the payment amount and the payee, bank, bank sort code and account number to be credited and must be signed by a bank authorised signatory.

The internet connection with the bank is essential but, provided the telephone system is working and faxes can be received/sent, the Treasury Management function could be undertaken for a few days without it.

1.7.2.4 Contact with Brokers and Counterparties

Most loans undertaken by the council are brokered by a third party. These brokers contact the council on a daily basis and provide information on the rates available in the market. These rates are also used when considering investments together with direct rates e-mailed to members of the treasury management team on a daily basis. In the main investments are agreed directly with the banks where higher rates can be achieved.

Without the information from brokers the Council would be restricted in its investment decisions and the availability of any borrowing required.

The telephone numbers required are:

<u>Broker</u>	<u>Contact</u>	<u>Tel. No.</u>
Martin Brokers	Shusmita Chaudury	0207 4699580
Sterling Brokers	Jim Risley	0207 5623456
Tullet Prebon	Jon Hurley	0207 2007042
London Currency Brokers	Roger Lane	0207 7394444
Tradition	Alex Cicopalus	0207 4223566

The Council also deals directly with Barclays, Bank of Scotland, Santander UK and Royal Bank of Scotland. Contact with these counterparties is essential for cash management. Telephone/fax access to them allows the Council to request transfer of funds or notification of impending Chaps payments. Contact is required as follows:

Barclays	- Withdrawals by fax – 0845 9645511 – by 3.00 pm - Phone contact 0845 6016047
Bank of Scotland	- Withdrawals by fax – 0845 6011445 – by 2.00 pm - To confirm receipt of fax – 0845 6048129

- Santander UK
- Withdrawal by phone (password required) – 0845 6066358 by 11.30
 - Withdrawal by fax – 0845 6066351 by 11.30 am
 - Investment /withdrawal notification by e-mail – RMT@santander.com over £5m
- RBS
- Withdrawal by fax – 0845 3003349 – by 3.15 pm
 - Phone contact – 01752 274606

As a back-up the telephone numbers of brokers are kept in the front of the diary and the numbers for direct contact counterparties on their individual lever- arch files. If phone lines are down contact with brokers/counterparties could be made by mobile phone. Faxes would need to be sent from a site with an available phone line/fax.

1.7.2.5 Office Cover

The minimum amount of office cover required for adequate Treasury Management controls to be maintained is one member of the treasury management team. However if any Chaps payments are required this will need the availability of an authorised officer.

This leaves the TM function vulnerable to situations such as local transport gridlock or epidemic diseases, where large numbers of staff would be unable to get to work.

Chaps payments using the Co-op internet banking system can be undertaken as long as the appropriate officers to input and authorise have their pin activated random number generator available. The co-op website is available using internet access on any site including at home.

There are currently 5 Members of staff that can input Chaps payments and 9 that can authorise these payments.

1.7.3 INSURANCE COVER DETAILS.

The Council has **'Fidelity'** insurance cover with Chartis. This covers the loss of cash by fraud or dishonesty of employees up to the sum of £10m in the year and an excess of £10,000 only in one occurrence.

The Council also has a **'Professional Indemnity'** and a 'Public Liability and Official Indemnity' insurance policy with Chartis, which cover loss to the Council from the actions and advice of its officers that are negligent and without due care, while acting within as well as outside the scope of their official duties. The total sums insured for these policies are £5m and £50m respectively with an aggregate excess of £5,000 and £250,000 respectively.

The Council also has a '**Business Interruption**' (or an '**Increased Cost of Working**') cover as part of its property insurance with Travelers. The total sum insured is £15m with an excess of £100,000.

1.8. MARKET VALUE OF INVESTMENTS RISK MANAGEMENT

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle:

This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule:

1.8.1 DETAILS OF APPROVED PROCEDURES AND LIMITS FOR CONTROLLING EXPOSURE TO INVESTMENTS WHOSE CAPITAL VALUE MAY FLUCTUATE (GILTS, CDS, etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy (which forms part of the Annual Treasury Management Strategy Statement).

1.8.2 ACCOUNTING FOR UNREALISED GAINS/LOSSES

The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice.

TMP 2 PERFORMANCE MEASUREMENTS

Principle:

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule:

2.1 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY

Best value reviews will include the production of plans to review the way services are provided by

- Challenging
- Comparing performance
- Consulting with other users and interested parties
- Applying competition principles

in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

2.2 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

The Council has a number of approaches to evaluating treasury management decisions:-

- regular meetings of the Treasury Management Board.
- reviews with our treasury management consultants
- quarterly review in budget monitoring report
- mid-year review to Audit committee
- annual review as reported to committee
- comparative reviews/benchmarking

The Council is a member of the CIPFA Treasury management benchmarking club. The club enables comparison with other authorities for its investment and debt positions and activities. Data is provided for comparison on an annual basis.

The Council's Treasury Management advisers review the existing debt portfolio and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.

The Council's Treasury Management advisors compare the performance of the Council's in-house investments, both in terms of risk and return, with funds managed by other client Local Authorities and report quarterly on the risk /return score ratings comparing the full client base and a comparison of unitary authorities.

2.2.1. Periodic reviews during the financial year

There is a regular treasury management board meeting attended by the Senior Accountant (Technical), the Director for Corporate Services, the Assistant Director of Finance, Efficiencies, Technology & Assets, and the Head of Finance.

These meetings include discussion on investments and borrowing strategies, change in market, counterparty and credit conditions and a review of investment and loan levels. There is also a monthly strategy and review meeting to include review of actual activity against the Authorised Borrowing Limit. Capital Financing budget and Treasury Management Strategy.

This will include:

- Total debt including average rate and maturity profile
- Total investments including average rate and maturity profile
- Transactions in the period since the last meeting
- Cash flow forecast update
- Counterparty lending against limits
- Monitoring position – latest forecast against budget.

2.2.2 Reviews with management consultants

Members of the Treasury Management Board hold reviews with our consultants (Arlingclose) on a quarterly basis to review the performance of the investment and debt portfolios.

2.2.3 Annual review after the end of the financial year

An Annual treasury Report is submitted to Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios.

The report contains the following:-

- total debt and investments at the beginning and close of financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanation for variance between original and actual strategies
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential Indicators

2.2.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential Indicators are locally set). Data used will be sourced from:-

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Risk Management study
- CIPFA Benchmarking Club
- Arlingclose risk return comparators of client base

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

- Compliance to CIPFA Code of Treasury Practice.
- Expenses contained within approved budget. Reviewed in the quarterly budget monitoring reports
- Review of benchmarking club data.

Treasury management activity is reviewed mid-year and at year end against strategy and prevailing economic and market conditions through the Audit Committee, Cabinet and Full Council.

The report will include:

- Total debt including average rate and maturity profile
- The effect of new borrowing and/or maturities on the above
- The effect of any debt restructuring on the debt portfolio
- An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period)
- Total investments including average rate, credit and maturity profile
- The effect of new investments/redemptions/maturities on the above
- The rate of return on investments against their indices for internally managed funds
- An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)
- A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY WITH REGARDS TO RISK AND RETURN:

2.4.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year
- Ratio of PWLB and market debt (beginning and end of period)
- Ratio of fixed and variable rate debt (beginning and end of period)

2.4.2 Investment.

The performance of in house investment earnings will be measured against 7 day LIBID.

2.5 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY IN TREASURY MANAGEMENT,

2.5.1 Frequency and processes for tendering

Tenders are normally awarded on a three yearly basis with the option to extend for one year, if approved by the Cabinet Committee. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.5.2 Banking services

Banking services will be retendered or renegotiated every 3 years to ensure that the level of prices reflects efficiency savings achieved by the supplier and current pricing trends.

2.5.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers has been established which takes account of both prices and quality of services.

2.5.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants.

