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4 December 2012

AUDIT COMMITTEE

Thursday 13 December 2012
2.30 pm
Council House (Next to the Civic Centre), Plymouth

Members:

Councillor Wheeler, Chair
Councillor Dr. Mahony, Vice Chair
Councillors Murphy, Stark and Stevens.

Independent Members:

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

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

Tracey Lee
Chief Executive

AUDIT COMMITTEE

AGENDA

PART I – PUBLIC MEETING

1. APOLOGIES

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

2. DECLARATIONS OF INTEREST

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

3. MINUTES (Pages 1 - 6)

To confirm the minutes of the meeting held on 27 September 2012.

4. CHAIR'S URGENT BUSINESS

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

5. RECRUITMENT OF INDEPENDENT MEMBER

The Committee to note the progress on the recruitment of additional independent members.

6. INTERNAL AUDIT PROGRESS REPORT (Pages 7 - 40)

The Director for Corporate Services will submit a report on the Internal Audit Progress Report.

7. OPERATIONAL RISK MANAGEMENT - UPDATE REPORT (Pages 41 - 50)

The Director for Corporate Services will submit a report on the Operational Risk Management.

8. RISK MANAGEMENT - REVISED CORPORATE STRATEGY (Pages 51 - 78)

The Director for Corporate Services will submit a report on Risk Management – Revised Corporate Strategy.

**9. TREASURY MANAGEMENT AND STRATEGY 2012/13 - (Pages 79 - 102)
MID-YEAR REVIEW**

The Director for Corporate Services will submit a report on Treasury Management and Strategy 2012/13 – Mid Year Review.

10. FINANCIAL RESILIENCE REVIEW (Pages 103 - 144)

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

11. ANNUAL AUDIT LETTER 2011/12 (Pages 145 - 158)

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

12. VALUE FOR MONEY REPORT (Pages 159 - 198)

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

13. AUDIT PLAN 2012/13 PROGRESS REPORT (Pages 199 - 202)

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

14. RIPA SURVEILLANCE REPORT (Pages 203 - 218)

The Director for Corporate Services will submit a report on RIPA Surveillance.

15. ROLLING WORK PROGRAMME (Pages 219 - 222)

The Committee will note the rolling work programme.

16. EXEMPT BUSINESS

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

PART II (PRIVATE MEETING)

AGENDA

MEMBERS OF THE PUBLIC TO NOTE

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

NIL.

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Audit Committee**Thursday 27 September 2012****PRESENT:**

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

Co-opted Representatives: Mr R Clarke and Mr I Stewart.

Also in attendance: David Northey – Head of Finance, Mike Hocking – Head of Corporate Risk and Insurance, Julie Hosking – Risk Management and Insurance Officer, Martin Gould – Brenda Davis and Rob Hutchins – Devon Audit Partnership, Barrie Morris – Grant Thornton and Amelia Boulter – Democratic Support Officer.

The meeting started at 2.30 pm and finished at 5.00 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.

19. DECLARATIONS OF INTEREST

In accordance with the Code of Conduct, the following declarations of interest were made, as follows -

Name	Minute	Reason	Interest
Councillor Wheeler	Minute	Trustee of Plymouth Access to Housing (PATH).	Personal and prejudicial.

20. MINUTES

Agreed that the minutes of the meeting held on 14 June 2012 were approved as a correct record.

21. CHAIR'S URGENT BUSINESS

The Chair moved the Grant Thornton agenda items forward on the agenda to facilitate good meeting management.

22. AUDIT PLAN 2011/12 - PROGRESS REPORT

Barrie Morris, Grant Thornton, provided the Committee with an update on the Audit Plan 2011/12. The Committee were informed that –

- a. the plan summarises all the activities, the work that has been completed to be signed off today;

- b. they would receive a fuller report on value for money (VFM) at the next meeting;
- c. certification of grant claims work to be completed in November.

Agreed that –

- 1. the Audit Plan 2011/12 Progress Update report is noted;
- 2. a report on value for money (VFM) to be brought before the audit committee at the next meeting.

(This item was moved up the agenda to facilitate good meeting management.)

23. **VALUE FOR MONEY REPORT**

Barrie Morris, Grant Thornton, provided the Committee with an update on the Value for Money Report. The Committee were informed that –

- a. the P2P issue list did not include a coherent list that was easy to understand. Discussions had taken place with the project manager on what would be implemented in the future;
- b. there wasn't a formal communications plan at present and communication was a standing item for the project board;
- c. they had highlighted savings target that has been established. Savings were revised down slightly and identifying the gap and definitive savings;
- d. there was a need to identify the benefits that were going to be accrued as part of the benefits realisation strategy.

Agreed that –

- 1. the Value for Money report is noted.
- 2. a fuller Value for Money report on outstanding actions to come back to committee in December.

(This item was moved up the agenda to facilitate good meeting management.)

24. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA260 REPORT) 2011/12**

Barrie Morris, Grant Thornton, provided the Committee with an update on the Annual Report to those charged with Governance (ISA260 Report) 2011/12. It was reported that –

- a. the report brings together all the recommendations and findings from the final accounts. A huge amount of work was undertaken by the finance team in responding to all queries and he wanted to thank them for all their efforts;

- b. community assets had all been assessed and PCC should make sure assets are appropriately identified and classified;
- c. PCC had chosen to ignore the LAAP guidance on the accounting of Icelandic Bank investments. We wanted to make you were aware of the issues and whether the committee would accept this;
- d. old (written-off) Council Tax debts of £4.7m were included in the accounts;
- e. we were satisfied with the figure on payroll in the accounts. Officers had taken action to ensure monthly reconciliation happens on a routine basis.

In response to questions raised, it was reported that -

- f. the payroll controlled accounts were not as robust as others and further work undertaken to test the reconciliation. Up until 2 weeks ago there was an outstanding balance. A project for a new payroll system should go live in January 2013 with a stipulation to ensure there are more robust controlled accounts;
- g. internal audit had worked with St Boniface School and officers to unravel what had happened. The former bursar was dismissed and would be tried before crown court this year. Support had been given to the school in moving forward and new financial systems were in place.

Agreed that the Annual Report to those charged with Governances (ISA260) 2011/12 is noted.

(This item was moved up the agenda to facilitate good meeting management.)

25. **AUDIT FEE LETTER**

Barrie Morris, Grant Thornton, provided the Committee with an update on the Audit Fee Letter. The Committee were informed that this was delayed and would normally come before the Committee in March. A procurement exercise was undertaken and pleased to announce that Grant Thornton won that procurement. The Committee were informed that he had worked with PCC for the last five years moving into the sixth year. It was usual practice to move officers after five years but Barrie could apply to work with PCC for a further two years.

26. **OPERATIONAL RISK REGISTER UPDATE**

Jo Hall, Senior Adviser Early years and Childcare, provided the Committee with an update on the risks identified in relation to childcare issues. It was reported that –

- a. this was identified as red risk and PCC had a duty to provide sufficient childcare;
- b. there was a new statutory duty for PCC to provide free education for disadvantaged 2 year olds from Sept 2014. From 2013, 800 2 year olds would become eligible and from 2014 a further 1400 children would enter the child care market;

- c. work was being undertaken by providers to reshape childcare provision with an in-depth needs analysis on identifying the gaps in the city;
- d. the capital investment was required to expand the current provision and had been working closely with capital funding team.

In response to questions raised, it was report that -

- e. a mapping exercise had been undertaken on the provision across the city to gain an understanding on where the gaps are. Publicity work commenced to encourage private sector to open up provision and see this as a business opportunity.

Councillor Dr Mahoney chaired this item in the absence of chair who declared a personal and prejudicial interest. Stuart Palmer, Assistant Director for Homes and Communities, provided the Committee with an update on the risks identified on homelessness. It was reported that -

- f. during the first quarter we were 28 per cent below the target on preventing people losing their home with the private sector accepting less people and less housing available;
- g. they were forecasting that a number of people would be affected by the welfare reform over the next year and were pro-actively producing a housing plan with a range of objectives, such as providing advice upfront, house let properties;
- h. they were working with housing associations to reduce overcrowding and under capacity;
- i. Government confirmed the continuation of homelessness funding of £500k;
- j. there weren't enough homes and discussions were taking place with colleagues to grow the market.

In response to questions, it was reported that there was a shortage of housing and this was getting worse. PCC does however have a good track record of bringing empty homes back into use. New house builds were at an all-time low.

Councillor George Wheeler declared a personal and prejudicial interest and left the meeting for this item.

27. **RECRUITMENT OF INDEPENDENT MEMBER**

David Northey, Lead Officer provided the Committee with an update on the recruitment of independent member. It was reported that an advert will shortly be placed across Devon and Cornwall with the aim of recruiting the final independent member.

28. **TREASURY MANAGEMENT TRAINING**

David Northey, Lead Officer, provided the committee with an update on the forthcoming Treasury Management Training. Training was arranged and all members were welcome to attend.

29. **AUDIT COMMISSION CONSULTATION**

David Northey, Lead Officer, provided the Committee with an update on the Audit Commission Consultation. It was reported that recruitment of independent members was difficult and it would be very difficult to have a third of the committee as independent members.

30. **INTERNAL AUDIT PROGRESS REPORT**

The Chair reported that this was Martin's last meeting and thanked him for his valued contribution to the Audit Committee. Martin Gould, the Council's internal auditor, provided the committee with an update on the Internal Audit Progress Report. It was reported that this was his last meeting and Robert Hutchings would take over as the Head of Devon Audit Partnership.

It was also reported that they were building on the comments made at the June meeting to produce an interim report. In the first quarter it was quite positive and work undertaken so far found no major concerns.

In response to questions raised, it was reported the interim report was very welcome and there was an intention repeat this report on work already undertaken. We will aim to bring a report back to the committee in December and with a fuller report in March.

Agreed that the Internal Audit Progress Report be noted.

31. **INTERNAL AUDIT FOLLOW UP REPORT**

Rob Hutchings, provided the Committee with an update on the Internal Audit Follow up Report. It was reported that good progress was being made by management. Managers were responding to the audit recommendations and not all recommendations had been fully addressed at this moment in time.

Agreed that the Internal Audit Follow Up Report is noted.

32. **STATEMENT OF ACCOUNTS 2011/12**

Chris Randall, Strategic Finance Manager, provided the Committee with a report on the Statement of Accounts 2011/12. The Committee were informed that this report was a follow up to the draft statement of accounts with further refinement. It was also reported that they were looking to reduce the size of the report and to refine the report for future years.

Agreed that –

1. the Committee note the amendments made to the Statement of Accounts for 2011/12 as agreed with the Auditor and outlined in the report.
2. the Statement of Accounts for 2011/12 attached at Appendix A be approved.
3. the letter of representation attached at Appendix B is authorised and submitted to the Auditor.

4. officers continue to review the production and contents of the Statement of Accounts with a view to securing further improvements for the 2012/13 Statement of Accounts.
5. thanks be recorded to all involved with the internal and external audits.

33. **STRATEGIC RISK REGISTER MONITORING REPORT**

Mike Hocking, Head of Corporate Risk and Insurance, provided the Committee with an update on the Strategic Risk Register. The Committee was informed that the report was approved by the Corporate Management Team on 4 September 2012. It was also reported that a review and update of the Risk Management Strategy to new ideas and challenges were being properly considered.

In response to questions raised, it was reported that -

- a. a scoring matrix calculates the risks;
- b. in relation to violent extremism which was increasingly in the headlines, all judgements were subjective and that is why moderation built into the process. Looking at the impact and probability of it becoming a reality.

Agreed that –

1. the Committee note and endorse the current position with regard to the Strategic Risk Register;
2. the Committee to receive a report on the changes made to the Risk Management Strategy at the December meeting;
3. the Committee to receive a copy of the scoring matrix used to calculate risks.

34. **ROLLING WORKPLAN**

The committee noted the Audit Committee Rolling Workplan.

35. **EXEMPT BUSINESS**

There were no items of exempt business.

CITY OF PLYMOUTH

Subject: Internal Audit – Progress Report
Committee: Audit Committee
Date: 13 December 2012
Cabinet Member: Cllr Lowry
CMT Member: Director for Corporate Services
Author: Robert Hutchins, Head of Devon Audit Partnership
Contact: Tel: (01752 (30) 6710
e-mail: robert.hutchins@devonaudit.gov.uk
Ref: AUD/RH
Key Decision: No
Part: I

Purpose of the report:

This report reviews audit work carried out since April 2012 and comments on performance. Based on work performed to date during 2012/13, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

Corporate Plan 2012-2015:

The work of the internal audit service assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The service 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 Povert, Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

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
-

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 2012/13

Sign off:

Fin AB		Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Robert Hutchins, Head of Devon Audit Partnership											

1 Introduction

This report provides a summary of the performance against the internal audit plan for the 2012/13 financial year for the period up to September 2012, highlighting the key areas of work undertaken and summarising our main findings and recommendations aimed at improving controls. However, it should be noted that Appendix A provides progress on audits up to November.

The key objectives of the Devon Audit Partnership (DAP) have been to provide assurance to the Audit Committee, Section 151 Officer (Director for Corporate Services) and senior management on the adequacy and security of the systems and controls operating within the Council and to provide advice and assurance to

2 Opinion

In our opinion, and based upon our audit work completed so far in this year and in previous years, we consider that adequate arrangements are in place to control the operations of Plymouth City Council.

Where weaknesses have been identified and recommendations made to strengthen controls, management have provided response to the recommendations reported. Where appropriate, we shall undertake follow up work to ensure that risks continue to be suitably controlled.

3 Performance against the Plan

Overall, good progress has been made against the plan agreed with management and the Audit Committee for the 2012/13 financial year. As at the end of September 2012, 89% of the planned audits had commenced (against a target of 45%), 48% of audit fieldwork had been completed (against a target of 45%) and 43% of the expected number of audit days had been provided (against a target of 48%). Further details are provided at appendix C of this report.

Due to the fluidity of audit delivery some audits relating to the previous year (2011/12) have been brought to conclusion in 2012/13.

At this stage we remain confident that we will be able to deliver the internal audit plan

4 Executive Summary

Appendix A details the assurance opinions for individual audits so far completed in 2012/13. The definitions of the assurance opinion ratings are given in Appendix C.

Corporate Services - In our opinion, and based upon our audit work completed so far this year and in previous years, we consider that adequate controls are in place to mitigate operational risks in this Directorate.

Where weaknesses have been identified, management have agreed these findings and have either agreed the recommendations or accepted the associated risks. Where management actions have been agreed and as appropriate, we shall undertake follow up work to ensure that risks continue to be suitably controlled.

Overall, good progress has been made against the plan agreed with management for the 2012/13 financial year. Progress in the first six months has included completion of work carried forward from 2011/12, undertaking follow up audits on areas where significant findings were made in the previous year, and in completing assignments in accordance with timescales agreed with management.

To date no significant concerns have been identified from our work; previous years work identified that the overall control environment was operating effectively, and this view continues.

People - In our opinion, and based upon our audit work completed during this year and in previous years, we consider that adequate controls are in place to control operations in the People Directorate.

The Commissioning & Contracting audits in respect of both Children and Adults have been completed and the final reports issued. Officers involved with contracts had a good understanding and knowledge of their areas of work along with good working relationships with other members of the Team and with the Strategic Procurement Team.

ASC commissioning plans clearly demonstrate how commitments in local strategic plans have been used to inform the services that will meet the needs of local people; the introduction of the Market Position Statement (MPS) has also supported this. The development of a Joint Health and Wellbeing Strategy will further develop this by enabling the direct translation of joint commitments into joint commissioning plans. Commissioning plans were found to have been based upon sound evidence and reflect national policy, guidance, local strategic plans, research and best practice.

Place - In our opinion, and based upon our audit work completed so far in this year and in previous years, we consider that adequate controls are in place to control operations within Place. Overall, good progress has been made against the plan agreed with management for the 2012/13 financial year.

DAP reviewed the evidence compiled by officers to support the City Council's annual CRC Energy Efficiency Scheme submission, as required by the Environment Agency. We were able to provide assurance that the Council has fulfilled its obligations with regard to its annual submission prior to the submission deadline of 31st July 2012.

DAP has continued to support the South West Devon Waste Partnership Waste PFI project following it achieving successful financial close on the contract. In addition, Audit has had involvement in establishing the process for monitoring and reporting

the contractor's compliance with planning conditions and constraints during its site activities

Schools - We have made good progress in the delivery of our audit plan to schools and schools have again been very appreciative of the quality of our service. The requirements to meet the challenges through change to the SFVS are significant. We are focusing all of our effort to achieve the targets and support schools to the fullest of our ability.

Improvements Required - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. However, there are risks exposed in key areas which reduce overall assurance.

The key matters arising from the audits are the:

- understanding of financial management by governors as evidenced by the requirements of the Standard
- demonstrable financing of plans for raising standards and attainment; and,
- inventories and asset management.

5 Irregularities

Preparations for the 2012/13 NFI Data Matching Exercise commenced during the first half of this year, with data from pensions, creditor payments, salaries, blue badges, care homes and parking permits administered by the Authority, uploaded (via the secure upload portal) to the Audit Commission's NFI website in early October. 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.

The subsequent matching reports should be received back from NFI at the end of January 2013 and examined either by Internal Audit or provided to relevant departments for their investigation.

Corporate Services – DAP received allegations concerning two officers in the Place Directorate in relation to their work as canvassers for the Electoral Roll exercise. Audit have assisted in the subsequent investigation, including the examination of relevant documents.

People - In the first half of 2012/13, Internal Audit have carried out, or assisted in, a number of investigations. These include the alleged submission of false claims for mileage and additional hours by a social worker, alleged misuse of the internet by an officer, as well as an allegation from a member of the public regarding the inappropriate obtaining of personal data by an officer.

Place – There have been no significant irregularities brought to our attention during the first half of 2012/13 within the Place Directorate.

Schools - There have been no significant irregularities brought to our attention during the first half of 2012/13 although work has continued on providing support to the Devon and Cornwall Constabulary as part of their investigation at St Boniface's Catholic College.

6 Inherent Limitations

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

7 Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of the audits undertaken during the first six months of the 2012/13 financial year.