2.5.5 Policy on External Managers

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

TMP 3 DECISION-MAKING AND ANALYSIS**3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:****Principle:**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedules:**3.1.1 Records to be kept**

The Treasury section has a computerised treasury management system called Logotech. All loan and deposit transactions are recorded on the system as well as on an Excel spreadsheet. Full details of the system are covered in the user manual.

The following records will be used relative to each loan or investment:

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly.
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer best value)
- Performance information (e.g. monitoring of actual against budget for debt charges, interest earned, debt management; also monitoring of average borrowed rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every decision made the Council will:

- a) above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2. In respect of borrowing and other funding decisions, the Council will:

- a) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- b) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- c) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- d) consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- e) seek to reduce the overall level of financing costs/smooth maturity profiles through debt restructuring.

3.1.3.3. In respect of investment decisions, the Council will:

- a) consider the optimum period, in the light of cash flow availability and prevailing market conditions
- b) consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.
- c) determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

3.1.3.4. In respect of decisions regarding derivatives, the council will:

- a) be able to demonstrate that the derivative transaction has reduced the Council's overall exposure to treasury risks.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle:

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMPI Risk Management**.

Where the Council intends to use derivative instruments for the management of risk, these will be limited to those set out in the annual treasury strategy. The Council will seek proper advice and consider that advice when entering into arrangements to use such products to ensure full understanding of these products.

Schedules:

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

The Council is permitted to undertake the following activities:

- Managing cashflow
- Capital financing
- Borrowing including debt restructuring and debt repayment
- Lending including redemption of investments
- Banking
- Leasing
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).

The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities

- Term deposits with banks and building societies
- Certificates of deposit
- Callable deposits
- Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
- Gilts
- Bonds issued by multilateral development banks
- Bonds issued by financial institutions guaranteed by the UK government
- Sterling denominated bonds by non-UK sovereign governments
- Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534
- Bonds and debt instruments issued by corporate bodies e.g.
 - Corporate Bonds
 - Commercial Paper

4.3 APPROVED TECHNIQUES

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument

The use of structured products such as callable deposits

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act, 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

<u>On Balance Sheet</u>	Fixed	Variable
• Public Works Loans Board (PWLB) Loans	●	●
• European Investment bank (EIB)	●	●
• Long term money market loans including LOBOs	●	●
• Temporary money market loans (up to 364 days)	●	●
• Bank overdraft		●
• Stock issues	●	●
• Local bonds	●	
• Negotiable Bonds	●	●
• Commercial Paper	●	
• Medium Term Notes	●	
• Finance Leases	●	●
• Deferred Purchase	●	●

Internal Resources

- Capital receipts
- Revenue balances
- Use of Reserves

Other Methods of Financing

- Government and EC Capital Grants
- Other capital grants and contributions
- Lottery monies
- PFI/PPP
- Operating leases

Borrowing will only be undertaken in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director for Corporate Services has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources. The level of debt will be consistent with the treasury management Strategy and the Prudential Indicators.

4.5 INVESTMENT LIMITS

The Annual Investment Strategy within the treasury Management Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 BORROWING LIMITS

The Council's Treasury Management Strategy Statement and Prudential Indicators sets out the limits on borrowing.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

Principle:

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director for Corporate Services will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Director for Corporate Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director for Corporate Services will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedules below.

The Director for Corporate Services will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedules below.

The delegations to the Director for Corporate Services in respect of treasury management are set out in the schedules below. The Director for Corporate Services will fulfill all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedules:

5.1.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE / EXECUTIVE LEVELS

Full Council

- Receiving, reviewing and approving prudential indicators as part of the budget setting process (following receipt by Cabinet).
- Approval of the Treasury Management Strategy and Annual Investment Strategy and any subsequent amendments (following receipt by Cabinet).
- Receiving and reviewing reports on treasury management policies, practices and activities including a mid-year review and an annual report (following review by Audit Committee).

Cabinet

- Approval of amendments to adopted clauses and treasury management policy statement (following scrutiny by the Audit Committee).
- Budget consideration and approval.

Audit Committee

- Responsible for the scrutiny of treasury management strategy, activities and practices and approval of the treasury management practices.

Delegated to Director for Corporate Services

- The Director for Corporate Services will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- Approval of the segregation of responsibilities.
- Receiving and reviewing of the external audit reports and putting recommendations to the Audit Committee.
- Approving the selection of external service providers and agreeing terms of appointment in accordance with Financial Regulations.

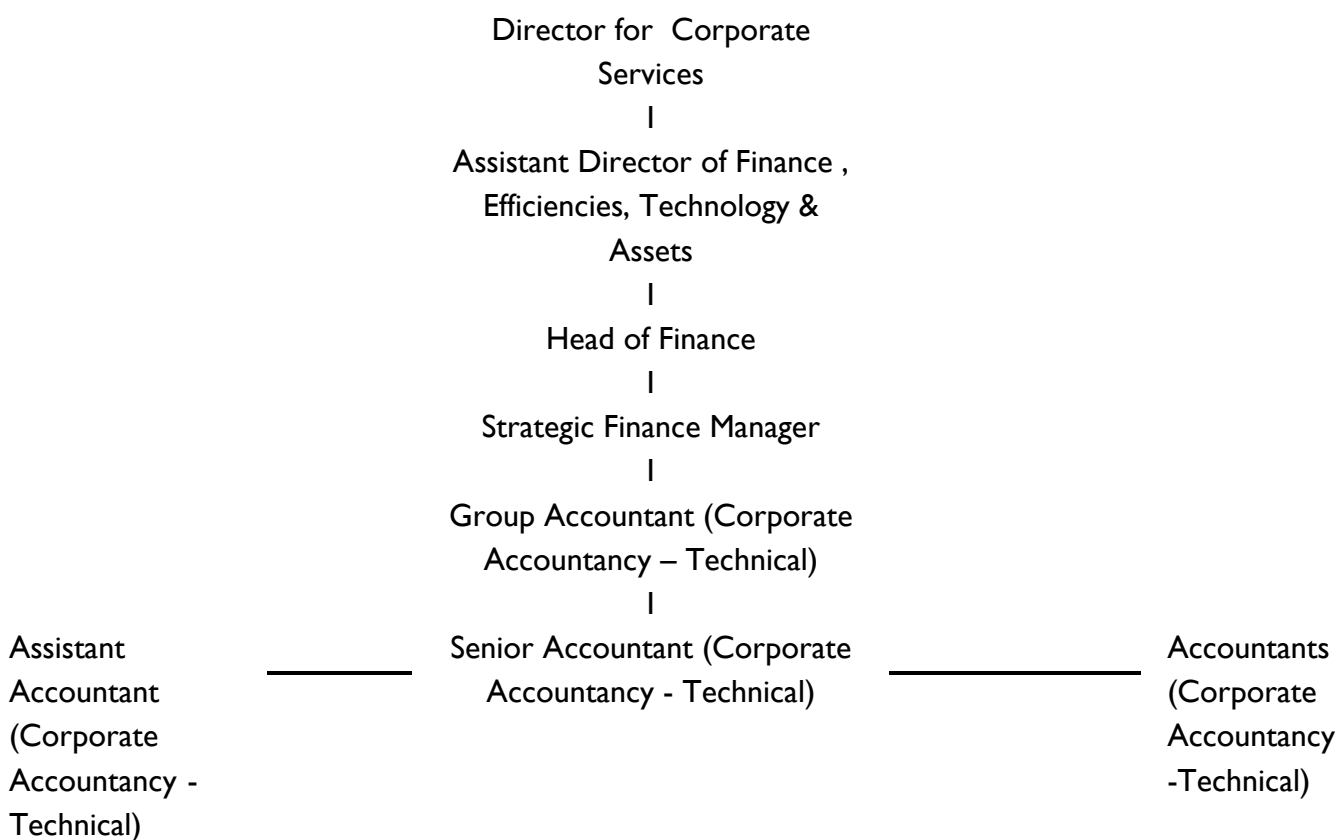
5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The segregation of duties will be determined by the Director for Corporate Services.

Dealing	Group	Negotiation and approval of deal.
	Accountant/ Senior	Receipt and checking of broker's confirmation note
	Accountant/ Accountants	Receipts and checking of confirmation from deposit/loan counterparty
		Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Senior	Production of Direct debit form
	Accountant / Accountants/ Assistant Accountant	Processing of accounting entry
Authorisation / Payment of Deal	Senior Accountant/ Accountants/ /Assistant Accountant	Entry onto Financial Director (FD)

Authorisation / Payment of Deal	Authorised DoCS, ADFETA, HOF, Strategic Finance Managers and Group Accountants	Approval: Authorisation on FD/sign off direct debit and Chaps request
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5.3 TREASURY MANAGEMENT ORGANISATION CHART



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES

5.4.1 Treasury Management Board

The Treasury Management Board will meet on a regular basis at the discretion of the Director for Corporate Services and consists of:

Director for Corporate Services

Assistant Director of Finance, Efficiencies, Technology and Assets
 Head of Finance
 Senior Accountant (Corporate Accountancy - Technical)

In the absence of the Senior Account (Corporate Accountancy – Technical) an Accountant (Corporate Accountancy – Technical) will attend.

Its duties and responsibilities will include:

- Ongoing review of the Council's borrowing and Investment strategy considering counterparty limits, maturity periods and financial impact.
- Credit risk management. Reviewing credit rating changes, economic news, share price data and press information to consider the appropriateness of investments, their risk and any action required to mitigate this risk.
- Considering the council's borrowing position, reviewing rescheduling opportunities and proposed debt repayments as part of the management of risk.
- Discussions and recommendation on and for the Council's Treasury management strategy.
- Meeting with the Council's Treasury Management advisors to discuss Strategy. Considering the economic climate and forecast interest rates, ongoing investment and borrowing and current issues impacting on creditworthiness of financial institutions.
- Assessing the revenue and cash flow impact of any proposed action and how this fits into the previously set strategy. Agreeing revisions to this strategy and considering the financial impact of such revisions.
- Communicate and promote awareness of key treasury management issues and risks amongst senior managers and members.
- Aim to achieve the investments and borrowing targets as detailed in the council's MTFS.
- Monitor and report on significant variations to revenue account budgets as a result of changes to treasury management activity.

5.4.2 Director for Corporate Services

I. The Director for Corporate Services will:

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance
- Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy.

- In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
 - Establish a measurement and reporting process that highlights significant variations from expectations.
 - Submit regular treasury management reports as required to the council/cabinet/audit committee.
 - Receiving and reviewing management information reports.
 - Review the performance of the treasury management function and promote best value reviews.
 - Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
 - Ensure the adequacy of internal audit, and liaising with external audit.
 - Recommend on appointment of external service providers in accordance with council standing orders.
 - Provide regular updates to relevant Cabinet Members.
- 2 The Director for Corporate Services has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
 - 3 The Director for Corporate Services may delegate his power to borrow and invest to Group Accountants (Corporate Accountancy -Technical), Senior Accountant (Corporate Accountancy - Technical) and Accountants (Corporate Accountancy – Technical).
 - 4 The Director for Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
 - 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director for Corporate Services to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
 - 6 It is also the responsibility of the Director for Corporate Services to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.3 Assistant Director of Finance, Efficiencies, Technology & Assets

- The responsibilities of this post will include covering the full responsibilities of the Director for Corporate Services in their absence.
- Delegated authority to approve loans over 1 year and investments up to 10 years.
- Delegated authority to approve loan repayments/rescheduling.

5.4.4 Head of Finance

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Establish a measurement and reporting process that highlights significant variations from expectations.

5.4.5 Group Accountant (Corporate Accountancy – Technical)

- To provide cover in the absence of the Senior Accountant (Corporate Accountancy – Technical) and cover the full responsibilities of this post.

5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include: -

- Carrying out or delegating the execution of transactions to the treasury management team
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Treasury Management Board, Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets and Head of Finance.
- Identifying and recommending opportunities for improved practices.
- Prepare and update, making recommendations for including counterparties on the Council's lending list following the advice of the Council's Treasury Management advisors.
- Authority to borrow for periods up to 1 year and lending up to 1 month.. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Director for Corporate Services or Assistant Director of Finance, Efficiencies, Technology & Assets.
- Make recommendations on all lending up to 10 years and borrowing over 1 year maturity.
- Following approval by the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies undertake all borrowing over 1 year and deposits/investments up to 10 year maturity.

- Recommend early repayment of debt over one year and subject to the approval of the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or the Head of Finance arrange the repayment of these loans.
- Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments.
- Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, Annual Treasury Management report and Treasury Management Practices.
- Prepare budget for capital financing including all treasury management loan and investment activities including MTF.
- Monitoring of Capital Financing Budget.
- Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits.

5.4.7 The Head of the Paid Service – the Chief Executive

The responsibilities of the post will be:-

- Ensuring that the system is specified and implemented.
- Ensuring the Director for Corporate Services reports regularly to the full Council/Cabinet on treasury policy, activity and performance.

5.4.8 Assistant Director for Democracy & Governance (in the role of monitoring officer)

The responsibilities of this post include: -

- Ensuring compliance by the Director for Corporate Services with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Director for Corporate Services when advice is sought.

5.4.9 Internal Audit

The responsibilities of Internal Audit include: -

- Reviewing compliance with approved policy and procedures.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

5.5 ABSENCE COVER ARRANGEMENTS

The normal office arrangements are that on any working day, at least one member of the Team is available to be consulted on any aspect of treasury management, and at least one member of the Treasury Management team is available to carry out any required dealing transactions.

The minimum amount of office cover required for adequate Treasury Management controls to be maintained is one member of the treasury management team. However if any Chaps payments are required this will need the availability of an authorised officer.

There are currently:

5 members of staff that can undertake dealing

9 members of staff that can authorise Chaps payments on Financial Director

1 of each of these would be required for the full process to be undertaken.

In the absence of the Senior Accountant (Corporate Accountancy – Technical) the Group Accountant (Corporate Accountancy – Technical) will undertake all loan transactions in excess of overnight loans.

Subject to the approval of the Treasury Management Board and/or the Director for Corporate Services or The Assistant Director of Finance, Efficiencies, Technology & Assets and Efficiencies an Accountant (Corporate Accountancy – Technical) can undertake deposit transactions up to 1 year.

In the event of the unforeseen absence of the person responsible for dealing, or the Management Team members, the Council's treasury management advisor may be contacted, and advice sought.

5.6 DEALING LIMITS

The following posts are authorised to deal:-

Senior Accountant (Corporate Accountancy – Technical)

No dealing limits for loans up to 1 year.

Deposits up to 1 month with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 1 year subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance. Investment up to 10 years in accordance with approved annual investment strategy subject to the approval of the Director of Corporate Services.

Accountant (Corporate Accountancy – Technical)

Overnight/Call Account deposits with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.

Deposit limits up to 1 year subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance.

Loans overnight only (includes weekend) with maximum value of £15m.

Cover

For cover in the absences of the Senior Accountant (Corporate Accountancy – Technical) the Group Accountant (Corporate Accountancy – Technical) will have the same dealing limits.

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

5.8 POLICY ON BROKERS' SERVICES

It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between the brokers in order to avoid relying on the services of any one broker. The service provided by Broker's is reviewed on an on-going basis in line with Best Value.

5.9 POLICY ON TAPING OF CONVERSATIONS

It is not Council Policy to tape broker conversations

5.10 DIRECT DEALING PRACTICES

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present all deposits are direct and most loans are arranged through brokers. The following transactions are undertaken directly with Bank and Building Societies on the Council's approved lending list.

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.
- Fixed term deposits.