Robert Hutchins
Head of Audit Partnership

Audit Status, Assurance Opinion and Executive Summaries 2012/13 – Up to November 2012

Corporate Services (excluding ICT)					
Audit Area	Year	Status	Assurance Opinion	Executive Summary	
Loans & Investments	2011/12	Final	Good Standard	<p>An overall opinion of 'Good Standard' was given based on the continued evidence of clear governance and operational processes.</p> <p>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.</p>	
Capital Accounting (Asset Register)	2011/12	Final	Good Standard	<p>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.</p> <p>Depreciation charges for fixed assets follow the straight line method and were being accurately applied in the samples tested.</p>	
Cash Collection 11/12	2011/12	Final	Good Standard	<p>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.</p>	

Main Accounting System 11/12	2011/12	Final	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>
NNDR	2011/12	Final	Good Standard	<p>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.</p>
Creditors	2011/12	Final	Good Standard	<p>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.</p>
Council Tax system	2011/12	Final	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>
Housing Benefits	2011/12	Final	Improvements Required	<p>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</p>

				<p>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.</p>
<p>ICT Service Desk - System Admin</p>	<p>2011/12</p>	<p>Final</p>	<p>Improvements Required</p>	<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 and if necessary removed.</p>
<p>Debtors System</p>	<p>2011/12</p>	<p>Final</p>	<p>Good Standard</p>	<p>The debt collection rate has improved for the second year in a row from 94.5% with £51m collected in 2010/11 to 97.7% and £66.3m collected in 2011/12. Service areas continue to collect payments in advance wherever possible and the debtors team demonstrate a pro-active approach to collecting income prior to the due date by making contact with customers before formal non-payment reminders are generated.</p> <p>Responsibility for dealing with returned and rejected direct debits now sits with the Debtors Team as it is perceived that they have the knowledge of a debtor's circumstances and can therefore</p>

				deal with the debtor promptly and with the required level of sensitivity.
Revenues & Benefits Systems Parameters	2012/13	Final		Procedures for updating the Academy system with statutory and local rates are well established and consistently applied. Whilst there was a significant restructure of the revenues & benefits service in 2010/11 and responsibility for end of year system processes transferred to the Service Improvement Team within Customer Services, key staff also transferred providing business continuity. Reconciliations are completed to ensure that the opening figures on the Academy system balance to the rating list (NNDR) and valuation list (council tax) both of which are produced and maintained by the Valuation Office Agency. Bills are printed and despatched centrally by Print and Document Services (PADS). Whilst PADS provided details of the number of NNDR bills posted at main billing in March, despite the information being requested by the Service Improvement Team for council tax bills, this information was not provided although it was subsequently obtained during the course of the audit review. It is important that this information is provided promptly to enable the service to check that all of the bills calculated for main billing have been printed and posted by PADS.
Main Accounting System	2012/13	In Progress		
Payroll	2012/13	In Progress		<i>Review of the SAP legacy system has commenced, work on the new system will not start until 'go live' in Q4.</i>
Housing Benefits	2012/13	Not Started		

KFS Access Controls	2012/13	Not Started			
Creditors	2012/13	Not Started			
Council Tax System	2012/13	Not Started			
Debtors System	2012/13	Not Started			
Loans & Investments	2012/13	Not Started			
Capital Accounting (Asset Register)	2012/13	Not Started			Work on this review will not commence until May 2013 as work to update the asset register does not start until after year end.
NNDR	2012/13	Not Started			
Cash Collection	2012/13	In Progress			
CRB 10/11 Follow-Up	2011/12	Final	N/A		The original report found the system to be operating to a good standard and the planned follow-up review found that good progress had been made in implementing the action plan.
Capital Programme 10/11 Follow-Up	2011/12	Final	N/A		The original report was of a good standard and this follow-up review has confirmed that adequate progress is being made towards implementing the action plan. Work is currently underway with the Web Team to establish an information page which will provide complete information, highlight

					best practice and consistency in complying with robust governance arrangements. This will enable the final recommendation to be implemented with the publishing of a capital definition paper through staffroom to support Officers involved in capital investment in determining what expenditure can be classified as capital.
Capital Programme - Delivery	2011/12	Not Started			
Payroll System Procurement and Transfer from SAP 12/13	2012/13	On-Going			DAP continue to provide support and advice to this project. This started with assistance during the accelerated procurement of consultancy and implementation services for the project and DAP was able to give assurance that the process was conducted in line with policy and procedures. DAP continues 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.
Revenues & Benefits - Policy Changes	2012/13	On-going			At the request of management, DAP are providing ongoing support and advice to the Revenues & Benefits Service project team who are responsible for the development of the localised council tax support scheme which comes into effect in April 2013.
Risk Management	2012/13	Final	Embedded & Integrated		Overall risk management arrangements operating within Plymouth City Council Directorates are considered to be "Embedded and Integrated". Risk management is championed by Directors and senior managers who challenge the risks to the organisation and understand their risk appetite. A framework of risk management processes is in place and used to support service delivery. The arrangements operating within Corporate Services, People, Place and the Executive Office have each been considered as part

						of this review. The Authority is going through a period of significant reorganisation and this has created challenges for the Risk Champions but much work has been carried out to determine the objectives of new service areas and to re-evaluate the risks to service objectives.
Schools Loan Scheme	2012/13	In Progress				
Schools Financial Value Standard	2012/13	On-Going				Outturn for 2011-12 DSG CFO Statement. Review of school submissions for 2012/13.
New Procurement Policies & Strategies inc Management and Monitoring of Contracts	2012/13	Not Started				
P2P Project	2012/13	Not Started				
Capital Programme - Delivery 11/12 Follow-Up	2012/13	Not Started				
Corporate Services - ICT						
Audit Area	Year	Status	Assurance Opinion	Executive Summary		
Service Level Management	2011/12	Final	Improvements 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. These expectations have changed in recent years and there is a		

				<p>recognised need for improved service level management and customer communication, to ensure that 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>
<p>Access Management</p>	<p>2011/12</p>	<p>Final</p>	<p>N/A</p>	<p>A briefing note has been issued identifying the key issues that will impact on PCC's 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</p>

					increased risk to the computerised information assets that have been previously well protected within the boundaries of the corporate network.
Capacity and Availability	2011/12	Draft	Improvements Required		<p>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 Desk's morning operations routine is more efficient, more effective and greatly reduces the risk of human error or oversight. At present no bandwidth management tools are used to mitigate 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>
New Data Centre (inc storage & backup)	2012/13	On-going			DAP have continued to be involved in the project tasked with introducing the new data centre at Windsor House, attending Project Board meetings and providing advice to the project as required.
CRM Dynamics AX2012	2012/13	On-going			Ongoing watching brief and have provided advice and support. This has included an Auditor deployed as part of testing resource for AX iTrent interface.
Information Security	2012/13	On-going			DAP continue to attend and support the Management Information Security Forum (MISF) which also reports to the Information Lead Officers Group (ILOG) established in 2011/12, in which Internal Audit has a role. DAP have also provided support and advice to

				officers on individual cases.
CareFirst 6	2012/13	Final	Good Standard	Since the last full audit review significant progress has been made in the way that the CareFirst application, and the overall system, is administered. Crucially a more appropriate level of resources, and core expertise, has been allocated.
ICT Service Strategy	2012/13	Final	Improvements Required	<p>The overall assurance opinion is merely a reflection of where the ICT department is on the long journey of improvement that it has embarked upon and the opinion goes on to highlight the good progress that has already been made and that which is planned.</p> <p>Effective service strategy management is a crucial element of the overall service delivery process and this is reflected in the Council's ICT Strategy and Business Plans. Some preliminary work has already been undertaken in each of the key areas associated with the ICT Service Strategy but ICT managers acknowledge that there is still some way to go before this part of the ITIL process can be said to be fully 'fit for purpose'. However, some of the key requirements are already in place.</p> <p>The ICT department has been developing and embedding ITIL standards, in all service areas, for a number of years now and are continuing to do so. This has enabled the department to accomplish significant improvements in service delivery processes during this period and to achieve a more customer focussed and professional level of service delivery. However, the department does still receive a degree of criticism from some quarters and ICT managers acknowledge the fact that there is a need to improve the way in which some aspects of their service are currently managed, in order to meet the expectations and perceptions of the customer more effectively. In order to achieve this, it is essential to develop a sound Service Strategy Framework which provides the foundation upon which all other stages of ICT service delivery are based.</p>

						The ICT department has already made significant progress in aligning its structure and working practices to the business requirements of the Council but, in order to improve still further and position itself for the future, it is now essential that robust service strategy management arrangements are developed to a level that will meet the needs of both the ICT department and the organisation, as a whole, in the coming years.
Academy (HB Self Serv Portal)	2012/13	In Progress				DAP are providing support and advice to the Project set up to implement the Self Service Portal and ensure that transition arrangements are robust.
Material Systems IT Issues	2012/13	Not Started				
Release & Deployment	2012/13	Not Started				
Corporate Telephony System	2012/13	Not Started				
ICT Compliance Board & Follow-up of previous audits	2012/13	On-going	N/A			Regular meetings are held with ICT managers to discuss progress with agreed action plans that resulted from recommendations made in audit reports.
Cross Cutting						
Audit Area	Year	Status	Assurance Opinion	Executive Summary		
Payment to Consultants & Advisors	2011/12	Final	Improvements Required	The system introduced in November 2011, to determine an individual's employment status prior to engagement is effective and in the main, is compliant with HMRC best practice and will provide the Council with the necessary evidence that individual		

					<p>employment status has been correctly determined. However this review has identified that the process is not completely embedded and there are inconsistencies in compliance with it.</p> <p>It should be noted that by the time the action plan was finalised, some of recommendations have already been implemented.</p>
Carbon Management	2012/13	Complete	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.
Accommodation Strategy	2012/13	On-going			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.
Corporate Information Management	2012/13	On-going			DAP continue to attend and support the Information Lead Officers Group (ILOG) set up in 2011/12.
Business Continuity	2012/13	On-Going			DAP continue to attend the Authority's Business Continuity Strategy Group to provide advice and support. A review of a selection of Business Continuity Plans has commenced.
Use of Purchasing Cards	2012/13	In Progress			A sample of purchasing cards across all areas were identified for review, the fieldwork will be completed once schools have started back and the cards identified in the test sample which are held by schools have been reviewed.
Payment to Consultants & Advisors 11/12 Follow-Up	2012/13	Not Started			

Significant Partnerships 10/11 Follow-Up	2011/12	Not Started		
Procurement and Management of Consultants and Advisors 11/12 Follow-Up	2012/13	Not Started		
People Directorate				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Commissioning & Contracting (Children)	2011/12	Final	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. Priorities and associated outcomes were identified following robust consultations and work is continuing to formally approve and communicate the resulting plan. Plymouth City Council have clearly demonstrated through this work with Strategic Partners that it understands the needs of local people and recognises the outcomes it wants to achieve.</p> <p>The plan to deliver intended outcomes has been further developed this year through the Commissioning Intentions document. For each of the priorities identified, the Commissioning Manager has mapped out the alignment of partner funding allocated to individual work streams that will achieve the planned outcomes set out in the C&YP plan. This clearly demonstrates that Plymouth Strategic Partners have shared values and a commitment to their service users. However it is recognised there are difficulties in obtaining complete financial information from all Partners. This is, in part, due to differing organisational strategic and transformational</p>

<p>change agendas, particularly as a result of the impact of the current economic climate. However, 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>	<p>Following the approval to commission services, the C&YP Commissioning Team instigate an end to end commissioning process that results in formal contract arrangements with service providers that will deliver outcomes for children and young people whilst ensuring value for money.</p>	<p>Two recent contracts were examined in detail during the audit process: Cost and Volume (Independent Placements) and Children's Centres (in particular the City Centre and Stonehouse Children's Centre).</p>	<p>Officers involved with these contracts had a good understanding and knowledge of their areas of work along with good working relationships with other members of the Team and with the Strategic Procurement Team. Where officers were unsure on how they should proceed they were comfortable in seeking advice from</p>

<p>Commissioning & Contracting (Adults)</p>	<p>2011/12</p>	<p>Final</p>	<p>High Standard</p>	<p>either the Commissioning Manager or from Strategic Procurement to ensure they were following corporate procedures.</p>
<p>Although arrangements continue to be developed, particularly around joint commissioning and contracting with Health, current arrangements demonstrate that Plymouth City Council is best placed to lead the way forward in delivering highly effective services that meet the outcomes of the Plymouth locality whilst ensuring value for money.</p> <p>Governance arrangements for the Commissioning of Adult Social Care (ASC) services have recently undergone changes. Proactive action has been taken to put into place a governance structure that will enable effective commissioning of ASC services with the potential to include other local community and people services. The implementation of the Joint Commissioning Partnership should be commended as this will prove a key driver of the joint commissioning vision.</p> <p>ASC commissioning plans clearly demonstrate how commitments in local strategic plans have been used to inform the services that will meet the needs of local people; the introduction of the Market Position Statement (MPS) has also supported this. The development of a Joint Health and Wellbeing Strategy will further develop this by enabling the direct translation of joint commitments into joint commissioning plans. Commissioning plans were found to have been based upon sound evidence and reflect national policy, guidance, local strategic plans, research and best practice. They include comprehensive population needs, service, market and resource analyses.</p> <p>Commissioning plans have been developed with partners and have involved all key stakeholders including users, carers, local communities and service providers in the statutory, private and third</p>				

				<p>sector. The plans have clearly specified the outcomes to be achieved for service users, and what services will best deliver those outcomes over time.</p> <p>Opportunities to jointly commission services have been identified and taken. The introduction of the Joint Commissioning Partnership will further support the commissioning of services to the people of Plymouth through a single integrated process that in turn will facilitate the joint deployment of resources. This is recognised as best practice.</p> <p>Recommendations have been made to further strengthen overall strategic commissioning management tools including monitoring of actual activity against planned activity, introduction of strategic commissioning risk management arrangements and a process of commissioning evaluation that considers if commissioning activity actually delivered the outcomes it set out to achieve as well as to inform future plans.</p> <p>It was noted that the procurement exercise for the Learning Disability - Complex Framework and the Learning Disability - Forensic Framework were abandoned in November 2010 following Legal advice. It was judged that to award the contract would present a significant risk to Plymouth City Council in terms of contractual liabilities. The procurement process was re-started in July 2011 and it was this tendering exercise that was examined during the audit.</p>
<p>Non Residential Services Billing (NSIBS)</p>	<p>2011/12</p>	<p>Final</p>	<p>Good Standard</p>	<p>It is expected that NSIBS will no longer be required, due to Personalisation and pre-payment cards, in the medium to long term and so there are no plans for a replacement system. However, this transition could take longer than anticipated. In the interim and for clients who wish to retain their commissioned services there will still need to be a system in place for client billing and payment to</p>

				<p>providers. Duplicate payments amounting to over £137,000 were made to a provider during 2011. These payments had been incorrectly processed by Creditor's section. However, the problem was exaggerated by Adult Social Care processing the payment again on an instruction from Creditors.</p>
CareFirst Fostering	2011/12	Final	Improvements Required	<p>The use of standardised paperwork ensures that carer details are obtained in a uniform manner which has resulted in an opinion of high standard being given for this area.</p> <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. Manual intervention also increases the risks associated with staff absence or the loss of staff.</p> <p>This report also recommends that the frequency of the payment run is reviewed as increasing the period between payments may reduce the pressure on staff involved throughout the process and could potentially give more flexibility to foster carers.</p> <p>Overpayments were found to be well recorded and although the policy was out of date, the process was being consistently applied. A key factor of overpayments is the late receipt of paperwork which supports the view, during the audit that paperwork was not completed in a timely and accurate manner.</p> <p>It is recognised that staff work hard to ensure that foster carers receive their payment each week.</p> <p>The overall opinion of improvements required reflects the need to review the processes in place to make sure they are suitable, well communicated and supported by fully completed paperwork.</p>
PAPH / Community Interest Company / Co-ordinator	2012/13	Final	N/A	<p>This was a briefing note for the Assistant Director and Principal Advisor. The briefing note consisted of 22 recommendations. The Assistant Director commissioned Legal and HR to carry out further</p>

<p>Arrangements</p>				<p>work in these specialised areas. This review can be considered as part of the due diligence that the LA needs to be carrying out. This briefing note has highlighted issues that need to be considered as Education moves forward.</p>
<p>School Census</p>	<p>2012/13</p>	<p>Draft</p>	<p>High Standard</p>	<p>For many years, responsibility for the management of the School Census was carried out the Council's 'Education' department. Following restructures, responsibility was transferred to the Executive Office - Policy, Performance and Partnerships Team. The members of staff who were in 'Education' have been transferred to the Executive Office which has ensured continuity in the collection, review and subsequent use of school data collected through the School Census process. This has process has been effectively managed to a high standard.</p> <p>The City Council is reliant on all schools, maintained and academy, collecting, verifying and inputting accurate data into their pupil databases; the majority of the maintained schools use the Capita system, SIMS.net. From discussions with officers, it is apparent that the school data submitted as part of the School Census may not always be accurate when compared to data held on other corporate systems such as Capita One and the social services database, Care First.</p> <p>The process for the collection of school data has greatly improved over the years with the introduction of COLLECT. This allows schools to validate their data to ensure that it is in the appropriate format and that certain criteria have been met.</p> <p>With the City Council now using the Capita software, B2B, there has been an improvement in the data held on the Capita One system. Through agreement with the primary schools, data is extracted from their databases and compared to information held on Capita One with updates being made where required. At</p>

				<p>present, this is on limited basic data sets such as names, date of birth and address but has been expanded to pull in exclusion and attendance data. There is on going work with the secondary schools to allow the Council access to their data using the B2B software.</p> <p>The Census cycle takes approximately 6 weeks to complete and this happens three times a year. Although there has been a reduction in the number of maintained schools due to conversion to academies, there has been no marked reduction in the time spent by the 3Ps team to complete a School Census.</p>
Life Centre, Leisure Management, Pavilions Projects	2011/12	Ongoing	N/A	<p>DAP has continued 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 bids in respect of the Pavilions project and at the de-brief session with the unsuccessful bidder. Audit have also provided support and advice on contract monitoring issues with regard the Leisure Management contract with SLM.</p>
CareFirst Residential Care Payments Follow / Up	2011/12	Ongoing	N/A	.Awaiting responses from various staff.
Data Quality Children's EMS Follow / Up	2011/12	Ongoing	N/A	Awaiting response from auditee.
School Construction Projects	2012/13	On-Going	N/A	DAP have continued to support and advise a number of construction projects including Tor Bridge High, High View and Boringdon Primary.

Basic Needs Programme	2012/13	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.
Academies Delivery Project	2012/13	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.
Transfer of Public Health	2012/13	Ongoing		
Health & Wellbeing Boards	2012/13	Ongoing		
Children's Disability Team (Integrated)	2012/13	Ongoing		
Troubled Families Programme	2012/13	Ongoing		
Family Group Conferencing	2012/13	Ongoing		
Special Education Needs	2012/13	Ongoing		
Impact of ASC Restructure on controls	2012/13	On hold		As per Strategic Finance Manager for People. To seek replacement of this audit at Programme Board 21.11.12.
Personalisation / Individual Budgets	2012/13	On hold		As per Strategic Finance Manager for People. To seek replacement of this audit at Programme Board 21.11.12.
CareFirst – Reablement	2012/13	On hold		As per Strategic Finance Manager for People.
CareFirst - Residential Care Payments	2012/13	On hold		As per Strategic Finance Manager for People.

Localities Co-ordination	2012/13	Not Started		
Fostering & Adoption Panel Processes / EDRMS	2012/13	Not Started		
CareFirst - Children Independent Placements	2012/13	Not Started		
Proof of Concept Team (POC)	2012/13	CANCEL		The Proof of Concept Team no longer exists as the new structure is in place for Adult Social Care - pick up under the effective of controls following the restructure. To seek replacement of this audit at Programme Board 21.11.12.
Client Finance Services 11/12 Follow Up	2012/13	Final	n/a	Of the 4 recommendations made in the report, one has been cleared but 3 are dependent on the new ways of working in ASC following restructure. Follow up only - implementation of all recommendations is part of the ASC restructuring.
Care First - Fostering 11/12 Follow Up	2012/13	Not Started		
Commissioning & Contracting (Adults) 11/12 Follow Up	2012/13	Not Started		Asst Director for Jnt Commissioning & ASC on 14.11.12 requested that this review be delayed until Q1 of 2013/14 (they've just started consultation, all staff to be interviewed).
Commissioning & Contracting (Children) 11/12 Follow Up	2012/13	Not Started		Q1 2013/14 - as per comment above.