Prior to undertaking direct dealing the Council will ensure that each counterparty has been provided with the Council's Standard Settlement Instructions.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All dealing transactions are made via CHAPS transfer by the Financial Director system, which is connected, online to the local authority's bankers' network. The payment is entered onto this system and afterwards approved by an authorised signatory. The electronic transfer should be sent by 3.30 p.m. on the same day. Where the system breaks down, a letter signed by a bank signatory setting out each transaction would be faxed to the local authority's bankers where preliminary instructions would have been given by telephone.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker and type of deal. Additional requirements are:

Investments:

- confirmation from the broker
- confirmation from the counterparty
- Chaps payment transmission document

Loans:

- confirmation from the broker
- confirmation from PWLB/market counterparty
- Chaps payments transmission document for repayment of loan

5.12.1 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle:

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council/Cabinet/Audit Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Cabinet will receive regular monitoring reports on treasury management activities and risks.

The Audit committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

6.1 FREQUENCY OF EXECUTIVE REPORTING REQUIREMENTS

The Director for Corporate Services will annually submit budgets and will report on budget variations as appropriate.

The Director for Corporate Services will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Audit Committee/Cabinet and Full Council before the start of the year.

The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.

A Mid-Year Treasury Report will be prepared by the Director for Corporate Services which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Audit Committee and Full Council during the year. All of the above reports will also be submitted to Audit Committee who will be responsible for the scrutiny of treasury management policies and practices.

6.2 CONTENT OF REPORTING

6.2.1 PRUDENTIAL INDICATORS

6.2.1.1 The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:

- Financing costs as a proportion of net revenue stream (estimate; actual)
- Capital expenditure (estimate; actual)
- Incremental impact of capital financing decisions (estimate)
- Capital Financing Requirement (estimates; actual)
- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt
- Upper limits on fixed and variable rate interest exposures
- Upper and lower limits to maturity structure of fixed rate borrowing
- Upper limit to total of principal sums invested longer than 364 days.

6.2.1.2 The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.

6.2.2 TREASURY MANAGEMENT STRATEGY STATEMENT INCLUDING ANNUAL INVESTMENT STRATEGY

6.2.2.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Audit Committee for scrutiny and Cabinet/Full Council for approval before the commencement of each financial year.

6.2.2.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.2.3 The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:

- Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing ~~three~~ years
- Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
- the extent to which surplus funds are earmarked for short term requirements
- the investment strategy for the forthcoming year

- the minimum to be held in short term/specified investment during the coming year
- the interest rate outlook against which the treasury activities are likely to be undertaken.

6.2.2.4 Investment Strategy

Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out

- the objectives, policies and strategy for managing its investments;
- the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
- the limits for the use of Non-Specified Investments.

The AIS will be integrated into the Treasury Strategy Statement.

6.2.2.5 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 POLICY ON INTEREST RATE EXPOSURE

6.3.1 The Council approves before the beginning of each financial year a number of treasury limits which are set through prudential indicators.

6.3.2 The Director for Corporate Services is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director for Corporate Services shall submit the changes for approval to the full Council. The latest limits are as set out in the treasury management strategy.

6.4 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

6.4.1 An annual report will be presented to the Audit Committee/Cabinet and then the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- transactions executed and their revenue (current) effects;
- report on risk implications of decisions taken and transactions executed;
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- monitoring of compliance with powers delegated to officers;
- degree of compliance with the original strategy and explanation of deviations;
- explanation of future impact of decisions taken on the organisation;

- measurements of performance;
- report on compliance with CIPFA Code recommendations and Prudential Indicators.

6.5 MID YEAR REPORT ON TREASURY MANAGEMENT ACTIVITY

6.5.1 The Director for Corporate Services will produce a mid-year report for the Audit committee/Council on the borrowing and investment activities of the treasury management function for the first six months of the year. The main contents of the report will comprise:

- Economic background.
- Economic forecast (including interest rate forecast).
- Treasury Management Strategy Statement update.
- Performance versus benchmarks.
- Borrowing information including premature repayment and new loans.
- Information on investments, including current lending list.
- Government framework and scrutiny arrangements.

6.6 CONTENT AND FREQUENCY OF MANAGEMENT INFORMATION REPORTS

6.6.1 Treasury Management Board

Monitoring information will be prepared monthly for the Treasury Management board. This will include:

- Total debt including average rate and maturity profile
- Total investments including average rate and maturity profile
- Transactions in the period since the last meeting
- Cash flow forecast update
- Counterparty lending against limits
- Monitoring position – latest forecast against budget
- Comparison of actual balances against prudential limits or other treasury management limits

6.7 PERIODIC MONITORING COMMITTEE REPORTS

6.7.1 The Cabinet will receive and consider a periodical review of treasury management activities during the financial year including details of any debt rescheduling undertaken.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle:

The Director for Corporate Services will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMPI Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques**. The form which the Council's budget will take is set out in the schedule below.

The Director for Corporate Services will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:-

7.1 STATUTORY/REGULATORY REQUIREMENTS

7.1.1 Balanced Budget Requirement:

7.1.1.1 The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:

- (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and
- (b) revenue costs which flow from capital financing decisions.

S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.

7.1.1.2 The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the

'CIPFA TM Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 ACCOUNTING PRACTICES AND STANDARDS

7.2.1 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

7.2.2 Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3 FINANCIAL STATEMENTS

The Financial Statements comprise:

- An explanatory foreword
- Accounting policies, changes in accounting estimates and errors
- Presentation of financial statements
- Movement in reserves statement
- Comprehensive income and expenditure statement
- Balance sheet
- Cash flow statement
- Housing revenue account
- Collection Fund (England)
- Statement of Responsibilities
- The Accounting Statements
- Additional Financial Statements (Housing Revenue Account, Collection Fund)
- Notes to the financial statements
- Statements reporting reviews of internal controls or internal financial controls
- Events after the reporting period
- Related party disclosures

7.4 SAMPLE BUDGETS/ACCOUNTS/PRUDENTIAL INDICATORS

7.4.1 The Director for Corporate Services will prepare a three year medium term financial plan with Prudential Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the

function, together with associated income. The Director for Corporate Services will exercise effective controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4.2 The current form of the Council's accounts is available within the Finance department.

7.5 TREASURY MANAGEMENT RELATED INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

7.5.1 The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.

7.5.1.1 Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

- Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
- Prudential Indicators.
- Treasury Management Strategy including Annual Investment Strategy.

7.5.1.2 External borrowing:

- New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
- Loan maturities.
- Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
- Analysis of loans outstanding at year end including maturity analysis.
- Analysis of borrowing between long- and short-term
- Debt management and financing costs
- Calculation of (i) interest paid (ii) accrued interest
- MRP calculation and analysis of movement in the CFR.
- Bank overdraft position.
- Brokerage/commissions/transaction related costs.

7.5.1.3 Investments:

- Investment transactions during the year including any transaction-related costs
- cash and bank balances at year end
- Short-term investments at year end

- Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
- calculation of (i) interest received (ii) accrued interest
- actual interest received
- External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
- Basis of valuation of investments
- Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
- Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.

7.5.1.4 Cash Flow

- Reconciliation of the movement in cash to the movement in net debt
- Cash inflows and outflows (in respect of long-term financing)
- Cash inflows and outflows (in respect of purchase/sale of long-term investments)
- Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

7.5.1.5 Other

- Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes
- Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.
- External advisors'/consultants' charges

7.6 INTERNAL AUDIT

7.6.1 Internal Audit generally conducts an annual review of the treasury management function and probity testing. The Internal Auditors will be given access to treasury management information/documentation as required by them.

7.7 COSTS FOR TREASURY MANAGEMENT

The budget for treasury management forms part of the capital financing budget. This budget forms part of the Council's annual budget setting strategy.

TMP 8 CASH AND CASH FLOW MANAGEMENT

Principle:

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director for Corporate Services and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director for Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with **TMPI [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:-

8.1 CASH FLOW FORECASTING

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. The cash flow forecast for the year is updated on a daily basis with actual figures from the Council's bank transactions available from Financial Director. The cash flow forecast is a key document used for calculating any borrowing needed to cover short-term cash flow requirements or the availability of cash for any short-term or longer-term investments.

The detailed annual cash flow model includes the following:

Revenue activities:

Inflows:

- Revenue Support Grant
- Non domestic rates receipts
- NNDR receipts from national pool
- Council tax receipts
- Housing subsidy
- DSS / other government grants
- Cash for goods and services
- Other operating cash receipts

Outflows:

- Salaries and payments on behalf of employees
- Operating cash payments
- Housing Benefit paid
- Precepts paid

- NNDR payments to national pool
- Payments to the capital receipts pool

Capital activities including financing

Inflows:

- Capital grants received
- Sale of fixed assets
- Other capital cash receipts

Outflows:

- Purchase of fixed assets
- Purchase of long-term investments
- Other capital cash payments

Financing, Servicing of Finance>Returns on Investments

Inflows:

- New long-term loans raised
- New short-term loans raised
- Interest received
- Discount on premature repayment of loan

Outflows:

- Loan repayments
- Premia on premature repayment of loan
- Short-term investments
- Capital element of finance lease rental payments
- Interest paid
- Interest element of finance lease rental payments

8.2 BANK STATEMENTS PROCEDURES

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to transaction records from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Bank Reconciliation Team.

8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:

- Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice.
- All other creditors to be paid within 30 days of receipt of invoice.

8.4 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

The information on levels of debtors and creditors are monitored. Debtors payment information is recorded from the daily bank transactions and creditors payments passed to the treasury team following each pay run to assist in updating the cash flow forecast.

8.5 PROCEDURES FOR BANKING OF FUNDS

Instructions for banking of receipts are set out in the Financial Regulations.

All money received by an officer on behalf of the Council will without unreasonable delay be either passed to Transaction Centre staff to deposit or banked directly, under arrangements put in place by the Strategic Manager (Transaction Centre), into the Council's bank accounts. Cash & cheques received by Transaction Centre staff are banked weekly due to the reduction in the value of receipts and the cost of transporting the deposits. These bankings are then included in the figures available on Financial Director used to calculate the Council's available funds/funding requirement requirements and to update the Cash flow forecast for the year.

8.6 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

All prepayments must be authorised by the approved signatory in the respective department.

TMP 9 MONEY LAUNDERING**9.1 Background:**

9.1.1 The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

9.1.2 Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

9.1.3 In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

9.1.4 CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

9.2 Principle :

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below

Schedule:-**9.3 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS**

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000: (The FSA register can be accessed through their website on www.fsa.gov.uk).

When repaying loans, the procedures in 9.4 will be followed to check the bank details of the recipient.

9.4 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. This will be authorised deposit takers under the Financial Services and Markets Act 2000: (The FSA register can be accessed through their website on www.fsa.gov.uk).

Where counterparty is contracted via a broker, the broker confirms bank details. Where Plymouth City Council has previously used the counterparty, details are checked against those currently held. Any changes are confirmed by the broker and by the counterpart on headed paper. When a broker introduces a new counterparty, Standard Settlement Instructions on headed paper are requested. Confirmation of bank details on headed paper is required before any principal or interest payments are made.

All transactions are carried out by CHAPS for making deposits or repaying loans.

9.5 PROCEEDS OF CRIME ACT 2002 (POCA)

Please find below an explanation of the current responsibilities of local authorities: -

The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.

The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number

of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer to whom suspicions must be reported and who is responsible for deciding whether to pass the report to the NCIS.

Their contact address is as follows:

NCIS
PO BOX 8000
LONDON SE11 5EN
www.ncis.co.uk

The Council has appointed the Head of Finance to be the responsible officer to who any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

The treasury management team is conversant with the requirements of the Proceeds of Crime Act 2002. The Council will only lend money to or invest with those counterparties who are authorised under the Financial Services and Markets Act 2000 and each organisation will be asked to formally provide adequate settlement instructions.

TMP 10 TRAINING AND QUALIFICATIONS**Principle:**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director for Corporate Services will recommend and implement the necessary arrangements.

The Director for Corporate Services will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule:-**10.1 QUALIFICATIONS/EXPERIENCE OF TREASURY MANAGEMENT STAFF**

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The courses/events the Council would expect its treasury management personnel to consider are:

- Appropriate qualifications in Treasury Management. This was previously a Certificate in International Treasury Management – Public Finance which has been obtained by the Senior Accountant on the Treasury Management team. This qualification is no longer available and CIPFA are working on a new qualification for treasury managers.
- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, and Financial Management run by CIPFA and IPF.
- Any courses/seminars run by Treasury Management Consultants.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function.

10.2 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff is appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.3 RECORDS OF TRAINING

Records of training received by treasury management staff and those charged with governance are maintained on the appropriate personnel file or as part of councilor/committee records.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**Principle:**

The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director for Corporate Services and details of the current arrangements are set out in the schedule below.

Schedule:-**11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS AND REGULATORY STATUS****11.1.1 Banking services**

Name of supplier of the service: Co-operative Bank PLC.

The branch address is:

160 Armada Way, Plymouth PL1 1LF

Tel No. 01752 661482

Commencement Date 1st April 2008

Expiry Date 31st March 2012

The contract ran for 4 years from the 1st April 2008. The contract allowed for the possibility of two additional annual extensions to be agreed by both parties before October 2011 and 2012 respectively. The first extension has been agreed and runs until 31st March 2013.

Other Banks used for access deposit account facilities:

Name of Bank	Account Type	Address
Bank of Scotland PLC	Call and 7 Day Notice	3 rd Floor Citymark 150 Fountainbridge

		Edinburgh EH3 9PE
Santander UK Plc	Call	Abbey National House 301 St Vincent Street Glasgow G2 5NT
Clydesdale Bank	Call and 15 Day Notice	Plymouth Financial Solutions Centre Ground Floor Envoy House 61 Longbridge Road Plymouth PL6 8LU
Royal Bank of Scotland	Call and 30 Day Notice	RBS Corporate Banking 2 nd Floor Vantage Point Woodwater Park Pynes Hill Exeter EX2 5FD
Barclays	Call	PO Box 330 3 Bedford Street Exeter BX3 2BB

11.1.2 Money-broking services

The council will use money brokers for temporary borrowing and investments up to 1 year and long term borrowing. Brokers currently used are:

Name of Broker	Address	Tel. no.
Martin Brokers (UK) PLC	Cannon Bridge House, 25 Dowgate Hill, London EC4R 2BB	0207 4699580
Tullet Prebon Europe Ltd	155 Bishopsgate, London EC2M 3TQ	0207 2007042
Sterling International Brokers Ltd	No. 10 Chiswell Street London EC1Y 4UQ	0207 4968955
London Currency Brokers	ICB House, 3 Scrutton Street London EC2A 4HF	0207 7394444
Tradition (UK) Ltd	Beaufort House 15 St Botolph Street London EC3A 7QX	0207 4223566

11.1.3 Consultants'/advisers' services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments.

Treasury Consultancy Services

Name of supplier of service is Arlingclose Ltd.

Their address is:

60 Moorgate

London

EC2R 6EL

Tel: 08448 808200

Contract Expiry Date is 31st December 2012

Cost of service is £22,000 + Vat in 2012.

The Council has the option to extend the contract for a further two one year periods subject to an annual review with cost in 2013 increasing to £23,000 + Vat and in 2014 to £24,000 + Vat.

External Fund Managers

The council does not currently hold funds with an external fund manager.