Safeguarding Adults F/U	2011/12	Not Started	N/A	Rescheduled to 3 rd quarter of 2012/13 due to delays in finalisation of draft report.
Tamar Education Business Partnership	2012/13	Removed from Plan		This audit was removed from the plan due to the closure of the TEBP in the summer of 2012 further to the Partnership failing to win a tender.
Place				
Audit Area	Year	Status	Assurance Opinion	Executive Summary
Smart Ticketing LSP	2012/13	Not Started		Dept for Transport has not yet issued audit requirements.
Waste Management - SWDWP - (Waste PFI)	2012/13	On-Going		DAP continues to support the South West Devon Waste Partnership Waste PFI project, advising on governance and risk issues. We have also been involved in discussions regarding the development of a Financial Allocation Mechanism and procedures to monitor the contractor's compliance with planning conditions and constraints on site activities during the construction phase.
Sale of Civic Centre	2012/13	On-Going		DAP has been providing advice, support and assurance to the team tasked with the sale of the Civic Centre. Audit has been able to bring its experience of previous major procurement exercises and was present at meetings to discuss the procurement approach, specification and evaluation criteria as well as attend a project risk workshop. Audit was present at the opening and evaluation of PQQ submissions and has attended the subsequent first round of competitive dialogue sessions with those bidders who were successful at PQQ stage.
Plymouth Market 11/12 Follow-Up	2012/13	In Progress		

Blue Badges	2012/13	In Progress		<p>The blue badge service transferred from Adult Social Care to Parking in May 2012 and Devon Audit Partnership have been working with Parking to review and streamline procedures to improve efficiency and cost effectiveness.</p>
Public Protection Services	2012/13	In Progress		<p>Some work has been carried out regarding the implementation of portable devices to support the service in delivering efficiency savings and liaison with finance officers regarding central support charges in preparation for the setting of local fees and charges.</p> <p>However, the main piece of work is scheduled to commence in Q3.</p>
Commercial Leases	2012/13	In Progress		
Planning Applications and Appeals 11/12 Follow-Up	2012/13	Not Started		<p>Planned for Q4.</p> <p>Original report opinion was 'high standard' and of the four recommendations made, two were low priority and one had been implemented by the time the action plan was agreed.</p>
Section 106 11/12 Follow-Up	2012/13	Not Started		<p>Planned for Q4.</p> <p>Original report opinion was 'good standard'.</p>

<p>Mt Edgcumbe Accounts 11/12</p>	<p>2012/13</p>	<p>Final</p>	<p>Good Standard</p>	<p>In accordance with Regulation 6 of the Accounts and Audit Regulations 2003 Devon Audit Partnership carried out a review of the Mount Edgcumbe Joint Committees financial accounting systems and internal control arrangements in place for the 2011/12 financial year.</p> <p>Overall arrangements are of a good standard. There has been a significant amount of work undertaken during 2011/12 to reduce expenditure and achieve a balanced budget. A new business plan has been developed that reduces subsidy requirements in the short and medium term. Work continues to look at a range of cost cutting and income generating measures that will enable objectives to be achieved.</p>
<p>New Growth Point Grant 2011/12</p>	<p>2012/13</p>	<p>Complete</p>		<p>Grant certification.</p>
<p>Local Transport Block</p>	<p>2012/13</p>	<p>Complete</p>		<p>Grant certification.</p>

Definitions of Audit Assurance Opinion Levels	
Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Internal Audit Performance Data – April to September 2012

Activity	Target Standard	Achievement 12/13 to date
Percentage of Audit Plan started	45%	74%
Delivery of Audit Plan (annual target)	90%	43%
Actual Days delivered against plan (annual target)	90%	45%
Percentage of chargeable time	65%	63%
Customer satisfaction (percentage of customers "very satisfied" or satisfied")	90%	93%
Draft audit reports to be produced within 15 working days of completion of work	90%	68%
Final reports produced within 10 days of agreeing action plan	90%	84%
Average level of sickness	2%	3.7%
Percentage of staff turnover	5%	10%

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PLYMOUTH CITY COUNCIL

Subject: Operational Risk Management Update Report
Committee: Audit Committee
Date: 13 December 2012
Cabinet Member: Councillor Lowry
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:

To support the delivery of the City's vision and to enable the provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.

The management of risk principles and processes equally apply at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships.

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 priorities.

The total number of operational risks now reported has increased from 99 to 163, comprising 4 high (red) risks, 81 medium (amber) risks and 78 low (green) risks.

The risk increase is mainly due to the addition of 35 new Executive Office risks and 17 from the Library Service.

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

Corporate Plan 2012-2015:

Operational Risk Registers are 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 and Opportunity 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	DJN1 213.0 21	Leg	1624 7/DV S	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** To support the delivery of the City's vision and to enable the provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.
- 1.2** The management of risk principles and processes equally apply at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships.
- 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 increased from 99 to 163, comprising 4 high (red) risks 81 medium (amber) risks and 78 low (green) risks.
- 1.5** The risk increase is mainly due to the addition of 35 new Executive Office risks and 17 from the Library Service.
- 1.6** The report includes commentary on the high risk areas identified together with details of control actions/mitigation.

2. Background

- 2.1** Nine years ago Plymouth City Council implemented its first risk management strategy. This has been continuously reviewed each year and updated to ensure it remains fit for purpose.
- 2.2** To comply with the Risk Management Strategy each Directorate must implement a robust process of managing risks to corporate, service, project and partnership objectives for which they have responsibility.
- 2.3** To support the promotion and co-ordination of risk management each Directorate/Service has a dedicated Risk Champion. Risk Champions represent their Directorate/Service at the Operational Risk Management Group which is chaired by the Head of Corporate Risk and Insurance.
- 2.4** 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**

Risks are routinely discussed at 6 monthly senior management meetings (DMT) to review existing risks and raise awareness, together with encouraging an opportunity for support and challenge. A recent audit carried out by Devon Audit Partnership rated the risk management processes within the directorate as “Driving” the business which is the highest rating achievable based on Alarm’s National Performance Model for Risk Management. This demonstrates that the management of risk and uncertainty is well integrated with all key business processes and shown to be a key driver in business success. The achievement of this rating, particularly in light of the recent corporate restructure, would not have been possible without the commitment to the risk management process of the directorate’s DMT with the help of their Risk Champion.

- **Place**

Risks are identified at SMT meetings for each service. These are then reported upwards to DMT for evaluation and sign off. Risks are regularly monitored at SMT level and any deviations reported to DMT. The whole process is co-ordinated and administered by the departmental risk co-ordinator and risk champion who interface with the corporate risk management team. Risks have been reviewed following the senior management restructure and two new red risks have been identified, the details of which are shown in paragraph 4 of this report.

The recent Devon Audit Partnership report rated the directorate risk management performance as “working”, the third highest rating.

- **Corporate Services**

- **Customer Services & Transaction Centre**

Risks have been reviewed and updated to include the Library Service. Revenues risks have been transferred to Finance, Efficiencies, Technology and Assets (FETA).

- **Democracy & Governance**

New risks have been added for Risk Management & Insurance and the Registration Service. A review is currently underway for Democratic Support. The Electoral Registration Service has a well established framework in place for risk assessment in line with Electoral Commission standards and maintains two Risk Registers to cover the preparation and publication of the Register of Electors and the risk assessment and contingency planning at elections and polls. To avoid duplication of work it has been agreed that the Electoral Services Manager will continue to maintain and monitor these risk registers within the Electoral Commission Framework.

- **Finance, Efficiencies, Technology and Assets (FETA)**

FETA consists of Finance, ICT, Corporate Property, Strategic Procurement and Revenues and Benefits and each area has had a thorough review during this monitoring period. The existing

Capital and Assets risk register has been totally revamped to reflect the span of control now sitting with the Head of Capital and Assets and has been renamed “Property and Procurement”. There have been no real changes to the Finance risk register but the ICT risk register has been totally replaced to reflect the pressures that sit with this service in relation to corporate and service plans. A new risk register has also been developed for Revenues and Benefits to highlight the major changes expected from Welfare Reforms. The Risk Champion for FETA took part in the pilot of the revamped risk and opportunity register template and provided constructive input to the revised Risk and Opportunity Management Strategy. More detail on this revised strategy is provided in paragraph 7 of this report.

- Human Resources and Occupational Development

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

The recent Devon Audit Partnership report rated the directorate risk management performance as “embedded and integrated”, the second highest rating.

• **Executive Office**

The Executive Office now has a dedicated Risk Champion who has been actively promoting the risk management strategy. As a result a new risk register has been drawn up that includes risks relating to Policy, Performance and Partnerships plus the Communication and Civil Protection Teams.

The recent Devon Audit Partnership report rated the directorate risk management performance as “working”, the third highest rating.

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 – Jun 12	No. of Risks – Dec 12	Deleted Risks Dec 12	New Risks Dec 12
Red (High)	3	4	0	1
Amber (Medium)	53	81	7	41
Green (Low)	43	78	13	42
Total	99	163	20	84

4. Red Risks

4.1 Two of the “red” risks identified in June 2012 remain whilst one has been reduced to amber. One new risk has been added and one amber risk escalated to red, as indicated below:

EXISTING RED RISK	Medium Term Financial Strategy issues
Dept: Finance, Efficiencies, Technology & Assets (Finance)	
Comments/Mitigation: This risk is also monitored via the Strategic Risk Register. The MTFs has been updated on the back of the 12/13 budget setting process. An additional Group Accountant role is in place to focus on key projects. There is less clarity around	

funding from central government so the council is increasing its attendance at appropriate conferences and is actively networking and modelling.	
EXISTING RED RISK Dept: People (Homes & Communities)	Increasing homelessness as a direct result of the Local Housing Allowance (LHA) & Welfare Reform changes
Comments/Mitigation: Stuart Palmer presented an update for this risk at Audit Committee on 28 September 2012. Service demand is still increasing and the use of temporary accommodation is still high. A number of new controls have been implemented including; Increasing the number of Houselet properties; Increasing capacity of Easylet; Pilot scheme to create more private sector accommodation; increasing support into vulnerable families in the private sector. Local Housing Allowance (LHA) action plan has been written and is regularly monitored and to be reviewed in 6 months time.	
NEW RED RISK (formerly amber) Dept: Place (Planning & Regeneration)	Loss of public records due to failure to meet PD5454 Standards
Comments/Mitigation: The Record Office has been condemned by the National Archive as not suitable for the storage of valuable documents. A deadline of April 2013 has been given to find alternative accommodation. A feasibility study has been undertaken on a site in the Royal William Yard which has come back unrealistically high in terms of cost. Over the next 2 months an options appraisal will be carried out on Tavistock Place, with a preferred option to be highlighted by January 2013. A range of external funding bodies will be applied to for capital support in the New Year.	
NEW RED RISK Dept: Place (Transport & Highways)	The proposed Community Infrastructure Levy (CIL) to be introduced in 2013 cannot be used to repay loans.
Comments/Mitigation: To forward fund the delivery of the East End Transport Scheme, the Council entered into a Regional Infrastructure Fund (RIF) funding agreement in 2010 for £6.8m, borrowing against future transport tariff receipts. The tariff approach is being replaced by the Community Infrastructure Level (CIL) from April 2013. The Council has drawn down all of the money and repayment is expected from September 2013. The RIF was originally administered by the Regional Development Agency (RDA) but that responsibility has now been transferred to the Homes and Communities Agency (HCA). Initial legal advice indicates that we cannot repay existing loans using CIL, further legal opinion is being sought as to whether the original agreement still applies following the Government's decision to remove the means by which it would be repaid.	
AMBER RISK (formerly Red) Dept: 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)
Comments/Mitigation: The Lead Officer for this risk – Jo Hall presented an update at Audit Committee on 28 September 2012. A decrease in score reflects that there are on going discussions with the Capital Strategy team to identify the £1.5m required for expansion of places from the capital programme. A co-ordinated delivery programme is now in place. There has been a Government announcement on capital funding to support the development of places for disadvantaged two year olds although we are unclear of Plymouth's allocation as yet.	

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 Risk templates have been revised to include opportunities that may be realised following successful management of risk.
- 5.3 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 Risk and Opportunity Management Strategy.
- 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, a corporate Information Lead Officer Group (ILOG) was formed in March 2012 to co-ordinate a more consistent approach to all areas of information management across the Council.
- 6.3 Each Directorate has an Information Lead Officer (ILO) to provide the means for achieving a coordinated information governance framework that will develop an increasing return on information holdings and improvements to service delivery.
- 6.4 An ILOG Action Plan has been drawn up together with a Communication Strategy for cascading information to staff via a variety of means. This includes Team Briefings, payslip inserts and bulletins on the Staffroom Page. The Corporate Information Manager and Head of Corporate Risk and Insurance have also been attending Directorate DMT's to brief senior managers on the issues.
- 6.5 Risk Champions have been assisting the ILOG by carrying out a risk based audit within their Directorates.
- 6.6 There will need to be a cultural shift within the organisation with regard to the management of information and the Information Lead Officer Group will continue to roll out communications to staff to make them aware of information governance and policies and guidelines.

7. Risk and Opportunity Management Strategy

- 7.1 The new administration's commitment to adopt a Co-operative Council model will see more public services being delivered by, or in partnership with, charities, communities and other public sector organisations and understanding the risks and looking at how they can be mitigated is necessary for effective delivery. Such potential shift in the structure of service provision will create significant risks but also present significant opportunities.
- 7.2 The Local Government Governance Review 2012 produced by Grant Thornton recommends that Councils enhance their risk management processes to maximise opportunity rather than, as traditionally, minimise risk.
- 7.3 In light of the above the Risk Management Strategy has been renamed to include 'Opportunity' and reviewed following consultation with Risk Champions and the Council's insurance

advisors, Gallagher Heath, and will provide staff with a process for identifying threats or drawbacks that also includes finding and considering opportunities and become more outcome focussed.

7.4 Risk Champions have been using a new risk template during this round of monitoring which has been well received by officers who are being encouraged to include details of any opportunity that may arise from the successful management of each risk.

7.5 The new Risk and Opportunity Management Strategy will be presented as a separate item on this Committee agenda.

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 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 new Risk and Opportunity Management Strategy will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed to be able to manage the upside of risk.

8.7 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.

8.8 The next report will be presented to Audit Committee in June 2013.

9. Recommendation

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

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PLYMOUTH CITY COUNCIL

Subject: Risk Management – Revised Corporate Strategy
Committee: Audit Committee
Date: 13 December 2012
Cabinet Member: Councillor Lowry
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

Purpose of the report:

This report is to advise Members of changes to the corporate risk management strategy following its annual review which has resulted in a recommendation that the strategy be renamed the *Risk and Opportunity Management Strategy*.

To support the delivery of the City's vision and to enable to provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of corporate governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.

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

The revised Risk and Opportunity Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Risk and Opportunity Management Strategy outlines the objectives and benefits of managing risk and exploiting opportunities, describes the responsibilities for risk management and provides an overview of the process that we will implement to manage risk successfully.

The Council will record the significant risks identified as potential threats to the delivery of its objectives within Risk Registers and incorporate mitigation controls within action plans to include details of any opportunity that may arise from the successful management of each risk.

This Strategy requires Elected Members and employees alike to assist in, and take responsibility for the identification, control and reduction of risk and containment of cost in all aspects of their activities and areas of responsibility.

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

This Strategy is intended to reaffirm and improve effective Risk and Opportunity Management in Plymouth, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives.

Corporate Plan 2012-2015:

Risk Registers are 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 Risk & Opportunity Management Strategy 2012-2014.

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:

Operational Risk Management Group Minutes
 The Local Government Governance Review 2012 produced by Grant Thornton
 ALARM Opportunity Risk Management Guide
 Strategic and 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		Leg	1619 6/DV S	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 is to advise Members of changes to the corporate risk management strategy following its annual review which has resulted in a recommendation that the strategy be renamed the *Risk and Opportunity Management Strategy*.
- 1.2** To support the delivery of the City's vision and to enable to provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.
- 1.3** Risk and Opportunity Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to an organisation achieving its objectives.
- 1.4** The revised Risk and Opportunity Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Risk and Opportunity Management Strategy outlines the objectives and benefits of managing risk and exploiting opportunities, describes the responsibilities for risk management and provides an overview of the process that we will implement to manage risk successfully.
- 1.5** The Council will record the significant risks identified as potential threats to the delivery of its objectives within Risk Registers and incorporate mitigation controls within action plans to include details of any opportunity that may arise from the successful management of each risk.
- 1.6** This Strategy requires Elected Members and employees alike to assist in, and take responsibility for the identification, control and reduction of risk and containment of cost in all aspects of their activities and areas of responsibility.
- 1.7** The benefits gained with a Risk and Opportunity Management Framework are improved strategic, operational and financial management, better decision making, improved compliance and most importantly, improved customer service delivery and better outcomes for the citizens of Plymouth.
- 1.8** This Strategy is intended to reaffirm and improve effective Risk and Opportunity Management in Plymouth, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives.
- 1.9** A copy of the revised strategy is attached to this report.

2. Background

- 2.1** Nine years ago Plymouth City Council implemented its first risk management strategy which has been continuously reviewed each year and updated to ensure that it has remained fit for purpose.
- 2.2** Grant Thornton's Local Government Governance Review 2012 entitled "High Pressure System" recommended that Councils become more creative with the deployment of increasingly stretched resources and should enhance their risk management processes to

maximise opportunity rather than, as traditionally, minimise risk.

2.3 The Institute of Risk Management (IRM) also carried out a review of opportunity risk management approaches and concluded that:

- attention to opportunity risk ensures critical new ideas and challenges are properly considered and raises the focus from day-to-day operational issues
- a move to opportunity risk helps broaden the perception of risk and supports a more dynamic, entrepreneurial business culture
- a change in approach challenges existing mind-sets and improves decision making, while aligning the risk management and business planning processes.

Risk and Opportunity Management Strategy

3.1 The concept of Opportunity Risk Management is that if only threat risks are managed, i.e. the things that might make the situation worse or go negatively to plan, then the best outcome that can be expected is to meet the promised objectives but never improve upon them. If an organisation wants to deliver projects early or under budget or increase programme benefits then it must seek out and exploit the opportunity risks, that is the things that will, if they occur, make things better.

3.2 In reviewing the strategy consultation has been undertaken with a range of stakeholders, including the Council's risk management advisors, Gallagher Heath, operational managers and departmental Risk Champions and the revised strategy was approved by the Corporate Management Team on 4th December 2012.

3.3 A revised Risk Register Template was piloted in Finance, Efficiencies, Technology and Assets in conjunction with the draft Risk and Opportunity Management Strategy and was well received by officers who welcomed the new approach that enabled them to include details of any opportunity that may arise from the successful management of risk and focus more on the positive outcomes.

3.4 The major changes that have been made to the strategy are listed below:

- Page 8 : Revised Policy Statement and Aims and Objectives to include Opportunity risk.
- Page 9 : Risk Description – Guidance for describing risks and opportunities in a structured format with typical phrasing under the headings of Cause, Event and Effect.
- Page 10 : Opportunity Response – Description of the four basic ways of treating opportunity risks either by Enhancing, Ignoring, Sharing or Exploiting.
- Page 19 : Opportunity Risk Assessment – Guidance definitions for assessing the likelihood and impact of opportunity risks.

3.5 The Risk and Opportunity Management Strategy will continue to be subject to annual review to ensure it remains up to date.

4. Conclusion

4.1 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.

- 4.2** 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 with regular reporting on a risk rated basis to the Corporate Management Team.
- 4.3** The approach to risk and opportunity management now being proposed is focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business and Delivery Plans as well as exploiting any opportunities arising out of the successful management of risk – 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.
- 4.4** 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.
- 4.5** The revised Risk and Opportunity Management Strategy will provide a new framework for identifying threats or risks that now includes a more outcome focussed approach that exploits and maximises the positive benefits of managing risk.
- 5. Recommendation**
- 5.1** Members of the Audit Committee are invited to note and endorse the Risk & Opportunity Management Strategy 2012-2014.

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RISK & OPPORTUNITY MANAGEMENT STRATEGY 2012-2014



Corporate Services

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PAGE NO	TITLE
3	Executive Summary
4	Our Shared Vision and Priorities
5	Outline of the Risk and Opportunity Management Strategy
8	Risk and Opportunity Management Policy Statement, Aims and Objectives
11	Roles and Responsibilities
14	The Management of Risk and Opportunity Framework Diagram
15	Risk Analysis and Monitoring Arrangements
19	Opportunity Risk Assessment
21	Sources of Reference and Guidance

EXECUTIVE SUMMARY

We live in very challenging times, but also ones that provide us with real opportunities. We are a big, complex organisation, but one that needs to be continuously looking at how it can be more efficient and customer focused. Risk Management is both a statutory requirement and an indispensable element of corporate governance and good management. It has never been more important to have an effective Risk Management Strategy in place to ensure we are able to discharge our various functions and deliver public services efficiently and cost effectively.