11.1.4 Regulatory Status of Services Provided

All financial services providers are regulated by the Financial Services authority (FSA)

TMP 12 CORPORATE GOVERNANCE

Principle:

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2011). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Director for Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

The following documents are available for public inspection:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement (Including Prudential Indicators and investment Strategy)
- Annual Treasury Report
- Annual Statement of Accounts
- Annual budget
- 5 year Capital Plan
- Minutes of the Council/Cabinet/committee meetings

Financial information is additionally available on the Council's website www.plymouth.gov.uk

12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS

Members and senior officers are consulted via reports to the Audit Committee, Cabinet and Full Council.

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Plymouth City Council
Accounts Audit Approach Memorandum

June 2012

DRAFT FOR DISCUSSION

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Our accounts audit approach

This memorandum provides additional detail regarding our audit approach, as set out in our Audit Plan 2011/12 issued in March 2012, as well as an update on our response to key risks from the results of interim audit work carried out to date.

Audit approach reminder

We will:

- continue to work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved; and
- consider the materiality of transactions when planning our audit and when reporting our findings

The logistical details of our annual accounts audit, as agreed with the Audit Committee in March 2012, are detailed in Appendix A to this memorandum.

<p>Planning</p>	<ul style="list-style-type: none"> • Updating our understanding of the Council through discussions with management and a review of in year internal financial reporting • Identifying and resolving specific accounting treatment issues
<p>Control evaluation</p>	<ul style="list-style-type: none"> • Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact on the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements • Assessing the effectiveness of internal audit
<p>Substantive procedures</p>	<ul style="list-style-type: none"> • Reviewing material disclosure issues in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
<p>Completion</p>	<ul style="list-style-type: none"> • Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view • Determining an audit opinion • Reporting to Finance, Audit and Risk Committee through our ISA 260 report and Annual Audit Letter

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, communicated to you and, if you agree with any management decisions to not adjust for such items, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be separately judged to be material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may equally be judged not material if it does not distort the truth and fairness of the financial statements.

Reliance on internal audit

We work with the internal audit function to ensure our audit approach takes account of the risks identified from reviews they have conducted relevant to the financial statements, subject to our review of the effectiveness of the internal audit function.

Where significant risks to the financial statements are identified from our own work, it may be possible to coordinate with the work of internal audit to avoid unnecessary duplication of effort. Where such reliance takes place this will be specifically detailed in the reporting of our results.

Review of IT [and outsourced systems]

Our audit approach assumes that our clients utilise complex computer systems and accounting applications to routinely process large numbers of transactions. These may be used either directly or indirectly in preparing financial reporting information, including the annual accounts. Accordingly, our approach requires a review of the internal controls in the Council's information technology (IT) environment.

Based on our assessment of the complexity of the overall IT environment, we have involved specialist Technology Risk Services (TRS) team members in our audit work in order to undertake a review of the overall IT control environment and significant transaction cycles.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

In order to assess whether controls have been implemented as intended, we will conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs. Where further assurance or audit efficiency may be gained, we will consider directly testing any controls that we may consider to be key in relation to the identified risk.

Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the key audit risks identified in our Audit Plan 2011/12, as presented to the Audit Committee in March 2012. As a result of this update we set out below the outcome of work completed to date and further work planned as part of the financial statements audit.

Our updated review of the key risks facing the Council has identified additional risks, which are detailed in Table 2 alongside our planned audit response. The majority of these risks are related to the capital transactions of the Council including further changes to the community asset balance, embedded leases review, valuation of contaminated

land, liability at St Boniface School, Icelandic Banks investments and accounting for the Local Enterprise Partnership (LEP). We have worked closely with the finance team since January 2012 to discuss the implications of all proposed changes to the accounts. The risk assessment below also provides an update on the progress made to date and the implications for our audit testing strategy.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Table 1: Key accounting risks and planned assurances

Key audit risk	Audit areas affected	Work completed	Further work planned
Community Assets	Accounting for Property, Plant and Equipment	<ul style="list-style-type: none"> A review of the classification of assets undertaken by the Council as part of their review for Heritage Assets has identified a number of assets that have been categorised incorrectly. A list of the errors have been submitted to us and the amendments required are material in total. We have discussed the findings with the Council since they have been identified in order to ensure the correct treatment is applied. 	<ul style="list-style-type: none"> As part of the final accounts we will review the judgments applied in determining the appropriate accounting treatment We will test the movements to ensure that Community Assets is materially stated. We will review disclosures within the financial statements in relation to Community Assets to ensure that accounting standards have been met. We will consider whether the amendments require a Prior Year Adjustment.

Table 1: Key accounting risks and planned assurances (continued)

Key audit risk	Audit areas affected	Work completed	Further Work Planned
<p>Heritage Assets</p>	<p>Accounting for Property Plant and Equipment</p>	<ul style="list-style-type: none"> We have discussed the change in accounting requirements and undertaken an initial review of the Council's arrangements for the identification of heritage assets to ensure compliance with the principles of FRS30 which are adopted by the Code for the first time in 2011-12. 	<ul style="list-style-type: none"> As part of the final accounts audit we will review the judgments applied in determining the appropriate classification and valuation of assets. We will review the disclosures within the financial statements in relation to heritage assets to ensure that the requirements of the Code are met
<p>Adoption of the new asset register</p>	<p>Accounting for Property Plant and Equipment</p>	<ul style="list-style-type: none"> We have reviewed the processes in place in respect of the adoption of the new asset register, in particular the reconciliation exercise that has been undertaken. We have been in continual discussion with the Council in respect of the changes arising from the reconciliation and any impact on the disclosure notes in the accounts. 	<ul style="list-style-type: none"> As part of the final accounts audit we will undertake additional testing on these balances incorporating the amendments made to the accounts. We will review the disclosures within the financial statements to ensure that the requirements of the Code are met.
<p>Life centre and impairment of the Mayflower Centre and Swimming Pool</p>	<p>Accounting for Property Plant and Equipment</p>	<ul style="list-style-type: none"> We have discussed the valuation and impairment of the asset with the Council to assess the accounting entries now that it has been brought into use. The accounting treatment has been agreed through on-going discussions between the Council and ourselves. 	<ul style="list-style-type: none"> As part of the final accounts audit we will review the accounting entries, testing will include conclusion on the categorisation of the assets.

Table 1: Key accounting risks and planned assurances (continued)

Key audit risk	Audit areas affected	Work completed	Further Work Planned
<p>Tamar Bridge and Torpoint Ferry Joint Committee – inclusion within the single entity accounts</p>	<p>All areas of the financial statements.</p>	<ul style="list-style-type: none"> As highlighted in our ISA260 Report last year, we have continued to discuss and review the accounting treatment of the Joint Committee with the Council and the Audit Commission – auditors of Cornwall County Council. This review has concluded that both Councils will have to restate the 2009/10 and 2010/11 figures based upon information provided by Cornwall Council. There will also be implications for long term borrowing and the MRP. 	<ul style="list-style-type: none"> We will continue to discuss accounting treatment and disclosures with the Audit Commission to ensure that there is a consistent approach for both Council's accounts. We will examine the restated figures for 2010/11 and establish of these are materially correct. As part of final accounts we will implement a programme of work to ensure that the inclusion of the Tamar Bridge and TorPoint Ferries into the Council's accounts has been undertaken as agreed and that the information conforms to relevant standards for all relevant years.
<p>Council Tax bad debt provision</p>	<p>Disclosure and Comparatives</p>	<ul style="list-style-type: none"> On-going discussions have been had with the Council in respect of the write off of old Council Tax debt. The Council have agreed to write the residual debt off and an amendment will be made to the 2011/12 accounts. 	<ul style="list-style-type: none"> As part of the final accounts work we will review the arrangements for writing the Council Tax debt off .