In Plymouth, the Council is at the start of its journey to become a Co-operative Council and understanding risks and looking at how they can be mitigated is necessary for effective delivery.

This revised Risk and Opportunity Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Risk and Opportunity Strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that we will implement to manage risk successfully.

Risk Management can be defined as the culture, processes and structures that are key to the effective management of potential opportunities or threats to an organisation in achieving its objectives and delivering services to the community. Good risk management and the actual taking of risks in some cases are critical for a council with an ambitious vision and a difficult financial terrain to negotiate. The Council's commitment to becoming a Co-operative will see more public services being delivered by, or in partnership with, charities, communities and public sector organisations. Such a potential in shift in the structure of service provision will create significant risks, but also present significant opportunities.

The planned and systematic approach to the identification, analysis and economic control of those risks which threaten the employees, assets, or earning capacity of an organisation will help plan for the right balance between innovation and change and the avoidance of shocks and crises. To demonstrate our commitment to this approach we have included risk management as one of the five core management competencies in our Competency Framework.

The Council will record the significant risks identified as potential threats to the delivery of its objectives within Risk Registers and incorporate mitigation controls within action plans to include details of any opportunities that may arise from the successful management of each risk. Risks will be monitored every 6 months and findings reported via the Council's formal reporting process.

This strategy requires Elected Members and employees alike to assist in, and take responsibility for, the identification, control and reduction of risk and containment of cost in all aspects of their activities and areas of responsibility.

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

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

Cllr Tudor Evans

Leader of the Council

Tracey Lee

Chief Executive

Adam Broome

Director for Corporate
Services

OUR SHARED VISION AND PRIORITIES AS A CITY AND A COUNCIL

As a large, complex organisation working across many fields of activity and with many partners it is important that we have a strong sense of how things hang together and where decisions are best managed, with the matrix below showing this fit.

Bringing it all together

City		Council	Listen, Learn and challenge Plan
Vision ↓	To be one of Europe's finest, most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone.	An innovative, efficient and enabling council focused on our customers	
Plan ↓	Plymouth Report Four Priorities: Deliver growth Raise aspirations Reduce inequality Provide value for communities Key outcome measures Plymouth Plan (Local Plan) Major supporting strategic delivery plans	Corporate Plan Service Business Plans Transformational change plans Integrated business planning Risk and opportunity management Equality impacts	
Do ↓	Plymouth 2020 – Theme groups/delivery Boards Major partnership vehicles and shared programmes	Projects and programmes Commissioning and contract management Business as usual delivery through teams and individuals Managing Partnerships Framework	
Review ↓	Monitoring and evaluation	Appraisals Scrutiny Monitoring and evaluation Internal and external challenge Integrated business planning	
Decide ↓	Plymouth 2020	Corporate and Departmental Management Teams Cabinet/Council	
Lead and communicate			

Working more effectively across the council and with our partners we will deliver our ambitious agenda for modernising our services and delivering the vision for the city.

THE RISK AND OPPORTUNITY MANAGEMENT STRATEGY

1. DEFINITIONS

What is a Risk?

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

What is Risk and Opportunity Management?

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

This Strategy is intended to reaffirm and improve effective Risk and Opportunity Management in Plymouth, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives.

2. POLICY STATEMENT AND AIMS AND OBJECTIVES

A Policy Statement together with the aims and objectives of the Risk and Opportunity Management Strategy are outlined on page 8.

3. BUSINESS PLANNING & RISK MANAGEMENT

Operational risks should link to each service area’s Business Plan. The Business Plan is a document that brings key information together in one place and demonstrates the service’s focus on council and city priorities. All major risks facing the service and to other services and partners resulting from the consequences of a service’s plans should be recorded with brief mitigation and potential outcome.

4. ROLES AND RESPONSIBILITIES

All Members, managers, employees and partners must understand the nature of risk and accept responsibility for managing those risks associated with their area of activity.

Everyone has a role to play in managing risk and delivering the Risk and Opportunity Management Strategy - Risk Management therefore now forms part of the Council’s Competency Framework and will be used to assess the contribution and performance of relevant employees in the organisation.

A full description of roles and responsibilities is shown on page 11.

5. RISK ANALYSIS AND MONITORING ARRANGEMENTS

The Corporate Risk Management Group will monitor and manage the delivery of the Risk and Opportunity Management Strategy at a strategic level. The Group’s purpose is to effectively embed Risk Management within the ethos of the Council’s culture as an integral part of strategic

planning, decision-making and its performance management framework. The Group will also be responsible for the development and monitoring of the Strategic Risk Register.

The Operational Risk Management Group, comprising departmental Risk Champions and under the direction of the Head of Corporate Risk and Insurance, will be responsible for the delivery of this strategy at an operational level and for the development and monitoring of service level Operational Risk Registers.

A full description of risk analysis and monitoring arrangements is shown on page 15.

6. PERFORMANCE MANAGEMENT

Monitoring, managing and responding to risks are key to the delivery of priorities and services. The Council's Performance Management System is under development. In the meantime, high level risks are included in departmental Challenge Reports to the Senior Management Team and risk scores are updated on a quarterly basis to ensure emphasis is placed on the highest scoring priority risks.

In addition, risk management is included as one of the five key management competencies in the Council's Competency Framework and managers will therefore be assessed on their contribution to the management of risk in their area of responsibility as part of their annual performance appraisal.

7. CORPORATE GOVERNANCE

Risk Management is key to effective corporate governance and the diagram at page 14 illustrates the central role it plays in relation to other key systems and processes.

8. PARTNERSHIPS

In order to deliver a successful partnership risk management must form an integral part of the evaluation process. Partners need to understand what potential risks they may face in achieving the planned objectives and identify these in a partnership risk register. Key decision making processes should be the subject of a risk assessment and where necessary risk management plans to identify outcomes, timelines, responsible individuals, contingency plans and financial monitoring arrangements need to be agreed confirming what action should be taken should the risks be realised.

All directorates are required to formerly identify and record their major partnerships in accordance with the corporate Managing Partnerships Framework which is maintained by the Policy, Performance and Partnerships Team.

9. BUSINESS CONTINUITY

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.

Business continuity arrangements are aligned to the current British Standard BS 2599 parts 1 and 2 and will migrate to ISO 22301 as work continues. The Business Continuity Strategy is embedded across the authority and includes the identification of potential risks and the impact on business processes/activities through a program of business impact analysis (BIA).

10. INFORMATION SECURITY

A corporate Information Lead Officer Group (ILOG) has been established to co-ordinate a more consistent approach to all areas of information management across the council.

This group is supported by the Operational Risk Management Group (ORMG) which assists with raising awareness within departments and monitors information governance risks using a toolkit that includes a standard information governance risk template.

11. HEALTH & SAFETY

The Risk and Opportunity Management Strategy supports the corporate Health and Safety Policy in its commitment to the continuous improvement of health and safety performance, in particular by identifying key priorities and areas for improvement in health and safety management and risk control.

12. EMBEDDING RISK MANAGEMENT

The Risk and Opportunity Management Strategy is reviewed annually to ensure it remains up to date. The Cabinet Member for Transformation, Performance and Governance and the Director for Corporate Services jointly champion the process.

Each Directorate has an officer appointed as Risk Champion who is trained to advise staff on best practice to ensure that the risk management process is embedded in the Council's business processes, including:

- strategic and business planning
- information quality and use
- financial planning
- policy making and review
- performance management
- project management

Awareness training can be arranged for any member of staff via the Head of Corporate Risk and Insurance

13. BENEFITS OF GOOD RISK MANAGEMENT

Integration of risk and opportunity management into the culture and working practices of the Council and its delivery partnerships has numerous benefits, which include:

- Protecting and adding value to the Council and its stakeholders by supporting the achievement of the Council's vision and corporate priorities
- Improved strategic, operational and financial management
- Contributing to more efficient use/allocation of resources within the Council and its partners
- Keeping the Council within the requirements of the law
- Mitigation of key threats and taking advantage of key opportunities
- Protecting and enhancing assets and image

- Improving decision-making (making the right decisions), planning and prioritisation by comprehensive and structured understanding of activity and volatility
- Enabling future activity to take place in a consistent and controlled manner
- Promotion of innovation and change
- Improved customer service delivery
- Continuity of knowledge and information management processes
- Developing and supporting people and the Council's knowledge base
- Optimising operational efficiency and therefore delivering efficiency gains and value for money
- Better allocation of time and management effort to major issues
- Avoiding nasty surprises, shocks and crises
- Ensures our approach is aligned to 'Best Practice'
- Satisfies stakeholder/partners expectations on our internal control

14. GUIDANCE AND ASSISTANCE

The Corporate Services Directorate, through the Head of Corporate Risk and Insurance, will promote and monitor good practice, provide guidance, support, advice and information and organise training.

Guidance and reference material is listed on page 21.

15. RISK AND OPPORTUNITY MANAGEMENT POLICY STATEMENT AND AIMS AND OBJECTIVES

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

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

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

- Integrate and raise awareness of risk management for all those connected with the delivery of Council services
- Embed risk management as an integral part of strategic, service, information use, financial and project planning and policy making
- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing
- Provide a process for identifying threats or drawbacks that also includes finding and considering opportunities
- Provide a robust and transparent framework for managing risk and supporting decision making
- Support well thought-through risk taking

- Anticipate and respond to changing external and internal environment
- Embed risk management as an integral part of delivering and aligning successful partnerships

The objectives of the Risk and Opportunity Management Strategy are:

- To embed Risk and Opportunity Management as part of the Council’s culture of governance
- To provide and use a robust and systematic framework for identifying, managing and responding to risk
- To provide a robust and transparent track record of managing, communicating and responding to risk
- To encourage staff to think creatively about ways to work better, simpler, faster and more effectively

16. RISK TOLERANCE

Calculated (controlled) risks such as accepting new opportunities or using innovative approaches to service delivery may be taken providing the risk exposure is within the Council’s risk tolerance levels (As shown on page 17).

17. RISK APPETITE

The Council’s risk appetite levels are defined as:-

Acceptable risks – the risks associated with any proposed actions and decisions need to be clearly identified, evaluated and managed to ensure that risk exposure is acceptable. Particular care is needed in considering any action which could:

- have an adverse effect on the Council’s reputation and/or performance
- undermine the independent and objective review of activities
- result in censure or a fine by regulatory bodies
- result in financial loss

Any threat or opportunity that may have a significant potential impact should be closely examined and the risks clearly defined, and referred to the appropriate Director. Where there is both a significant potential impact and a high likelihood of occurrence (a Red Risk), it should also be referred to the Head of Corporate Risk and Insurance.

18 RISK DESCRIPTION

The risks and opportunities identified need to be recorded in a structured format. A description covering the Cause, Event and Effect is used to scope a risk or opportunity. Guidance on some typical phrasing or statements are listed below:-

Cause	Event	Effect
Because of As a result of	<an uncertain event ie. Risk or opportunity> may occur	which would lead to <effect on objective(s)>
Due to		

Event	Cause	Effect
Risk of Failure to Failure of Lack of Loss of Uncertainty of Delay in Inability to Inadequate Partnership with Development of Opportunity to due to leads to and/or results in

19. RISK RESPONSE

There are four basic ways of treating risk, which are:-

- Treat - Ensuring effectiveness of existing controls and implementing new controls where considered necessary and cost effective.
- Transfer - Involves another party bearing or sharing the risk i.e. via insurance
- Tolerate - Where it is not possible to treat or transfer. Consideration needs to be given to how the risk and consequences of such are to be managed should they occur.
- Terminate - Deciding where possible not to continue or proceed with the activity in view of the level of risks involved.

20. OPPORTUNITY RESPONSE

There are four basic ways of treating opportunity, which are:-

- Enhance - Seek to increase the likelihood and/or the impact of the opportunity in order to maximise the benefit.
- Ignore - Minor opportunities can be ignored, by adopting a reactive approach without taking any explicit actions.
- Share - Seek a partner/stakeholder able to manage the opportunity, which can maximise the likelihood of it happening and increase the potential benefits
- Exploit - Seek to make the opportunity definitely happen. Aggressive measures to ensure the benefits from the opportunity are realised.

21. FRAMEWORK

The Council maintains two different types of Risk and Opportunity Register - Strategic and Operational.

The Strategic Register records medium to long term high level risks and the Operational records those risks affecting the day to day departmental operations

Both registers detail the following:-

- possible consequences of the risks identified, both negative (risks and threats) and positive (opportunities)
- potential impact and likelihood of the risk identified
- existing controls in place to mitigate the risks

- actions planned to mitigate the risks with relevant timescales and the responsible officers

The Strategic Register is owned by the Corporate Management Team in its capacity of the Corporate Risk Management Group and maintained by the Head of Corporate Risk and Insurance and Operational Registers are maintained by the relevant Department's Risk Champion.

22. ROLES & RESPONSIBILITIES

Cabinet Members

- Approve the Council's Risk and Opportunity Management Strategy
- Receive and approve monitoring reports on the Strategic Risk Register and an annual Risk Management report

Corporate Risk Management Group/CMT

- Ensure the Council implements and manages risk effectively through the delivery of the Risk and Opportunity Management Strategy and consider risks affecting delivery of services
- Appoint a Senior Information Risk Officer (currently the Director for Corporate Services) this role also includes being the Senior Responsible Officer for overseeing the impact on the Council from the use of covert surveillance
- Ensure risk and opportunity management is considered by Management Team Agenda on a quarterly basis
- Provide assurance to Cabinet Planning and Audit Committee regarding risk and opportunity management compliance.
- Be responsible for and monitor the Strategic Risk Register
- Receive and approve risk and opportunity management status reports from the Operational Risk Management Group
- Approve and monitor the progress and effectiveness of the Risk and Opportunity Management Strategy and Operational Risk Management Group
- Support the embedding of risk and opportunity management within the culture of the Council as an integral part of strategic/business planning, decision-making and performance management framework
- Approve risk and opportunity management monitoring reports to Cabinet Planning and Audit Committee

Lead Member and Officer for Risk and Opportunity Management

- The Cabinet Member for Transformation, Performance and Governance and the Director for Corporate Services will act as Member and Officer risk champions
- Ensure that the Council manages risk effectively through the development of a robust and comprehensive Risk and Opportunity Management Strategy

Head of Corporate Risk and Insurance

- Support the Council and its departments in the effective development, implementation and review of the Risk and Opportunity Management Strategy

- Share experiences across the Council and partners, promoting, facilitating and overseeing the arrangements for managing and monitoring of risk
- Provide training and guidance in Risk and Opportunity Management
- Support the Corporate Risk Management Group
- Lead and direct the work of the Operational Risk Management Group

Operational Risk Management Group (ORMG)

- Monitor, review and communicate information on operational and strategic risks within their directorate
- Ensure risk and opportunity management is embedded within departmental business plans.
- Review cross cutting operational issues
- Report to Corporate Risk Management Group every six months
- Meet six times per year
- Receive, consider and approve bids for financial assistance towards risk reduction initiatives

Audit Committee

- Provide independent assurance to the Council on the effectiveness of the Council's Risk and Opportunity Management, Internal Control and overall assurance framework

Directors

- Take responsibility for the promotion of the Risk and Opportunity Management Strategy within their areas
- Ensure that Operational Risk Registers are managed, monitored, responded to and communicated effectively in their areas and reported through the Council's Performance Management Framework
- Ensure that risk and opportunity management is a key consideration in the delivery of the Council's priorities

Managers

- Identify, evaluate, prioritise and control risks and opportunities facing the Council in achieving its objectives
- Support, assist and inform their Directorate Risk Champion on risk issues

Risk Champions

- Attend Operational Risk Management Group meetings
- Co-ordinate, present and monitor bids against the Risk Management Fund
- Promote, maintain and monitor risk registers in line with risk and opportunity management/business planning guidance
- Support and provide guidance on the risk and opportunity management process in their department

- Promote and advise on the risk and opportunity management strategy
- Integrate and raise awareness of risk management within their Directorate

Employees

- Assess and manage risks effectively in their job and report hazards / risks to their service managers
- Undertake their job within contractual, policy and statutory guidelines
- Consult with department risk champion as necessary

Devon Audit Partnership

- Provide a risk based Audit Plan to monitor the effectiveness of Internal Controls and provide a trigger and action plan for management intervention
- Audit the Risk and Opportunity Management Strategy and processes

Insurance

- Ensure appropriate risk-financing arrangements are in place to mitigate against identified insurable risks
- Work with the Head of Corporate Risk and Insurance to identify and control insurable risks effectively and economically

Health & Safety

- Provide independent health and safety advice to the Operational Risk Management Group
- Support the Council in managing and monitoring health and safety performance

Civil Protection Team

- Assess, manage and monitor risks associated with civil emergencies.
- Co-ordinate and advise on the production, maintenance and testing of a Business Continuity Management Plan for the council.

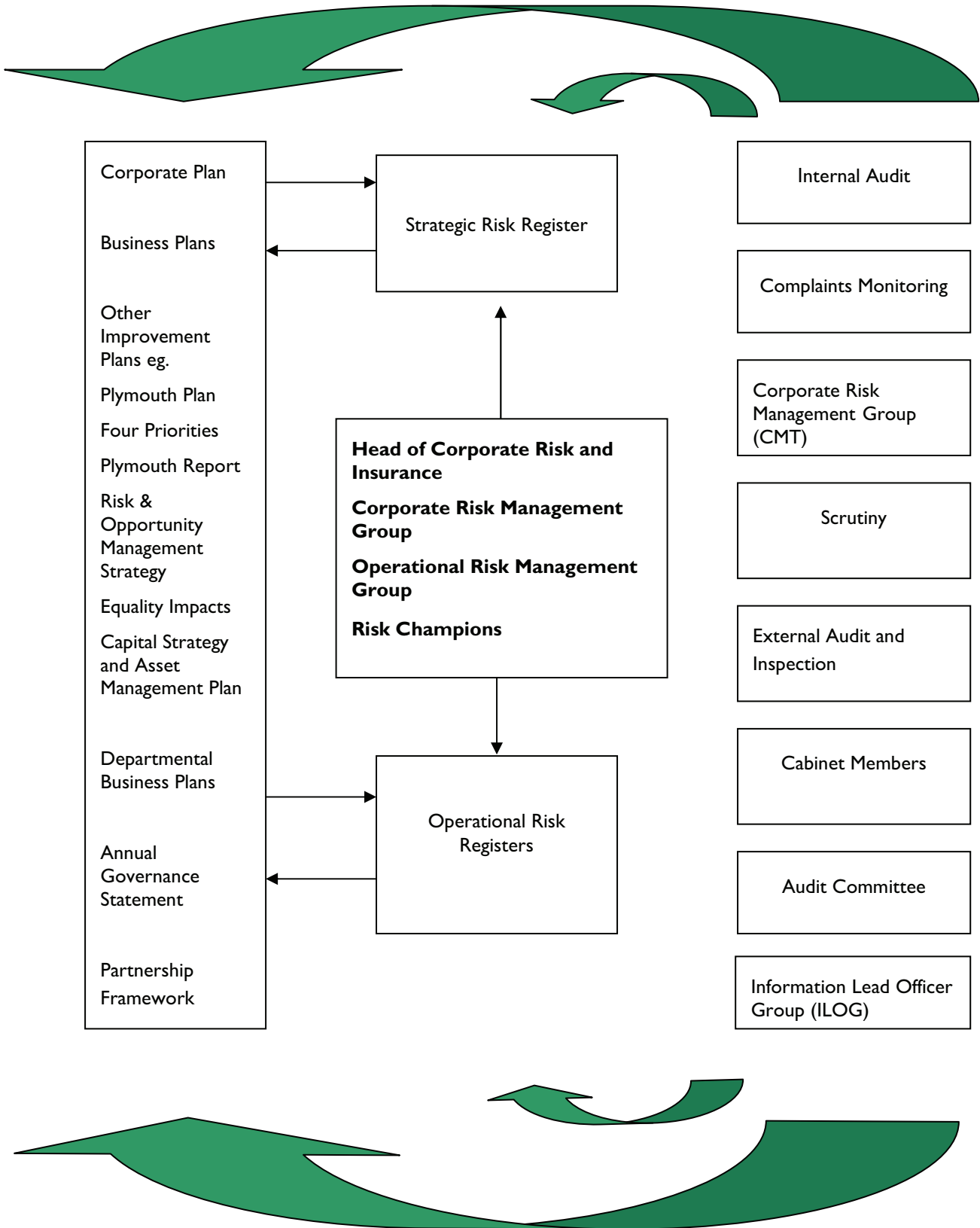
Policy, Performance & Partnership Team

- Establish a framework for effective partnership working
- Maintain the Council's Partnership Risk Register
- Assist departments in establishing an effective performance management tool which includes risk and opportunity

23. THE MANAGEMENT OF RISK AND OPPORTUNITY

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

Monitoring and Review process



24. RISK ANALYSIS

Once risks have been identified they need to be assessed systematically and accurately. The process requires managers to assess the level of risk by considering:-

The probability of an event occurring – “likelihood”, and the potential outcome of the consequences should such an event occur – “impact” Managers will assess each element of the judgement and determine the score. The tables below give the scores and indicative definitions for each element of the risk ranking process:-

Score	Likelihood	Threat / Risk
5	Almost Certain	Is expected to occur in most circumstances Will undoubtedly happen, possibly frequently eg. Annually or more frequently Imminent/near miss
4	Likely	Will probably occur in many circumstances Will probably happen, but not a persistent issue eg. Once in 3 years Has happened in the past
3	Possible	Could occur in certain circumstances May happen occasionally, eg. Once in 10 years Has happened elsewhere
2	Unlikely	May occur only exceptional circumstances Not expected to happen, but is possible eg. Once in 25 years Not know in this activity
1	Rare	Is never likely to occur Very unlikely this will ever happen eg. Once in 100 years

Score	Impact	Threat / Risk
5	Catastrophic Risk	Risks which can have a catastrophic effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public. Examples:- Unable to function without aid of Government or other external Agency Inability to fulfil obligations Medium – Long term damage to service capability Severe financial loss – supplementary estimate needed which will have a catastrophic impact on the Council’s financial plan and resources are unlikely to be available Death Adverse national publicity – highly damaging, severe loss of public confidence Litigation certain and difficult to defend Breaches of law punishable by imprisonment
4	Major Risk	Risks which can have a major effect on the operation of the Council or

		<p>service. This may result in major financial loss, major service disruption or a significant impact on the public. Examples:-</p> <p>Significant impact on service objectives</p> <p>Short – medium term impairment to service capability</p> <p>Major financial loss – supplementary estimate needed which will have a major impact on the Council’s financial plan</p> <p>Extensive injuries, major permanent harm, long term sick</p> <p>Major adverse local publicity, major loss of confidence</p> <p>Litigation likely and may be difficult to defend</p> <p>Breaches of law punishable by fines or possible imprisonment</p>
3	Moderate Risk	<p>Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget. Examples:-</p> <p>Service objectives partially achievable</p> <p>Short term disruption to service capability</p> <p>Significant financial loss – supplementary estimate needed which will have an impact on the Council’s financial plan</p> <p>Medical treatment required, semi-permanent harm up to 1 year</p> <p>Some adverse publicity, needs careful public relations</p> <p>High potential for complaint, litigation possible</p> <p>Breaches of law punishable by fines only</p>
2	Minor Risk	<p>Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect.</p> <p>Examples:-</p> <p>Minor impact on service objectives</p> <p>No significant disruption to service capability</p> <p>Moderate financial loss – can be accommodated at HOS level</p> <p>First aid treatment, non-permanent harm up to 1 month</p> <p>Some public embarrassment, no damage to reputation</p> <p>May result in complaints/litigation</p> <p>Breaches of regulations/standards</p>
1	Insignificant Risk	<p>Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect.</p> <p>Examples:-</p> <p>Minimal impact, no service disruption</p>

		Negligible impact on service capability Minimal loss – can be accommodated at SAC level No obvious harm/injury Unlikely to cause any adverse publicity, internal only Breaches of local procedures/standards
--	--	--

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk. The ratings can then be plotted onto the risk matrix, see below, which assists in determining the risk priority and the amount of attention it deserves.

25. RISK RANKING TABLE

Likelihood / Probability	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5
		Insignificant	Minor	Moderate	Major
Negative Impact / Severity					

Risk Tolerance		
Red (High Risk)	20 - 25	Must be managed down urgently
Amber (Medium Risk)	12 - 16	Seek to influence medium term/monitor
Green (Low Risk)	6 - 10	Acceptable but continue to monitor
Yellow (No risk)	1 - 5	Remove from register

26. MONITORING ARRANGEMENTS FOR KEY RISKS

The reason for monitoring key risks is to create an early warning system for any movement in risk – key risks are defined as those which score 12 or above in accordance with the risk ranking table on page 17. High level red risks may be referred to the Scrutiny Board subject to Audit Committee recommendation. Risks scoring below 12 are considered to be managed effectively and therefore within the Council’s “risk tolerance”. Any risk scored below 6 can be removed from the risk register and archived.

Risk Registers are living documents and therefore must be regularly reviewed and amended. The Risk and Opportunity Management Strategy requires risks recorded on the Strategic Risk Register and service level Operational Risk Registers to be monitored every six months by departmental risk champions in consultation with senior managers and lead officers.

Monitoring reports are presented for approval to the Corporate Risk Management Group and to Cabinet Planning for Member agreement prior to final ratification by the Audit Committee. Operational red risks may be referred to the Overview and Scrutiny Management Board. Information on all risks scored 16 and above is recorded on the Performance Management System and linked with Corporate and Service objectives and Key Performance indicators as appropriate.

The questions asked during monitoring are:-

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

27. OPPORTUNITY RISK ASSESSMENT

The risk impact and likelihood that are assigned should be based on an assessment of the current level of exposure which will be dependent on the adequacy of the existing level of controls in place. When dealing with opportunity management we are trying to predict future events and recognise that there is a degree of uncertainty in our assessments - they involve judgement as well as measurement and the precise value will not be known exactly in advance. Opportunity likelihood and impact definitions are given below as a guide.

Likelihood	Definitions
Certain	Opportunity has been realised and will continue to be exploited.
Almost Certain	Opportunity is likely to be realised within this financial year.
Likely	Opportunity may be realised within the next three financial years.
Possible	Opportunity may be realised within the next three to five financial years
Rare	Opportunity may be realised in exceptional circumstances

Impact	Definitions
Exceptional	<ul style="list-style-type: none"> ▪ Exceptional improvement to service (s) (e.g. Quality, level, speed, cost etc) ▪ Exceptional delivery of strategic objectives or priorities ▪ National or international partnership initiative or arrangement ▪ Extensive positive coverage in national press ▪ Major improvement to local, national or international environment ▪ Income and/or savings in excess of £500,000 ▪ Exceptional savings of resource (e.g. Time, labour)
Major	<ul style="list-style-type: none"> ▪ Major improvement to service (s) (e.g. quality, level, speed, cost etc) ▪ Major delivery of strategic objectives or priorities ▪ National or regional partnership initiative or arrangement ▪ Positive coverage in national press ▪ Major improvement to local environment ▪ Income and/or savings of between £100,000 and £500,000 ▪ Major savings of resource (e.g. time, labour)
Significant	<ul style="list-style-type: none"> ▪ Significant improvement to service (s) (e.g. quality, level, speed, cost etc) ▪ Significant delivery of strategic objectives or priorities ▪ Regional partnership initiative or arrangement ▪ Significant positive coverage in local press ▪ Significant improvement to local environment ▪ Income and/or savings of between £50,000 and £100,000 ▪ Significant savings of resource (e.g. time, labour)
Moderate	<ul style="list-style-type: none"> ▪ Moderate improvement to service (s) (e.g. quality, level, speed, cost etc) ▪ Moderate delivery of strategic objectives or priorities

	<ul style="list-style-type: none"> ▪ County wide level partnership initiative or arrangement ▪ Positive coverage in local press ▪ Moderate improvement to local environment ▪ Income and/or savings of between £10,000 and £50,000 ▪ Moderate savings of resource (e.g. time, labour)
Minor	<ul style="list-style-type: none"> ▪ Minor improvement to service ▪ Minor delivery of strategic objectives or priorities ▪ Local level partnership initiative or arrangement ▪ Minimal positive coverage in local press ▪ Minor improvement to local environment ▪ Income and/or savings of below £10,000 ▪ Minor savings of resource (e.g. time, labour)

28. RESOURCE AND COST/BENEFIT ANALYSIS

Responses to identified risk and opportunities must be appropriate, achievable and affordable. There will be some occasions when the cost of the response will outweigh the benefits accrued as a result of the proposed action to be taken. An assessment of the cost/benefit of implementing the response should be carried out. Resourcing the response to risk and opportunity should be considered as part of the service planning and financial management arrangements and any medium to long term resource implications identified incorporated in the Medium Term Financial Strategy.

29. INDICATORS OF SUCCESS

The following indicators are monitored annually:-

- 99.2% of staff appraised during 2011/12 under the “Manages Risk” competency heading achieve or excel in the required appraisal score.
- CIPFA/ALARM Risk Management benchmarking exercise undertaken in 2012 assessed the Risk Management framework within Plymouth City Council as “Driving the Business” which is the highest scoring category.
- The Risk Management Fund contributed towards 13 successful bids for financial assistance towards risk reduction initiatives totalling £44,997.67 during 2011/12.
- Strategic and Operational Risk Registers continue to be formally monitored every six months and report presented to Audit Committee.
- The Risk Management Strategy is reviewed and updated annually to provide up to date guidance on best practice and ensure it fits in with current processes.
- The Risk Management Strategy helps to ensure compliance with the Code of Corporate Governance and Annual Governance Statement as part of the council’s duty under the Local Government Act 1999

The ultimate measure of effective risk and opportunity management is that the Council has the resilience to deliver its services and core objectives and is able to identify, and take maximum advantage of, the occurrence of positive risk.

30 SOURCES OF REFERENCE AND GUIDANCE

External Sources:-

Risk Management – A Key to Success, a guide to understanding and managing risk – ALARM

Alarm Opportunity Risk Management Guide

Corporate Governance in Local Government – A Keystone for Community Governance – CIPFA/SOLACE

“Worth the Risk” Improving Risk Management in Local Government – Audit Commission

Management of Risk – A strategic overview – HM Treasury

Managing Information Risk: The Cabinet Office – Security Policy Framework

http://www.cabinetoffice.gov.uk/spf/sp1_grmc.aspx

and

http://www.cabinetoffice.gov.uk/spf/sp4_isa.aspx

Internal Sources:-

Risk Management Page in the Staffroom

Plymouth City Council’s Partnerships Framework

Operational Risk Management Group Terms of Reference

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CITY OF PLYMOUTH

Subject:	Treasury Management Strategy 2012/13– Mid-year Review.
Committee:	Audit Committee Full Council
Date:	13 December 2012 28 January 2013
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 Part:	No I

Purpose of the report:

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's strategy for 2012/13 was approved by full Council at its budget meeting on 27 February 2012. This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2012. It is a requirement of the CIPFA Code of Practice on Treasury Management that a full mid year report, as a minimum, should be presented to Full Council.

Corporate Plan 2012-2015:

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

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

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

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

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

Recommendations & Reasons for recommended action:

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

Alternative options considered and reasons for recommended action:

It is statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the Cipfa Code of Practice for Treasury Management which requires a mid-year report to be submitted to the Audit Committee and Full Council covering the performance against this approved strategy.

Background papers:

- Treasury Management Strategy Report 2012/13 to Council 27 February 2012
- Treasury Management Practices update for 2012-13 approved by Audit committee 21 June 2012
- Treasury management budget working papers

Sign off:

Finance	djn1213.020	Legal		HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member Malcolm Coe											

Treasury Management Strategy Mid-Year Review

I. Introduction

1.1 The Treasury Management Strategy for 2012/13 was approved by full Council at its meeting of the 27th February 2012. The Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of treasury management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

1.2 Treasury Management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.3 The responsibility for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions is delegated by the Council to its Section 151 Officer – the Director for Corporate Services, and is overseen by a Treasury Management Board consisting of senior officers of the Council.

1.4 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP's). Updates to these practices for 2012-13 were approved by the Audit Committee on 21st June 2012.

1.5 The Council works closely with its treasury management advisors, Arlingclose, who assist the Council in formulating views on interest rates, regular updates on economic conditions and interest rate expectations, and advice on specific borrowing and investment decisions.

1.6 This report therefore provides an update on the Council's treasury management activity for the period ended 30th September 2012 together with performance against approved Treasury Management Prudential Indicators. In accordance with Treasury Management Practice (TMP) note 6, the report is required to be presented to full Council.

2. Economic Background

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

Growth: The world economy faced yet another soft patch. The UK and the Eurozone (with the exception of Germany) struggled to show discernible growth whilst the US economy grew slowly. UK GDP contracted by 0.3% in the first calendar quarter of 2012 and by 0.4% in second, reflecting the difficult economic conditions faced by businesses and consumers domestically and globally. Businesses were more inclined to take defensive strategies involving cost cutting rather than increasing capital spending. Financial conditions facing households continued to be weak as wage growth remained subdued and was, for much of the period, outstripped by inflation. (Much of the fall in Q2 GDP could probably be attributed to the impact of the additional bank holiday for the Diamond Jubilee, and could be recovered in Q3.)

Inflation: Inflation, which had remained stubbornly sticky throughout 2011, slowly began to fall. Annual CPI dipped below 3% for the first time in two and half years in May and fell to the lowest level since November 2009 in June, with a reading of 2.4%. It ticked up marginally to 2.5% by August. Although the recent rise in commodity prices has been worrying, the rise in oil and food prices – the latter mainly due to poor weather-related yields - are well below the spikes of 2010/11.

Some barometers of economic activity, however, provided a more buoyant and positive picture but tended to get overshadowed. Employment rose by 236,000 in the three months to July and the employment rate was at its highest since the three months to April 2009. The ILO unemployment rate fell 0.1% on the quarter to 8.1%. Whilst the effect of the Olympics undoubtedly played a part, despite its temporary nature, the underlying data pointed to a more resilient and optimistic outlook for the economy.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to sanction £50 billion asset purchases (Quantitative Easing - QE) in July, taking total QE to £375 billion. The possibility of a rate cut from the current level of 0.5% was discussed at the Bank's Monetary Policy Committee meetings in June and July; however reference to it was subsequently dropped suggesting that this policy option had left the table for the immediate future. The government's Funding for Lending (FLS) initiative, intended to lower banks' funding costs, commenced in August. The Bank of England will assess its effects in easing the flow of credit before committing to further policy action.

Banks were embroiled in the scandal to manipulate LIBOR rates during the abnormal market conditions at the height of the 2007/08 financial crisis. Barclays was fined a record £290 million, the FSA was also investigating HSBC, RBS, Citicorp and UBS; Lloyds was named in a lawsuit in the US. The big-four UK banks were also being investigated for mis-selling interest rate swaps to small businesses.

The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. Poor employment data for August preceded the Fed further easing monetary policy at its September meeting; The Fed committed to purchasing \$40 billion of agency mortgage-backed securities each month until the outlook for

the labour market improves “substantially.” The Fed also pledged to keep interest rates low until mid-2015. In Greece, the formation of an alliance of pro-euro parties after a second round of parliamentary elections prevented an immediate and disorderly exit from the Euro. The Euro region suffered a renewed bout of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. The European Central Bank (ECB) responded with the announcement in September of its Outright Monetary Transactions (OMT) facility which allows the ECB to buy unlimited amounts of 1-3 year sovereign bonds provided the sovereign(s) first asks for such assistance and adheres to the strict conditionality attached to such purchases.

Gilt Yields and Money Market Rates: Gilt yields fell sharply raising the prospect that very short-dated yields could turn negative. 2-year yields fell to 0.06%, 5-year yields to 0.48% and 10-year yields to 1.45%. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England’s continued purchases of gilts under an extended QE programme; investors preferring the safer haven of UK government bonds to those of European sovereigns; the coalition’s commitment to fiscal discipline by sticking to its “plan A” for deficit reduction; large scale purchases by banks to comply with the FSA’s liquidity buffer requirements; and general risk aversion against a weak economic backdrop. PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

Money market rates fell over the six month period by between 0.2% to 0.6% for 1-12 month maturities.

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

3 The Council’s Strategy for 2012/13

- 3.1 The Council’s treasury management strategy was approved by full Council on 27th February 2012. As an overriding principle, the strategy proposed that 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 The borrowing strategy was to be based on affordability and subject to credit conditions throughout the year. In adverse credit conditions the strategy was to use internal balances to cover any borrowing requirement enabling the Authority to minimise borrowing costs and reduce overall treasury risk by reducing the level of external investment balances. In improved credit conditions the Director for Corporate Services would consider externalising borrowing using short-term or long-term loans as part of a balanced maturity profile within the approved Prudential Indicators.

4. Review of the Council's Performance April – September 2012

4.1 Table I shows the Council's overall treasury portfolio at 30th September 2012 compared to the position at the start of the year.