Table 1: Key accounting risks and planned assurances (continued)

Key audit risk	Audit areas affected	Work completed	Further Work Planned
<p>Mount Edgcumbe</p>	<p>Accounting for Property, Plant and Equipment</p>	<ul style="list-style-type: none"> Mount Edgcumbe is included in the accounts as an operational asset and therefore should be valued as such. The land is a community asset and is therefore valued at £1.00. The classification and the use of this asset will be examined as part of the Property, Plant and Equipment testing undertaken during final accounts. 	
<p>Group Accounts Proposal</p>	<p>Group account reporting</p>	<ul style="list-style-type: none"> The Council are proposing not to produce Group Accounts for 2011/12. It has been agreed that a review of the explanation and judgements will be undertaken during the final accounts. 	
<p>Embedded Leases</p>	<p>Accounting for Property, Plant and Equipment & Leases</p>	<ul style="list-style-type: none"> All service contracts have been reviewed for the likelihood of embedded leases and concessionary services. This has been performed by PWC and the results of this will be reviewed. As part of the final accounts the accounting treatment in respect of service contracts and any new embedded leases will be examined. 	
<p>St Boniface School</p>	<p>Controls assurance</p>	<ul style="list-style-type: none"> We will consider the impact of the investigation into mismanagement of funds at St Boniface and assess if there are any further implications for our testing of school balances. 	

Issue	Audit areas affected	Audit approach
LEP Accounting	Cash and Bank	<ul style="list-style-type: none"> Our interim audit identified that the Council hold funds in respect of LEP which is not a legal entity. We have clarified the accounting treatment for such activities and have confirmed that these should be accounted for on an agency basis. The accounting treatment will be reviewed during final accounts.
Table 2: Additional key accounting risks and planned assurances (continued)		
Issue	Audit areas affected	Audit approach
Icelandic Banks and repayment of debt outstanding	Debtors and liabilities	<ul style="list-style-type: none"> The Council are proposing not to make an adjustment in respect of the Icelandic Bank deposits due to the uncertainty of the cash flows and the currency used for settlement. As in previous years, this is a deviation from the LAAP guidance. The Council are reducing the impairments for payments received. We will consider whether the Council's proposed treatment, together with additional disclosure notes, is reasonable as part of our detailed final accounts procedures
Annual Leave Accrual	Employee Remuneration	<ul style="list-style-type: none"> We have discussed the Council's proposed approach for calculating the annual leave accrual and will test this in detail as part of our final accounts audit. This is the same basis as agreed with us in previous years.

Results of Interim Audit Work

Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we considered:

- the effectiveness of the Internal Audit function;
- internal audit's work on the Council's key financial systems;
- the work of valuation experts employed during the accounting period;
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified significant accounting assertion risk; and
- a review of Information Technology controls

The internal audit function

We have reviewed internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council. We also review work performed in areas we assess as representing an accounts risk to establish the issues and whether we can place reliance on the work.

We conducted a detailed review of Internal Audit against the CIPFA standards in 2010/11 and, overall, we concluded that the Internal Audit service continued to provide an independent and satisfactory service to the Council and that we could take assurance from their work in contributing to an effective internal control environment at the Council.

In preparation for our final accounts audit in 2011/12, we sought to review internal audit's work on the financial systems; however, not all of the reports were available during our interim review in March 2012. Discussions with internal audit have confirmed that this was due to two exceptional factors:

- restructuring within the services directorates of the Council in 2011 and
- internal audit capacity issues due to staff sickness and absence during 2011.

We reviewed three files which were complete at the time of our March visit – Section 106 MONIES, Cash Collection and Invest to Save.

The financial systems fieldwork had largely been completed but the files were not in a position for review at the time of our audit work. The reports have now been issued to the Council for commentary and review; however these are still in draft format and were completed in May 2012.

We have also considered the level of reporting by Internal Audit to the Audit Committee. Progress reports and summaries of internal audit work completed in the period are not reported to each Audit Committee meeting. Progress reports are only produced twice a year, one of which includes the Annual Head of Internal Audit opinion.

We believe that the current level of reporting could be improved in order to give the Audit Committee on-going assurance over the Council's financial systems and the work of Internal Audit. Whilst we acknowledge that Internal Audit is prepared to give verbal updates at intervening Audit Committees on an exception basis, given the scale of the Internal Audit programme and the nature of the reviews that are being undertaken we would suggest that more regular reporting may be required.

We recommend that there is reporting of the progress against the Internal Audit Plan with a summary of findings from significant reviews, and those where there are 'High Priority' recommendations, to each Audit Committee to enable members to gain on-going assurance over the effectiveness of the internal audit activity and controls operating at the Council. We have reviewed the Internal Audit plan that is submitted the

Audit Committee. We are aware that Internal Audit assess the risk of each area to be covered in the plan to base a rationale for assessment and review. Whilst this rationale and risk assessment is discussed with the management team we would suggest that it is presented alongside the plan to the Audit Committee. We recommend that the detail included within the Internal Audit Plan presented to the Audit Committee includes the rationale and risk assessment used to support the inclusion of the areas in the plan. In this way, Members will be informed of the reasoning behind items within the plan and the need to examine these.

In assessing the effectiveness of internal audit work, we reviewed a sample of internal audit files against the CIPFA standards to ensure that:

- systems were adequately documented;
- key controls have been identified and evaluated;
- key controls have been tested; and
- weaknesses have been reported to management

For the three files detailed above and which were reviewed in March 2012 we are pleased to report that in all cases the findings were consistent with the work carried out.

We noted from an overall review of audit documentation that throughout the three files that there was adequate, significant evidence to support the audit opinion given. We identified some minor points for improvement that Internal audit have now taken on board.

We will review the final reports and files for the financial systems as part of our final accounts visit.

We will also liaise closely with internal audit over the forthcoming year to ensure that there is an agreed timetable for delivery of internal audit work and files for external audit review and assurance.

Walkthrough testing and tests of controls

Walkthrough tests and a review of the controls designed were completed in relation to the specific accounts assertion risks which we consider to present a significant risk of material misstatement to the financial statements.

We were able to complete the walkthrough and documentation of the following systems

- Operating expenses;
- Payroll;
- Plant Property and Equipment; and
- Housing Benefits.

No significant issues were noted where walkthrough testing was completed.

Journal entry controls

Journal testing carried out in previous years noted that officers and staff members creating and entering journals could do so without any further authorisation irrespective of the value of the journal. We have followed up this recommendation as part of our 2011/12 audit and found that this has yet to be addressed. We will perform detailed testing of any journal over the materiality level as part of final accounts audit. We would

also recommend that management review the authorisation processes adopted for entering journals.

Additional assurance work

To support the audit opinion for 2011/12, we have undertaken brief reviews in the following areas:

- VAT – A review has been undertaken by specialist VAT personnel. During the review a potential risk was identified.

The Council have leased the Life Centre premises for a peppercorn rent which is not collected. A peppercorn rent is a non-business activity for VAT purposes and, as an s.33 body, the Council is able to reclaim all the VAT it incurs on its non-business activities. Currently, on this basis, the Council has reclaimed all input VAT on the build costs.

However, if the operator of the Life Centre is supplying anything back to the Council in exchange for the peppercorn lease of the Life Centre, for example, free sessions for the Council's school children, HMRC may take the view that there is consideration (non-monetary) for the lease and hence the letting becomes a business activity. This could lead to a clawback of VAT reclaimed to date, if the lease was VAT exempt, but the Council has protected itself by opting to tax the site such that if there is any consideration it is classed in relation to a VAT taxable lease (which preserves the Council's VAT recovery on the construction of the Life Centre).

We understand that the lease agreement does not allow the Council to add VAT to the non-monetary consideration it receives which means that the Council might have to fund any VAT that HMRC deems to be due.

We note that at this stage this is purely a potential risk which cannot be quantified. It should also be noted that the Council has not identified at this time that it receives any such services from the Life Centre operator/tenant.

Our work on IT and Employment taxes will be reported in the ISA260 following our final accounts audit work.

Final Accounts Preparation

As in previous years, we have continued to work closely with the finance team throughout the final accounts preparation process. We have highlighted the additional risks that have been identified during the course of this liaison in section one of this report. Early identification of issues informs our testing strategy and enables us to resolve issues where possible at an early stage.