Table I

01/04/2012 £m	Average Interest rate %		30/9/2012 £m	Average Interest rate %
		External Borrowing Long-term:		
61.315	5.4001	PWLB	61.315	5.4001
130.000	4.4202	Market	130.000	4.4202
0.083	1.1668	Bonds	0.088	1.1668
15.000	0.2900	Temporary Borrowing	19.000	0.2658
206.398	4.4098	Total PCC Borrowing	210.402	4.3293
		Long-term liabilities		
31.017	8.7300	PFI Schemes	31.017	8.7300
2.585	n/a	Finance Leases	2.585	n/a
9.510	n/a	Cornwall County Council (TBTF)	9.510	n/a
249.510		Total External Debt	253.514	
(83.975)	1.0564	Total Investments	(90.216)	0.8853
165.535		Net Borrowing/(Net Investment) Position	163.298	

Borrowing

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

- The Authorised Limit
- The Operational Boundary

4.3 The external debt limits for 2012/13, as approved by Council in February 2012, are as follows:

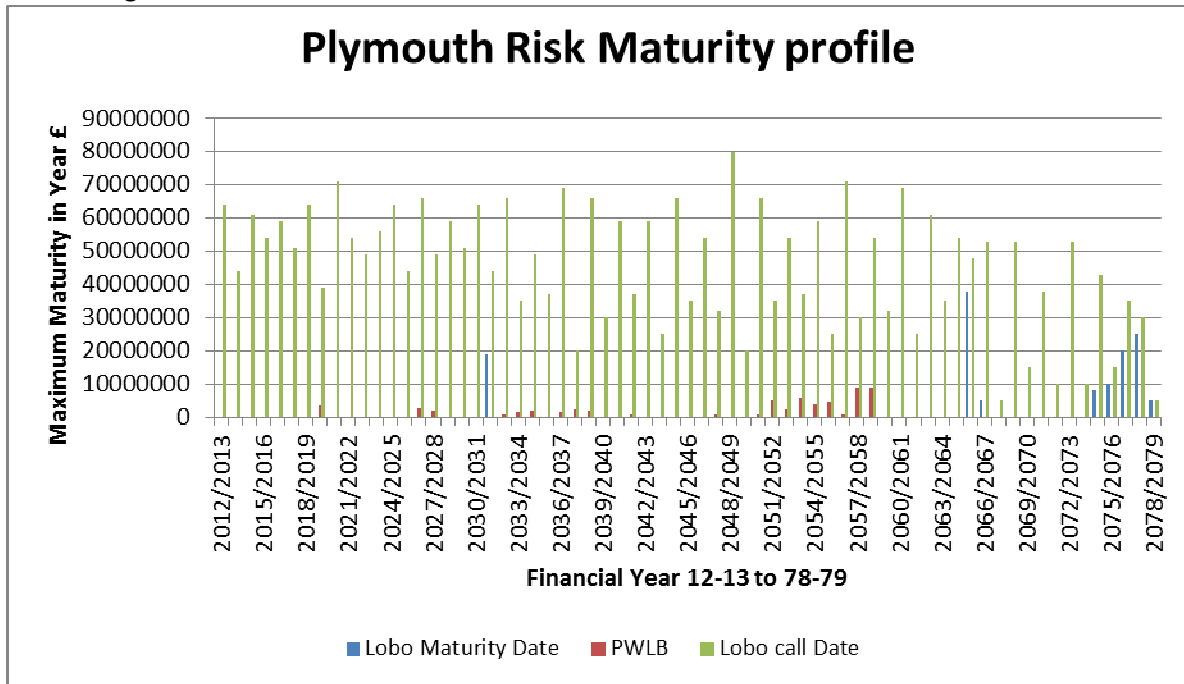
- Authorised limits £309m
- Operational Boundary £279m

4.4 The maximum external debt outstanding during the period was £273.7m on 4th May 2012 (including £43m for the PFI scheme, finance leases and Tamar bridge debt administered by Cornwall County Council). This was within both the authorised limit and the operational boundary. By 31st August debt had fallen to £234.4m due to the strategy to reduce short-term borrowing and call account deposits to reduce credit risk due to increased uncertainty in the Eurozone. At 30th September 2012 total external debt increased to £253.514m with external

borrowing excluding PFI, Finance leases and Tamar Bridge debt at £210.402m including £19m of short-term loans taken as credit conditions improved during September. This left a balance of £30.9m internally borrowed using available balances to cover the funding of the capital programme. Officers will monitor credit conditions and increase/reduce external borrowing when appropriate.

- 4.5 The following graph shows the maturity profile of the Council's long-term borrowing at 30th September 2012:

Figure 1



- 4.6 The debt portfolio currently includes £130m of LOBO loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed. This is reflected within the maturity profile shown above (in green) to enable officers to risk manage the Council's cashflows. To 30th September 2012 £10m of loans had reached their call option dates. No options were exercised and these loans will continue at fixed rates until the next option dates in 2 to 4 years time.

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

Table 2

	Balance on 01/04/2012 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 30/09/2012 £000s	Increase/ (Decrease) in Borrowing
Short Term Borrowing	15,000	(87,790)	0	91,790	19,000	4,000
Long Term Borrowing	191,398	0	0	4	191,402	4
TOTAL BORROWING	206,398	(87,790)	0	91,794	210.402	4,004

4.8 New borrowing in year

The use of short-term borrowing has continued to be the most cost effective means of financing capital expenditure and cashflow requirements. During the first half of the year when credit conditions fluctuated the strategy moved in and out of using internal balances to using short-term borrowing. By matching any short-term borrowing with the available liquid deposits held in bank call accounts, this has lowered overall treasury risk by allowing flexibility of reducing debt and investment levels at short notice when credit conditions deteriorated.

The Council started the year with £15m of short-term loans with £91.794m of new loans taken and £87.790m of loans maturing in 2012/13. The average period of new loans taken in the period 1st April 2012 to 30th September 2012 was 39.32 days at an average rate of 0.2738%. Short-term fixed/variable rate borrowing is expected to remain attractive for some time as the Bank of England maintains the base rate at historically low levels. Subject to credit conditions the borrowing strategy for the remainder of the year will be to take short-term loans up to the limit of the Council's Capital Financing Requirement (CFR).

4.9 Debt Rescheduling

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

4.10 Overall Debt performance for the first part of the year

All new debt taken in 2012-13 has been in short-term borrowing to meet cashflow/capital financing requirements. Over the period total loan debt has increased by £4.004m as a result of an increase in short-term borrowing due to the improvement in credit conditions. The increase in short-term borrowing has resulted in a reduction in the average rate on external borrowing from 4.4098% on 1st April 2012 to 4.3293% on 30th September 2012.

4.11 PWLB borrowing

The PWLB remains an attractive source of borrowing for the Council in considering any long-term loans as it offers flexibility and control. The large downward move in gilt yields in the second quarter resulted in PWLB rates falling across all maturities (tables 2 and 3 in Appendix 1).

In August HM Treasury announced details of a “Certainty Rate” which will enable “eligible authorities” to access cheaper PWLB funding, with a 20 basis point reduction on the standard PWLB borrowing rate. Initially announced in the March 2012 Budget, HM Treasury have introduced this initiative to incentivise local authorities to provide robust forecasts on borrowing plans. The Council has completed the pro-forma projecting the Council’s likely borrowing requirement over a three year period and returned it to CLG by the deadline of 17th September 2012 and are now eligible for this discounted rate for new loans starting on or after 1st November 2012.

Due to affordability and credit risk the current borrowing strategy is to take short-term borrowing at very low rates. However the Director for Corporate Services will continue to monitor interest rates and credit conditions and consider long-term borrowing in line with the approved 2012/13 Treasury Management Strategy.

Investments

4.12 Managing Investment Risk

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

4.12.2 Security of capital remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. This restricted new investments to the following:

- The Debt Management Agency Deposit Facility (DMO)
- Treasury Bills (T-Bills) issued by the UK Government
- Term Deposits or business reserve accounts with UK banks or building societies systemically important to the UK economy
- UK nationalised/part nationalised banks
- Deposits with other local authorities
- Deposits with highly credit rated foreign banks
- Certificate of deposits with banks and building societies
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank
- Gilts (Bonds issued by the UK government)
- AAA-rated Money Market Funds with a Constant Stable Net Asset Value investing in instruments issued predominantly in government securities
- AAA-rated Money Market Funds with a Constant Stable Net Asset Value investing in instruments issued primarily by financial institutions

- AAA-rated Money Market Funds with a Variable Net Asset Value
- Other Money Market Funds and Collective Investment Schemes which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.
- Commercial Paper
- Corporate Bonds

4.12.3 Counterparty credit quality is assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the Country in which the institution operates; the Country's net debt as a percentage of GDP; sovereign support mechanisms/potential support from a well-resourced parent institution; share price.

4.13 Counterparty Update

4.13.1 The Council started the year with the following maturity limits with financial institutions on the Council's list:

UK institutions:

- Santander UK for a maximum period of 35 days;
- Barclays Bank , Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster and Nationwide Building Society for a maximum period of 100 days;
- HSBC Bank and Standard Chartered for a maximum period of 6 months.

Non-UK Institutions

- Approved Australian, Canadian and USA banks for a maximum period of 6 months

In May as a result of political and economic developments in Europe and the UK and their likely consequences for the banking sector, together with a pending review of a number of global banks by the rating agency Moody's, the maturity limit for RBS/NatWest and Lloyds/Bank of Scotland was reduced to a maximum of 35 days. Later in the month resulting from the rapid developments in relation to the Greek and Eurozone debt crisis and the downgrade of the credit rating for Santander UK the maturity limit for this bank was reduced to overnight/call. During the month as credit concerns increased Santander UK was suspended from the council's lending list and a minimum of £15m deposited with the DMO to cover month end salary and creditors payments.

In June as a result of growing concerns over Europe and the exposure of some banks to Eurozone debt the maximum duration limits for new deposits with RBS/NatWest and Lloyds/Bank of Scotland was reduced further to overnight/call. Also in June Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland, as well as Royal Bank of Canada, JP Morgan Chase, BNP Paribas, Societe Generale, Credit Agricole, Credit Suisse and Deutsche Bank. Separately, the agency also

downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A-/A3 credit rating threshold.

In July with credit conditions improving maturity limits were increased, with RBS/NatWest and Santander UK increased to a maximum period of 35 Days, Lloyds/Bank of Scotland to 100 days and HSBC, Standard Chartered and approved Australian & Canadian Banks to 12 months.

With credit conditions improving throughout the summer, added to by good banking results from Santander UK, it was decided in August to reintroduce deposit in our Santander UK call account and no longer use the DMO. At the end of September the maturity limits in use for financial institutions were.

UK Institutions:

- Santander UK, Royal Bank of Scotland and National Westminster for a maximum period of 35 days;
- Barclays Bank , Lloyds TSB, Bank of Scotland and Nationwide Building Society for a maximum period of 100 days;
- HSBC Bank and Standard Chartered for a maximum period of 12 months.

Non-UK Institutions

- Approved European Banks for a maximum period of 100 days
- Approved USA banks for a maximum period of 6 months
- Approved Australian and Canadian banks for a maximum period of 12 months

4.14 Investment Activity

4.14.1 Investments are made short term to cover cash flow and liquidity requirements and longer term to maximise and guarantee future income. With maximum maturity limits reduced during the first 6 months of the year there has been limited opportunity to lock in higher rates for longer periods with the maximum maturity of deposits taken in the period limited to 3 months. In line with the Council's approved investment strategy for 2012/13 the following deposits in 3 month maturities have been taken in the period 1st April 2012 to 30th September 2012.

Amount	Start Date	End Date	Term (days)	Rate %
£5.0m	24/04/12	24/07/12	91	1.40
£5.0m	20/08/12	20/11/12	92	1.35
£5.0m	17/09/12	17/12/12	91	1.35

4.14.2 The above deposits have been taken above target rates and increased the forecast return on investments in 2012/13. This together with higher rates negotiated on call accounts have achieved returns above the budget target rate of 0.8%.

4.14.3 Figure 2 below shows the split of deposits over country/sector as at 30th September 2012. In terms of risk management, the majority of the investment portfolio is now held in UK institutions. These institutions are of systemic importance to the UK economy and as such would in probability receive state support should they have difficulty in operating due to adverse credit conditions. Table 3 provides more detail of the actual deposits by counterparty group.

Figure 2

PCC DEPOSITS BY COUNTRY/SECTOR at 30th September 2012
Total Deposits £90,216,461.95

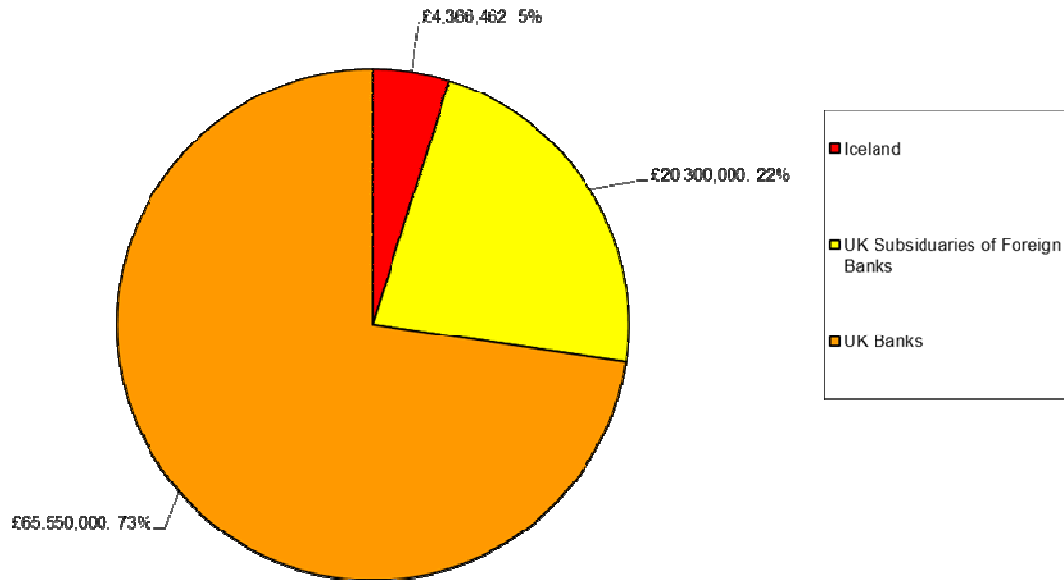


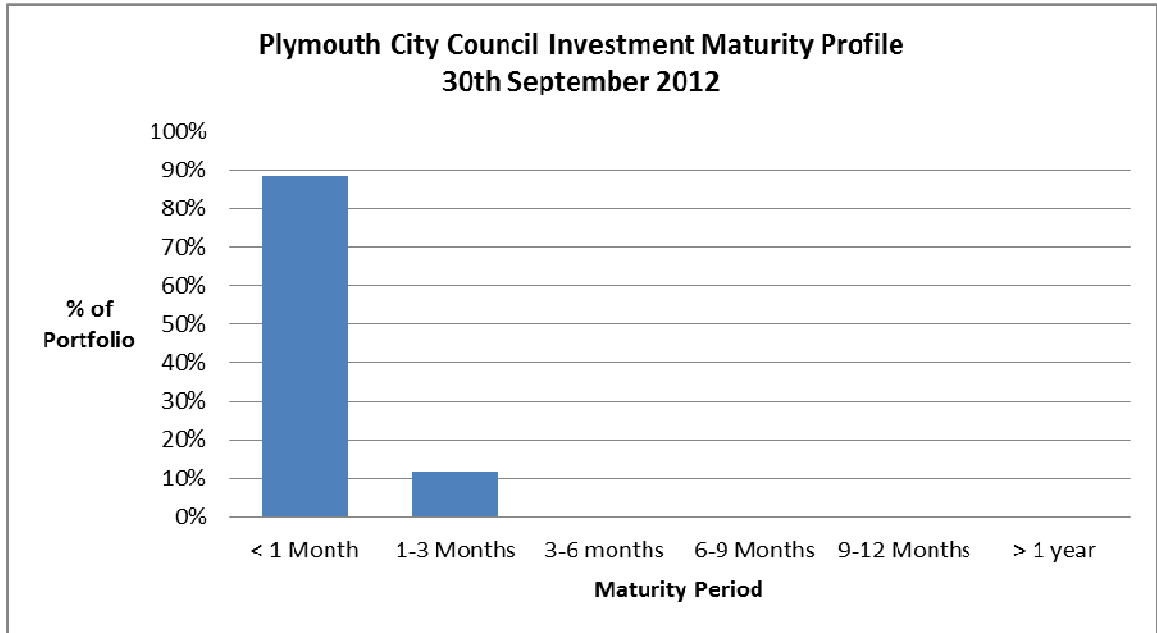
Table 3

Counterparty	Total £m
Iceland	4.366
Banco Santander	
Santander UK (was Abbey National)	20.3000
Lloyds Banking Group	
Bank of Scotland	15.100
Lloyds TSB	5.000
Barclays	24.300
Royal Bank of Scotland (RBS)	
RBS	21.150
Total	90.216

4.14.4 The maturity profile of the Council's deposits is represented in figure 3. This shows a large proportion of deposits maturing in less than one month, reflecting the deposits in call accounts, giving the liquidity requirement to meet cashflow and the ability to react to further adverse changes in market conditions. In the period covered by this report the Treasury Management officer has negotiated increased rates on the Council's call accounts which in most cases pay higher than available fixed term deposits out to the maturity limits in place. The

deposits beyond 1 month are 3 month deposits with Lloyds Banking Group where rates are higher than those available on call accounts.

Figure 3



4.15 Credit Risk

4.15.1 The Treasury Management Strategy report to Audit Committee in February 2010 outlined a recommendation that officers work to develop a set of benchmarking criteria against which the Council’s investment risk could be measured. The Council’s treasury advisors, Arlingclose, as a result developed the following matrix to score the credit risk of an authority’s investment portfolio. This continues to be used in 2012-13:

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- AAA = highest credit quality = 1
- D = lowest credit quality = 27
- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

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

Table 3

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2012	5.48	A+	5.42	A+
30/06/2012	5.10	A+	5.65	A
30/09/2012	5.99	A	6.06	A

Note: These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's counterparty credit quality has fluctuated during the year as a result of credit rating downgrades and the temporary use of the DMADF deposit facility with the DMO. Throughout the first half of the year the council's credit score was maintained well within the target level of 7 as set in the approved 2012/13 strategy.

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

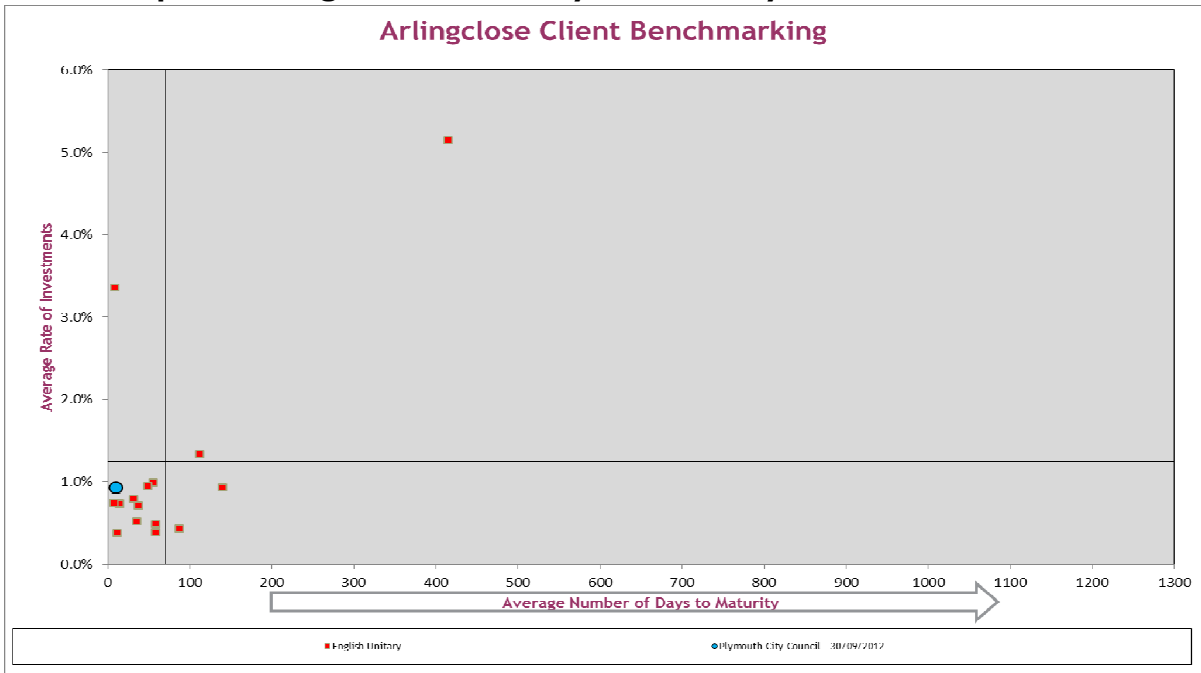
5. Benchmarking

- 5.1 The Council's performance on investments is measured against a benchmark of the 7 day libid rate. For the period to 30th September 2012 the return on investments made in 2012/13 was 0.856% against the average 7 day Libid for the period of 0.54%. Including investment made in previous years at higher rates the average return on all deposits taken to 30th September 2012 was 0.9729%.
- 5.2 As outlined above, Arlingclose have developed a set of benchmarking criteria to enable comparisons on performance to be made on data provided by all their clients. To compare like with like the following graphs compare our performance with other unitary authorities. This is based on data provided to 30th September 2012.

The 3 graphs used for comparison are:

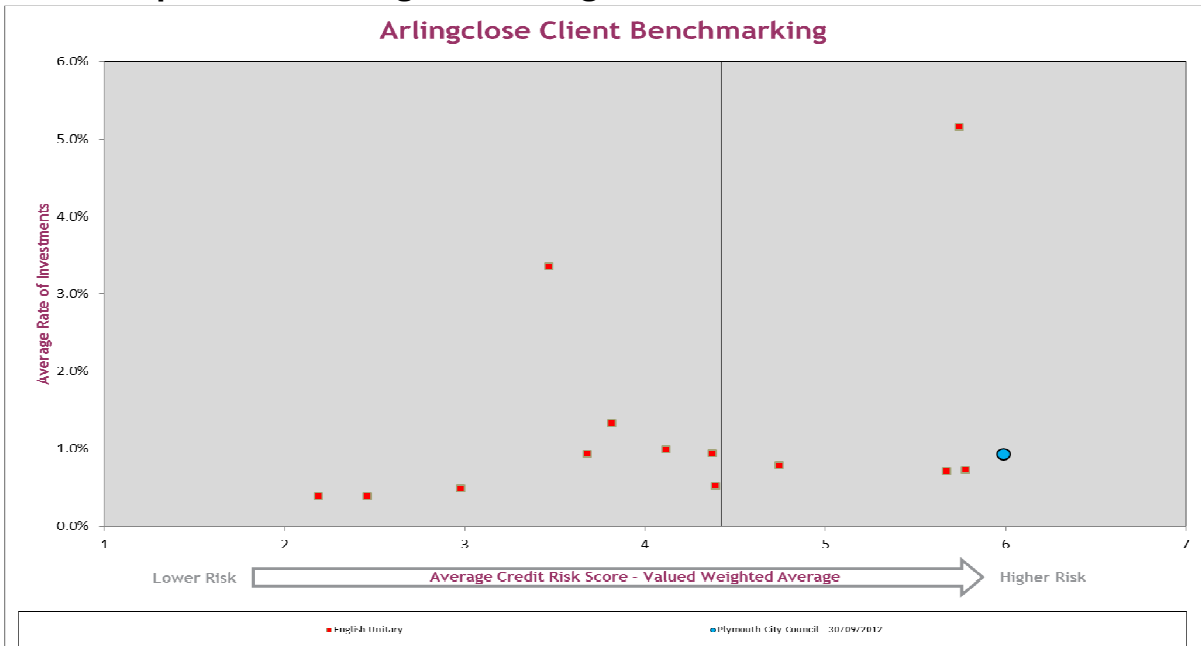
1. Average rate of investment against average maturity period
2. Average rate of investment against value weighted average credit risk score
3. Average rate of investment against time weighted average credit risk score

Graph 1 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 the majority of other unitary authorities reflecting the higher rates negotiated on call accounts

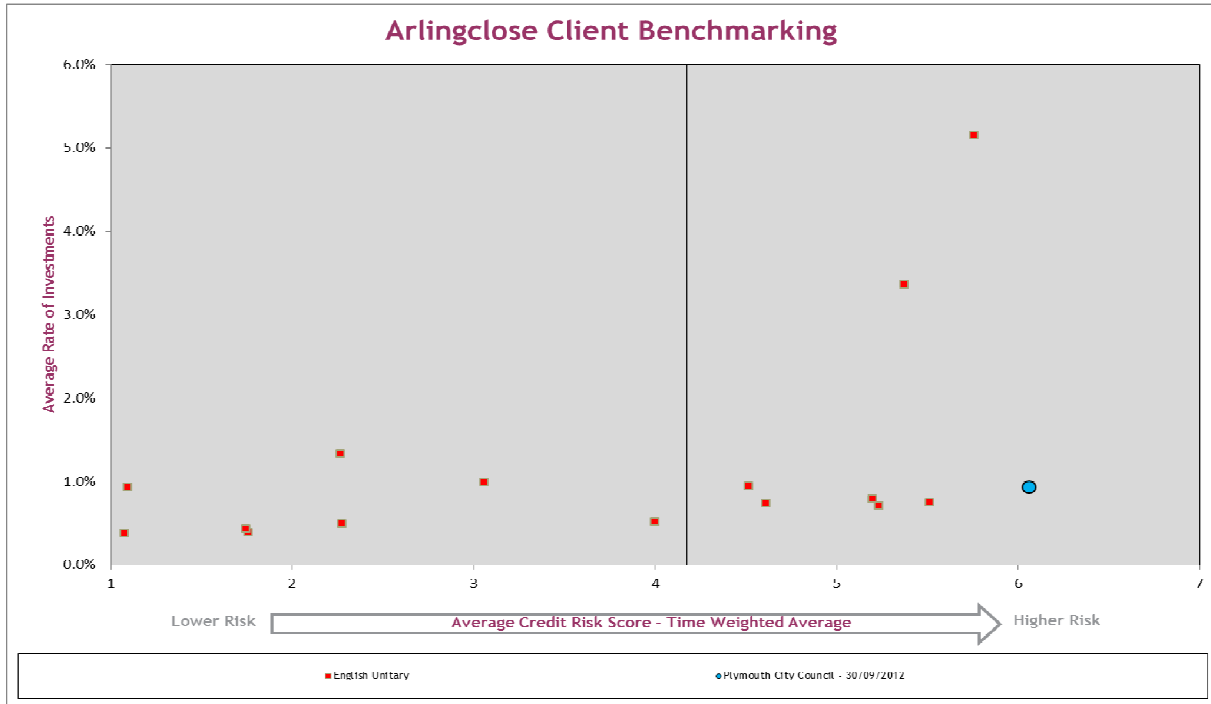
Graph 2. Value Weighted Average V Return



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 true in some cases. The majority of the Council's investments are in call accounts with UK banks. These banks have been downgraded increasing the credit risk score but are still of systemic importance to the UK economy and as such are considered secure investments.

Graph 3 Time weighted Average V Return



Longer-term investments with banks are inherently more risky. Ideally authorities should move towards the top left hand corner of the above graph. Therefore it is preferable to see risk taken converted into return at a greater than average rate. All the Council's investments are in short-term deposits or instant access call accounts so there are no longer-term deposits impacting on our credit risk score. The lower risk scores of other unitary authorities are due to the use of Money Market Funds (MMF) which are AAA rated giving the lowest credit risk score. It has been the policy of the Council to use call accounts with UK banks in the first half of the year as opposed to the alternative of liquid MMF's. Although MMF's are rated AAA the instruments within these funds have far lower ratings. Arlingclose are reviewing their credit risk scores to reflect this. This will bring the scores of other authorities closer to that of this Authority.

6. Revenue Implications of Treasury Management

6.1 The expenditure and income arising from the Council's borrowing and investments accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed on to specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. The table below shows the monitoring

positions against budget arising from these transactions in 2012/13 to 30th September 2012.

Summary of Capital Financing Costs 2012/13

	2012/13 Budget £000	Forecast 2012/13 Outturn £000	Variance £000
External Interest payments	9,660	9,091	(569)
External Interest received	(503)	(595)	(92)
Interest transferred to other accounts	115	115	0
Premiums / Discounts written out to Revenue	(189)	(189)	0
Debt Management Expenses	143	143	0
Treasury Management Cost	9,226	8,595	(661)
Minimum Revenue Provision	7,897	7,807	(90)
Recharges for unsupported borrowing	(3,775)	(3,510)	265
Recovered from trading Accounts	(3,662)	(3,662)	0
Net Cost to General Fund	9,686	9,200	(486)

7 Icelandic Bank Update

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

Glitnir - received £5,033,247.31 (principal £4,742,018.12 and interest £291,229.19) amounting to 79.03% of our agreed claim leaving a balance yet to be recovered of £1,335,240.36.

Landsbanki – received £1,993,537.27 (principal £1,887,758.90 and interest £105,778.37) amounting to 47.19% of our agreed claim. The amount received includes £246,162.37 received in 2012/13 (October) leaving a balance yet to be recovered of £2,230,598.07.

Heritable – received £2,350,910.81 (principal £2,236,861.87 and interest £114,048.94) amounting to 74.56% of our claim. This includes £209,365.25 received in 2012-13 (April and July) made up of principal of £199,208.37 and interest of £10,156.88 leaving a balance of £802,047.56 yet to be recovered.

8 Compliance with Prudential Indicators

8.1 Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of prudential indicators covering borrowing limits and other treasury management measures. The Prudential Indicators for 2012/13 were approved by Council on 27th February 2012.

The performance to 30th September 2012 against these limits are set out below:

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. It is measured on a daily basis against all external borrowing items on the balance sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). It is consistent with the Council’s existing commitments, its proposal for capital expenditure and its approved treasury management policy/strategy.
- The Council’s Affordable (Authorised) Borrowing Limit was set at £309m for 2012/13 including a limit for other long term liabilities of £34m to cover PFI and Finance Leases.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. It is a focus for the day to day treasury management and a means by which the authority manages its external debt within the self-imposed Authorised Limit. The Operational Boundary may be breached at certain times during the year due to short-term cashflow requirements.
- The Operational Boundary for 2012/13 was set at £279m.
- There were no breaches to the Authorised Limit or Operational Boundary to 30th September 2012 with the total external debt (including PFI and finance leases) reaching its maximum level of £273.712m on 4th May 2012.

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

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

	Limits for 2012/13 %
Upper Limit for Fixed Rate Exposure	200
Maximum exposure in 2012-13	115.4
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Maximum exposure in 2012-13	25.42
Compliance with Limits:	Yes

The Council’s exposure to both fixed and variable rates was managed well within the limits set during the first half of the year.

(c) Maturity Structure of Fixed Rate Borrowing

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

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Highest % of Actual Fixed Rate Borrowing during 12-13	Lowest % of Actual Fixed Rate Borrowing during 12-13	Compliance with Set Limits?
under 12 months	50	0	48.63	33.48	Yes
12 months and within 24 months	60	0	22.99	7.84	Yes
24 months and within 5 years	40	0	14.11	8.88	Yes
5 years and within 10 years	25	0	1.94	1.94	Yes
10 years and within 20 years	30	0	2.50	2.50	Yes
20 years and with 30 years	30	0	5.73	5.73	Yes
30 years and within 40 years	25	0	3.41	2.33	Yes
40 years and within 50 years	40	0	19.52	18.45	Yes
50 years and above	25	0	0.00	0.00	Yes

(d) Gross and Net Debt

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

Net Debt as a % of Gross Debt	Approved Limit %	Actual to 30th September 2012 %	Compliance with Set Limits
Upper Limit	80	71.65	Yes
Lower Limit	35	52.56	Yes

During the period from 1st April to 30th September 2012 borrowing has been limited to within the Council's Capital Financing Requirement for the year and no borrowing has been taken in advance of need for future year's capital expenditure funding requirement.

(e) Net Debt and the Capital Financing Requirement

- This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for capital purposes, the Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
- The Authority had no difficulty meeting this requirement so far in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

(f) 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 2012/13 was set at £20m.
- The Council's strategy for 2012-13 started with maximum deposit maturity limits out to 1 year. However due to adverse changes in credit conditions, and reductions in maturity limits during the year to date, the maximum deposits made were in up to 3 month maturities. Having not taken any deposits over 364 days in the first half of the year the Council still has space for up to £20m of longer-term deposits should this be viewed as appropriate in light of credit conditions, available counterparties and the risk/reward of these investments.

(g) Credit Risk

- This indicator has been incorporated to review the Council's approach to credit risk.
- The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.
- Credit ratings remain an important element in assessing credit risk, but they are not the sole feature of the Authority's assessment of counterparty risk. The authority considers the following tools to assess credit risk.
 - Published credit ratings of the financial institution and its sovereign;
 - Sovereign support mechanism;
 - Credit default swaps (where quoted);
 - Share prices (where quoted);
 - Economic fundamentals, such as country's net debt as a percentage of its GDP;
 - Corporate developments, news, articles, market sentiment and momentum.

- The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2012/13 Treasury Management Strategy.
 - Long-term ratings of A- or equivalent;
 - Long-term sovereign ratings of AA+ or equivalent for non-UK sovereigns.

9. Outlook for Q3-Q4

9.1 At the time of writing this activity report in October 2012, economic growth remains elusive. Tight credit conditions and weak earnings are constraining consumer and corporate spending. The outlook is for official rates to remain low for an extended period, as shown below.

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

10 Summary

10.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2012/13. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority given to security and liquidity over yield.

Money Market Data and PWLB Rates

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

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.22	1.30	1.59
30/04/2012	0.50	0.50	0.65	0.60	0.99	1.32	1.84	1.35	1.43	1.68
31/05/2012	0.50	0.48	0.65	0.57	0.97	1.30	1.82	1.20	1.20	1.34
30/06/2012	0.50	0.50	0.50	0.55	0.83	1.13	1.65	0.96	0.99	1.25
31/07/2012	0.50	0.50	0.65	0.45	0.63	0.92	1.43	0.76	0.77	1.02
31/08/2012	0.50	0.50	0.52	0.40	0.57	0.81	1.23	0.75	0.78	1.03
30/09/2012	0.50	0.25	0.52	0.40	0.47	0.66	0.95	0.70	0.76	1.00
Average	0.50	0.46	0.54	0.51	0.79	1.08	1.57	1.01	1.05	1.28
Maximum	0.50	0.55	0.65	0.61	1.00	1.33	1.84	1.38	1.45	1.72
Minimum	0.50	0.25	0.30	0.40	0.47	0.66	0.95	0.70	0.76	1.00
Spread	0.00	0.30	0.35	0.21	0.53	0.67	0.89	0.68	0.69	0.72

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
02/04/2012	130/12	1.29	2.07	3.25	4.22	4.43	4.46	4.41
30/04/2012	166/12	1.31	2.09	3.15	4.13	4.38	4.42	4.39
31/05/2012	210/12	1.19	1.76	2.74	3.79	4.13	4.19	4.16
29/06/2012	248/12	1.20	1.84	2.83	3.79	4.11	4.19	4.16
31/07/2012	292/12	1.01	1.57	2.58	3.60	3.97	4.07	4.05
31/08/2012	336/12	1.07	1.62	2.61	3.62	4.05	4.14	4.11
28/09/2012	376/12	1.15	1.67	2.64	3.71	4.12	4.20	4.14
	Low	1.17	1.52	2.52	3.16	3.57	3.81	3.94
	Average	1.41	1.80	2.81	3.43	3.81	4.03	4.15
	High	1.69	2.15	3.28	3.92	4.23	4.39	4.45

Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.56	2.14	3.29	3.91	4.23	4.38
30/04/2012	166/12	1.60	2.15	3.19	3.81	4.14	4.31
31/05/2012	210/12	1.37	1.81	2.78	3.41	3.81	4.03
29/06/2012	248/12	1.41	1.89	2.87	3.45	3.80	4.01
31/07/2012	292/12	1.17	1.63	2.62	3.32	3.61	3.85
31/08/2012	336/12	1.22	1.67	2.65	3.25	3.64	3.90
28/09/2012	376/12	1.29	1.72	2.68	3.31	3.73	3.99
	Low	1.14	1.57	2.56	3.18	3.58	3.81
	Average	1.37	1.85	2.85	3.45	3.82	4.04
	High	1.64	2.21	3.32	3.94	4.24	4.39

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
02/04/2012	0.59	0.60	0.62	1.49	1.50	1.52
30/04/2012	0.58	0.60	0.62	1.48	1.50	1.52
31/05/2012	0.58	0.58	0.58	1.48	1.48	1.48
29/06/2012	0.58	0.57	0.56	1.48	1.47	1.46
31/07/2012	0.56	0.54	0.49	1.46	1.44	1.39
31/08/2012	0.55	0.54	0.52	1.45	1.44	1.42
28/09/2012	0.57	0.56	0.54	1.47	1.46	1.44
Low	0.55	0.53	0.48	1.45	1.43	1.38
Average	0.578	0.5743	0.5668	1.478	1.4743	1.4668
High	0.60	0.60	0.62	1.50	1.50	1.52

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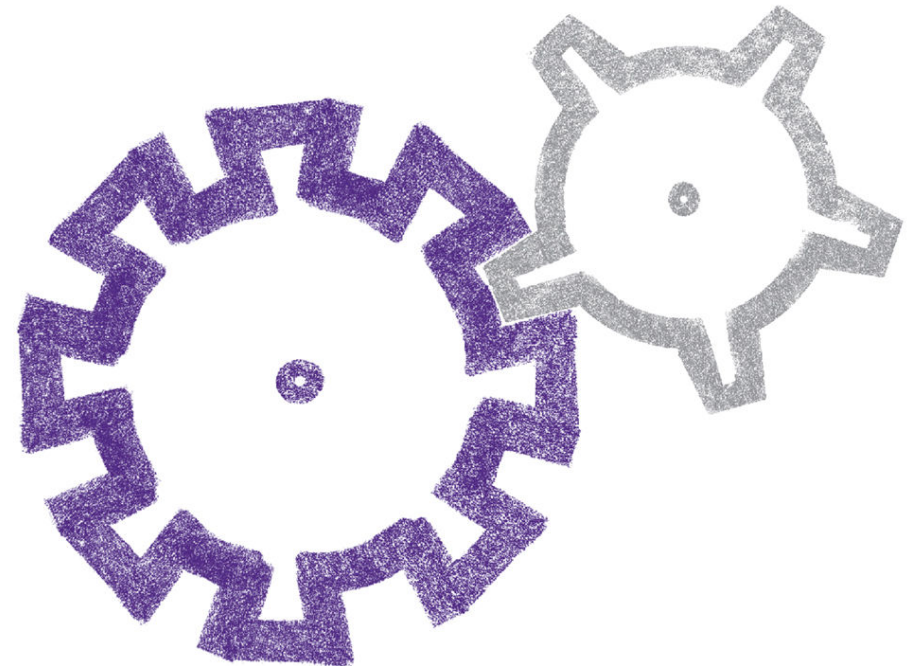
Plymouth City Council

Review of the Council's Arrangements for Securing Financial Resilience

Final November 2012

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Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit comprises a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

In addition, as part of our VfM conclusion work, we have also reviewed the Council's achievement of strategic priorities for 2011/12. As part of that review, we examined the Council's performance management and financial reporting. Where findings of this review are relevant to our work on We have therefore made reference to the findings in that review that are relevant to the financial control and planning sections of this report.

Further details on all other areas examined as part of our financial resilience work are provided in the sections of the report that follow.

We have used a red / amber / green (RAG) rating with the following definitions.

Green

Arrangements meet or exceed adequate standards.
Adequate arrangements identified and key characteristics of good practice appear to be in place.

Amber

Potential risks and / or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.

Red

High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DEs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January 2011 with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Local Context

Plymouth City Council has been a Unitary Authority since 1998 serving a population of over 250,000. The Council has an overarching vision to be one of Europe's "finest, most vibrant waterfront cities where an outstanding quality of life can be enjoyed by everyone" underpinning this ambitious vision are four key priorities to deliver growth, reduce inequality, raise aspirations and provide value for communities. Providing value for communities encompasses many aspects of the Council's strategic and operational vision. It is also a driver to increase economic efficiencies, partnership working and financial planning for the future.