We have shared our working paper requirements with finance team members and the Council are in the process of developing supporting documents in time for our audit visit in July.

In March 2012 we attended a group accountants meeting and presented our audit approach sharing an insight into the background to audit queries and the importance of analytical review.

We have recently provided feedback to the Council as it prepares to reduce the number of disclosure notes and narrative to the accounts.

We will continue to work closely with members of the finance team as the draft financial statements are prepared and throughout the audit process.

Appendices A & B

Appendix A - Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set and agreed with management:

Event	Date
Pre year end fieldwork including internal controls review	Mar 2012
Completion of outstanding internal controls reviews	June 2012
Statutory accounts emailed to auditor	30 June 2012
Commence accounts audit fieldwork	4 July 2012
Clearance meeting to discuss our findings	August 2012
Draft ISA 260 report to be issued by	6 Sept 2012
Report to Finance Audit and Risk Committee (ISA 260)	19 Sept 2012

The audit process is underpinned by effective project management to ensure that we coordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable. An agreed format and schedule of informal update arrangements will be maintained throughout the course of our audit fieldwork in support of this aim.

Engagement team

In accordance with our Audit Plan 2011/12 issued March 2012, the main engagement team for the accounts audit will include:

Name	Role	Contact details
Barrie Morris	Engagement Director	T: 0117 305 7708 E: barrie.morris@uk.gt.com
Geraldine Daly	Senior Manager	T: 0117 305 7741 E: geri.n.daly@uk.gt.com
Emma Dowler	Executive	T: 0117 305 7619 E: emma.dowler@uk.gt.com

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, issued in March 2012

Appendix B – Action Plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Internal audit should review resources and capacity to enable planned work to be completed within the agreed timescales.	High	The problems experienced were exceptional in that DAP as a whole had an unprecedented high level of long term sickness in 2011/12 and despite moving resources around, unfortunately capacity was stretched. Resources are constantly reviewed and steps are being taken to provide extra capacity in 2012/13	Head of DAP On-going
2	Internal audit should give consideration to the reporting of the progress against the Internal Audit Plan with a summary of findings from significant reviews, and those where there are 'High Priority' recommendations, to each Audit Committee to enable members to gain on-going assurance over the effectiveness of the internal audit activity and controls operating at the Council	Medium	The timings of Audit Committee meetings do not lend itself to the accurate reporting on audit work on a quarterly basis. DAP can provide more frequent reporting of audit work and findings if required but would suggest that possibly a 5 monthly summary to the September Committee, 8 monthly to December Committee and a 10 monthly summary to the March Committee might be appropriate. In addition to our annual report in June	Deputy Head of DAP / Audit Managers September 2012
3	We recommend that the detail included within the Internal Audit Plan presented to Audit Committee includes the rationale and risk assessment of areas for inclusion. We would also suggest that it includes reference to the planned timescale (by quarter) for work to be completed.	Medium	The Audit plan is put together based on discussions with senior managers and a detailed audit risk prioritisation process which considers a range of factors to determine a relative audit priority. This risk prioritisation is contained on a detailed spread sheet which is available for	Already in place.

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
4	The Council should review the controls in place for the processing and authorisation of journals by individuals.	High.	<p>review if required. The approach adopted is outlined in the report which goes to Audit Committee when the plan is presented. Timing of audits is subsequently agreed with managers.</p> <p>Management will continue to review this and where possible improve the processes.</p>	On-going



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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement.

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

Plymouth City Council

Audit Plan 2011/12 – Progress Report

Audit Committee

June 21 2012

2011/12 Audit Plan Update – June 2012.					
Work area	Reason performed	Work objective	Draft to lead officer	Plymouth CC lead officer	Progress to date
Financial statements					
Audit Plan 2011/12	Code of Audit Practice	To design an audit plan that meets the requirements of the Code of Audit Practice and relevant International Standards of Auditing.	March 2012	David Northey	Plan agreed and presented at the last Audit Committee meeting in March.
Interim Report & Update to Financial Audit Plan	Code of Audit Practice	To gain assurance from systems of financial control for opinion.	June 2012	David Northey	Work is now complete and a summary of our work and findings is attached as a separate item to the agenda for this meeting.
Accounts opinion	Code of Audit Practice	To provide an opinion on the accounts.	September 2012	Adam Broome	Audit of financial statements due to take place July – September 2012. Opinion deadline, 30 September 2012.
ISA260 report	Code of Audit Practice	To summarise the findings from our final accounts and other Code work that impacts on our opinion and discuss with those charged with governance.	September 2012	Adam Broome	To be presented to the Audit Committee in September 2012.
Whole of Government Accounts and Consolidation exercise	ISA600 – Special Considerations, Audits of Group Financial Statements.	To perform specific tests in accordance with WGA NAO group instructions.	N/A	Adam Broome	Work to commence in August 2012 and to be completed for the opinion deadline of 30 September 2012.
Value for Money (VfM) conclusion					
VfM risk assessment	Code of Audit Practice	To identify areas of risk to the VfM conclusion and where more detailed work is required.	January 2012	Adam Broome	Risk assessment complete. Areas of work are included in the plan for 2011/12.
Financial Resilience -	Code of Audit Practice	Tailored to local risks.	May – September 2012	David Northey	Work is currently on-going.
Follow up of previous years' work and recommendation	Code of Audit Practice	To review the progress against agreed action plans.	July - September 2012	Adam Broome/ Malcolm Coe	Planning for this work is in progress.
Re-engineering of service delivery	Code of Audit Practice	To examine the vfm achieved through the redesign of service delivery in 2011/12	July – September 2012	Malcolm Coe	Planning for this work is in progress.

ICT shared services	Code of Audit Practice	To review the arrangements currently agreed for the implementation of a shared service provision for ICT at the Council	July – September 2012	Malcolm Coe	To commence in July 2012.
Overall review of arrangements in place for governance, risk management and financial management	Code of Audit Practice.	To examine the overall arrangements in place at the Council or these areas and use this work to inform the VFM conclusion.	June - September 2012	Adam Broome	Work is currently on-going.
VfM conclusion	Code of Audit Practice	To provide conclusion on the PCT's arrangements for achieving VfM.	June 2012	Adam Broome	VfM conclusion to be issued with the audit opinion in September 2012.
Other reports					
Annual Audit Letter	Code of Audit Practice	To summarise key findings and conclusions from the work performed under our audit plan.	September 2012	Adam Broome/ David Northey	To be drafted following issue of accounts opinion and VfM conclusion
Grant claims and Certificates					
Ben O1	Grant claim work	To audit the Council's grant claim for BEN01 in accordance with grant claim instructions as issued by the Audit Commission.	June – September 2012	Debbie Perry	Work is currently on-going

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Audit Committee Work Plan 2012/13

		2012							2013		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Internal Audit Annual Report	Cllrs Lowry and Peter Smith / DfCS										
Statement of Accounts 2010/11	Cllrs Lowry and Peter Smith / DfCS										
Operational Risk Management - Update Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)										
Risk Management Annual Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)										
Annual Governance Statement	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)										
Strategic Risk Register Monitoring Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)										

Audit Committee Work Plan 2012/13

		2012							2013		
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M
Six Month Internal Audit Progress Report	Cllrs Lowry and Peter Smith / DfCS (Sue Watts)										
Internal Audit Annual Plan	Cllrs Lowry and Peter Smith / DfCS (Sue Watts)										
Interim Report and Update to Financial Audit Plan 2010/2011	External Auditor Grant Thornton										
Review of Procure to Pay Project	External Auditor Grant Thornton										
Annual Report to Those Charged with Governance (ISA260 Report) 2010/2011	External Auditor Grant Thornton										
Financial Resilience Review	External Auditor Grant Thornton										

Audit Committee Work Plan 2012/13

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

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