2011/12 was the base year for the transformation process as service redesign is implemented, efficiencies embedded and the idea of a cooperative Council takes shape. 2011/12 saw the council move from five directorates into three, the redesign of the Revenue and Benefits services and the need to make savings, in line with the medium term financial plan of £13m on a net revenue budget of £208.24m. From a base year start, 2011/12 appears to be successful with total savings being achieved. However, the council recognises the difficult financial climate that lies ahead over the next three years as uncertainty continues regarding Central Government funding, Council Tax income generation, changes to the NNDR pooling system, continued economic downturn, reduced school grant funding due to increases in academies, increases in pay awards and pension fund revaluations. As a result of the many financial risks facing the council savings amounting to £30m by 2014/15 need to be made. Given the uncertainty of medium term financial planning due to external forces our attention has focused upon the strategic financial planning of the council.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Key Indicators of Performance	<p>We have used the Audit Commission benchmarking of key indicators for 2009/10 and 2010/11, Where possible, we have updated this information with knowledge of the 2011/12 data e.g working capital and sickness absence where Plymouth are outliers. We have discussed the results with officers. Our analysis shows that Plymouth have followed the performance trends for the group across the majority of areas with the exception of working capital ratio. However, the two outliers mentioned above need further attention:</p> <ul style="list-style-type: none"> - Working capital - it is generally accepted that a working capital ration of 2:1 is required to ensure immediate liabilities can be covered and therefore at 1.21:1 the Council is some way short of this . The 2011/12 results show that this has deteriorated even further. Management have concluded that there is no obvious reason for this other than it is in accordance with the Council's treasury management strategy. - Sickness absence is still higher than the target of 6 days at 8.7 but is improving from the 2009/10 average amount of 10 days per employee. The Council are continuing to work on this area and reviewing the target amount of 6 days to ensure that consideration is given to the possible disparity of working requirements between manual and clerical staff. 	<p style="text-align: center;">● Green</p>
Strategic Financial Planning	<p>The Council have strong arrangements in place to plan the finances of the council over the next three years. The Council have incorporated finance and performance management reporting, performed scenario planning on income and expenditure levels, considered central government funding, and income levels linked to corporate priorities and targets for NNDR, council tax and fees and charges..</p>	<p style="text-align: center;">● Green</p>

Executive Summary

Overview of Arrangements cont.

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Financial Governance	<p>The council has sound governance arrangements for financial planning and monitoring, reporting. In 2011/12, and now for 2012/13, the council introduced a scrutiny regime to plan and agree the budget for the forthcoming year, with officers, members and more importantly - partners. The arrangement included away days for members and officers and members were given the opportunity to challenge draft budgets prior to finalisation ensuring that savings plans and budgets were closely linked to corporate plans and visions. We have suggested improvements to the reporting of performance data - in particular, we have recommended that the Council now move towards better integration of performance reporting and how this can be used to highlight the achievement of the Corporate objectives</p>	<p>● Green</p>
Financial Control	<p>The Council has a good track record of achieving its planned budget. The Council reported a planned overspend of £113k in the draft financial statements for 2011/12. The council have Financial information and reporting is undermined by the existing financial systems. The Council intend to improve the payroll system and expand upon improvements in the revenues and benefits systems experience in 2011/12 in 2012/13.</p> <p>The Council has achieved its savings target of £13m for 2012/13 although recurrent savings are still in need for the medium term financial stability of the council.</p> <p>Internal audit provide a service that is in accordance with CIPFA standards, however we have recommended that improvements are made on the timeliness of completion of the annual audit plan and progress reporting to members.</p>	<p>● Green</p>

Executive Summary

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Strategic Financial Planning	The Council should reconsider the use of zero based budgeting as a more effective methodology. A review of the budget setting process will take place during the 2012/13 financial year - this is an opportune time to evaluate the budget setting process.	Director for Corporate Services supported by CMT/Finance	March 2013	CMT have had discussions with finance around a full review of the budget setting process. We still embrace the ZBB concept but need to understand the value added v resource required. For the 2013/14 budget we have undertaken a thorough challenge of each budget line of each department. In Environmental Services we have undertaken an overview approach to ZBB and a top level review of ASC. We will continue to consider options as part of the wash up on the 2013/14 process and how to improve going forward.
	The Council need to consider the use of scenario planning as part of the development of the Medium term financial plan. This is particularly relevant given the uncertainty surrounding future government funding, inflation, returns on investments and pension fund revaluations.		March 2013	Agreed – in part we already take this approach. Where we can improve is by making our approach more transparent.
Financial Governance	<p>Reporting to Cabinet should include a clear evaluation of outturn for each service against delivery plan forecasts and the link to the achievement or non achievement of corporate priorities.</p> <p>The Council should also consider mapping financial resources and changes to resources to corporate priorities as part of the finance and performance reporting.</p>	Head of Finance	On-going	<ul style="list-style-type: none"> From August 2012 Finance have produced a supplementary finance short report each month between the full 1/4 reports. This reports on the position regards delivery plans. The full 1/4ly report is being strengthened to ensure resource allocation is included. Budget setting process for 2013/14 has included a more robust challenge from portfolio holder for finance to directors plus portfolio holders

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Control	We will continue to work with internal audit and discuss the improvements required for the reporting of audit plan progress to the Audit Committee. In addition to this, we would reiterate our recommendation that the timeliness of work and finalization of audit reports on the key financial systems is improved. Management and Internal audit need to agree a timescale that ensures that all work on the key financial systems is completed by April 2013.	Devon Audit Partnership	April 2013	<ul style="list-style-type: none"> The timings of Audit Committee meetings do not lend itself to accurate reporting on a quarterly basis but Internal Audit did present a 5 monthly summary to the September Committee, will report 8 months to December Committee and plan to provide a 10 monthly summary to the March Committee in addition to their annual report each June Management and Internal Audit have agreed timescales for the audits of the key financial systems with a view to ensuring that the work is completed by April 2013.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

Ratio analysis has been added to this report to establish consistency and outliers on various ratios as detailed below. The results for Plymouth are highlighted in the summary and the detailed graphs reported on in Appendix A. The data has been obtained by the Audit Commission, using audited accounts for the years 2009-10 and 2010-11. Where possible, we have updated this analysis using our knowledge of the draft financial statements as presented to audit on 28 June 2012. It is important to reflect on the figures for 2011/12 as these provide further context to the findings of the previous two years. The indicators used include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:




Sunderland City Council
 North East Lincolnshire Council
 Calderdale Metropolitan Borough Council
 Wirral Metropolitan Borough Council
 Sefton Council
 Plymouth City Council
 Bristol City Council
 Blackpool Council
 Derby City Council
 Coventry City Council
 Dudley Metropolitan Borough Council
 North Tyneside Council
 Gateshead Metropolitan Borough Council
 Darlington Borough Council
 Southampton City Council
 Redcar and Cleveland Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	<p>The Council have achieved the planned outturn against budget for the past 3 years, keeping within the corporate set target of no more than a 1% overspend of net expenditure. In 2011/12 the Council have reported a £113k overspend - 0.004% of net expenditure for the year. The Council achieved its level of savings of 2011/12 £20m by reducing back office costs, restructuring departments and rationalising assets.</p>	<p>● Green</p>
Reserve Balances	<p>Reserve analysis indicates that the Council have maintained the planned useable and unusable reserve balances year on year. This is an area that the Council continue to focus upon in the medium term and have already set clear targets for these areas across the next 3 years. The one concern is the waste reserve which has been set to cover increased landfill charges whilst the incineration plant is built and becomes fully operational in 2015. The Council have considered that this reserve may not be sufficient to fulfil all waste charges and costs and will have to work towards rectifying this position in line with all the other savings that need to be made across the medium term.</p>	<p>● Green</p>
Schools Balances	<p>The council have remained within the target group for school balances although these have reduced, largely because of the movement towards Academy status over the past two years.</p>	<p>● Green</p>

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	Liquidity ratio analysis suggests that the Council's working capital is well below the average considered acceptable. The Council utilised short term borrowing which increased to £90m at the end of 2010/11. Cash and cash equivalents have continued to decrease as the council have reduced the short term investment portfolio given the downward economic climate. For 2011/12 the draft statement of accounts suggest a deteriorating working capital ratio of 1.09:1. The Council need to review the composition of the working capital element. In particular, attention needs to be made to the availability of cash and cash equivalents to fund short term borrowing and creditors.	 Amber
Borrowing	The Council are considered to be well within the requirements for borrowing at present. The current economic pressures have resulted in a shift in treasury management strategies whereby the council have tried to utilise short term borrowing in 2011/12 against internal sources given the low return on investments. The original plan for 2011/12 was to start to repay the long term debt off, however, it was deemed to be cheaper and more VfM to use investments that were not receiving large returns to fund capital or funding in year or utilise cheaper short term borrowing opportunities. The final outturn for 2011/12 shows no change to the long term borrowing of the council but only £15m in short term borrowing as opposed to £96m at the end of 2011, which would suggest a healthier debt position overall.	 Green
Workforce	The Council's sickness levels deteriorated in 2010/11 to a level above 10 days per person on average. The performance outturn figures for 2011/12 suggest that this has improved in 2011/12 and is down to 8.7 days against a target of 6. There is clearly more work for the council to do on this area. 2011/12 was a year of significant change where the council moved from 5 directorates to 3 - redundancies were made. There was also a redesign of the benefits and revenue sections. The council are currently reconsidering the stretch target of 6 days leave per member of staff. This is on the basis that there may be disparity between the working conditions of manual and clerical staff and therefore a flat target of 6 across the council may not be reasonable.	 Amber

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Appendices

Appendix A - Key indicators of financial performance

Strategic Financial Planning

Key indicators of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities.
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFS.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Focus of the MTFS	<ul style="list-style-type: none"> The Medium Term Financial Strategy (MTFS) is informed by the four top level City and Council priorities from the Corporate Plan. It is comprehensive and sets out the total revenue and capital resources available to meet these priorities and spending plans for the next three years. The Council's refinement of its priorities and focus on them throughout the budget planning process has helped to make the alignment of resources to areas of needs increasingly transparent. The MTFS provides a forecast of the Council's future financial position with consideration of inflation, cost savings and reduction in grant income. The MTFS further considers reserve balances as part of the forecasting, with the aim of balancing the budget so that reserves are not impacted in future years. As in previous years the Council uses an incremental budgeting approach to budget setting. A recommendation has been made to apply zero based budgeting as this approach to budgeting starts from the premise that no costs or activities should be factored into the plans for the coming budget period- rather, everything that is to be included in the budget must be considered and justified. Effective implementation of such an approach needs to be controlled and focused and the continuation of incremental budgeting in key services needs to be effectively challenged and linked to the Council's strategic objectives. The Council has undertaken to review the budgeting approach but no change will be made before 2013/14 planning. The Comprehensive Spending Review (CSR) requires the Council to bridge the gap between income and expenditure against a background of 7%+ annual reductions in grants over the next four years. This has been fully considered within the updated MTFS and appropriate actions taken to ensure that service requirements can be met. The MTFS has profiled income over the next four years and made assumptions where funding has yet to be confirmed. 	<p style="text-align: center;">● Green</p>

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p>Scope of the MTFP and links to annual planning</p>	<ul style="list-style-type: none"> The MTFP is very much a 'living' document updated each year as pressures and opportunities are identified. It is in the process of being revised following the new administration's 100 pledges as published in June this year. Annual budgets, at department and service level, sit below the MTFP and set out detailed spending plans and funding arrangements. Delivery plans sit alongside the annual budgets and must be achieved in order for the budget to be met. The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation. The MTFP is also aligned to the Plymouth Report and Corporate Plan. There are clear links between the MTFP and corporate priorities - e.g. children and adult services and funding for these being ring fenced over the next 3 years to ensure that objectives can be delivered. The capital programme is closely linked to the delivery of the savings and budget plans with clear profiles of how capital expenditure will be funded through borrowing, capital receipts and Section 106 funds. There are strong links to the Treasury Management strategy. Currently, there is a considerable redesign of the capital programme as a result of the need to consider redevelopment of areas within Plymouth. It is anticipated that an investment fund will be set up in late 2012 to assist in the funding of future regeneration and redevelopment expenditure. 	<p style="text-align: center;">● Green</p>

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Adequacy of planning assumptions	<ul style="list-style-type: none"> The Council has undertaken sensitivity analysis looking at factors that may impact spending such as pay, superannuation, inflation and Social Care Commissioning. There is potential for scenario planning to be carried out in conjunction with the sensitivity analysis and, whilst not vital, would add further robustness to the process. Detailed savings plans have now been identified for 2012/ 13 and 2013/14 concentrating upon the need for strategic partnerships and reduced back office costs but ensuring that frontline priority services such as Education and children are supported through reduced cuts and focused funding - e.g. looked after children where there is a need to increase staffing levels and resources to ensure care plans are in place against national and local targets. Revenue delivery plans have been devised and the governance of these noted but detail of what these will involve has not been included. The ownership and therefore ultimate responsibility will lie with departmental Directors and an overview will be provided by the CMT. Reports will continue to go to Cabinet highlighting detailed performance against departmental budgets and savings plans Delivery plans will be monitored by Departmental Management Teams (and/or Improvement Boards) against their three year departmental budgets using the existing, risk rated 'Delivery Plan' process. The plan assumes a Council Tax freeze in 2011/12 and 2012/13 which enables the Council to claim the Council Tax Freeze Grant. This equates to £2.4m over each of the next two years but no further funding for 2013/14 and 2014/5 has been included. The forecasted funding shortfall rises from £6.4m in 2012/13 to £9.1m in 2014/15 The Council have identified that in total by 2015 £30m of savings will be required to fund the budget gap and there is a clear uncertainty around what the future funding from Central government will look like because of changes to the RAG, Council tax funding, benefits system and subsidy, NNDR allocations etc. This is an uncertainty that is nationwide and Plymouth have worked with the information that they have focusing upon the need to identify further savings across services where corporate priorities allow. The council has created a number of specific reserves and provisions in order to plan in advance for known and anticipated future revenue costs. These are planned over the four year cycle and with the exception of Insurance and Invest to save are forecast to be nil as at 31 March 2015. These will be reviewed annually to provide assurance that the balances are adequate and must ensure that all known items are included. 	<p style="text-align: center;">● Green</p>

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Review processes	<ul style="list-style-type: none"> • Delivery plans are the responsibility of the departments and are monitored by the departmental directors. These have been developed as part of the budget setting process and are formally reviewed and agreed by Cabinet as part of the budget process. The MTFS provides sufficient data at an overall Council and departmental level but further information could be included to demonstrate how the levels of savings have been identified and will be monitored on an on-going basis. Reporting is carried out on RAG risk rating approach to show whether targets are being met or not. • A treasury management policy is in place that is reviewed and approved by Cabinet. The policy is now much more risk adverse following the collapse of the Icelandic banking institutes and entails only investing with a small number of financial institutions with the highest possible credit rating backed by added security. • The capital programme, budget savings and directorate performance are all reported to Cabinet on a monthly basis . 	<p style="text-align: center;">● Green</p>
Responsiveness of the Plan	<ul style="list-style-type: none"> • The MTFS is revised and adjusted on an annual basis before being adopted by Cabinet. The strategy is adapted to reflect changes in national legislation and local priorities. In 2011/12 the strategy had to be adapted to highlight further savings following as community assets were not passed to the community to own. Further savings were found in the corporate services directorate and benefits sections. • Future years will be reviewed during the lifetime of the plan and this process has already begun for 2013/14 . 	<p style="text-align: center;">● Green</p>

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Appendix - Key indicators of financial performance

Financial Governance

Key indicators of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required)

Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Understanding the Financial Environment	<ul style="list-style-type: none"> • The Strategic Directors fully understand the financial environment in which they operate. i.e. - all the Directorates have weekly management meetings and will regularly discuss key financial and performance issues as required. Performance against budget will be reviewed monthly. • The Audit Committee receive updates on the risk management strategy and the risk registers on a regular basis. • Budget holders receive monthly budget reports. • Members are involved in the budget setting process. There is an away day arrangement each year where members and officers meet to discuss the draft budget. Members can scrutinise and have actively challenged the draft budget assumptions to ensure that consideration is given to meeting corporate priorities and the 2011/12 and 2012/13 budgets have been adjusted following this challenge. • Training is provided to members and finance staff on an on-going basis. • Joint finance and performance reports are presented to Cabinet on a quarterly basis. We suggest that that these reports be improved to clearly identify links between financial outturn and the achievement of the Council's objectives and priorities. • There is a corporate scorecard showing performance against departmental budgets and whether delivery plans are on schedule or not.. Areas of overspend and failure to meet targets are covered through individual Director's reports and scrutinised at Cabinet. • The finance summary takes into account the current position and projected outturn that is monitored against the latest approved budget. The summary includes a delivery plan update which includes a RAG rating to give an idea of progress. 	<p style="text-align: center;">● Green</p>

Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Executive and Member Engagement	<ul style="list-style-type: none"> The Council has effectively engaged with various stakeholders within the community through two surveys. These are: <ul style="list-style-type: none"> Place survey: Biennial survey carried out to inform services delivered by Plymouth City Council and partners Ofsted Tellus Survey: An online survey that gathers the views of children and young people Police, NHS, Education were involved in the awayday for the budget setting process for 2011/12 and 2012/13. - Further consultation activities are also undertaken including: <ul style="list-style-type: none"> Plymouth LINK: Allows the local population to have their say about health and social care services in the city Over 50s: Specifically targeted review and consultation to inform the Council's strategy for over 50s Young People and children: UK youth Parliament Councillors and committees: General public access to meetings or through raising questions within Cabinet The last place survey was carried out in 2008 and therefore it is doubtful that the findings from that are still being used to inform the MTFs or Council strategy. This is mitigated through the Plymouth Report process that was commissioned in 2010 and covered a number of cross cutting themes and issues that arose from data gathering exercises conducted within Plymouth both by and for the council. A scrutiny of the financial performance is undertaken by the Overview and Scrutiny Committee and all findings are reported to, and reviewed by, Cabinet 	<p>● Green</p>
Overview for controls over key cost categories	<ul style="list-style-type: none"> The Council are aware of the high cost areas such as Adult Social Care and Children's services and have assigned performance indicators and targets for these areas. It is recognised that these services need to improve in some target areas, eg looked after children and responsiveness of care plans, but there has been minimal cuts to budgets. This trend will continue over the next three years given the priorities assigned to these areas. Management scrutinise high cost low performing areas. In 2011/12 the Revenues and Benefits service was redesigned as a result of the need to make the service more cost effective. The redesign has been of benefit resulting in reduction in costs and improvement in performance. There is still a need for further improvement to achieve performance targets and indicators. 	<p>● Green</p>

Financial Governance

Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p>Review of accuracy of Committee/Cabinet Reporting</p>	<p>In 2011/12, the Council established a reporting package which combines the budget outturn and the performance outturn for the performance indicators at levels 2 & 3.</p> <p>The delivery plans are monitored on a regular basis and in 2011/12 progress against the delivery plans was reported to Cabinet as an appendix to the finance and performance reports. This enabled members to have a snapshot of progress the delivery of savings.</p> <p>A final outturn of the delivery plans for 2011/12 was not included in the June 2012 revenue outturn report to Cabinet, although the achievement of the delivery plans can be taken from the overall outturn of the revenue budgets for each directorate. It is noted, however, that the delivery plans set out the savings and / or additional income to be achieved over a three year period .</p> <p>A summary of the achievement against the 2011/12 and potentially future year savings plans is likely to enhance the transparency of the information presented to Members and the public in relation to the achievement of the efficiencies for 2011/12.</p>	<p>● Green</p>

Financial Governance

Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p>Performance Management of Budgets</p>	<ul style="list-style-type: none"> The council have improved reporting since previous years. Largely because of the need to ensure that the £13m savings were being monitored and achieved in 2011/12, performance management reports contain a large amount of detail. Each directorate has to report the initial budget, performance against budget, forecaste outturn and details of progress against savings plans. These are reported to cabinet each month. The financial and performance for each directorate have been reported throughout the year to Members through Budget Challenge Scorecards. These set out any key risks to the budget and performance targets, identifying the impact on performance on resources and vice versa. The scorecards also provide Members with a useful picture of how the Plymouth service compares with other unitary councils / family benchmarking group where data is available . To enhance the reporting and challenge process in future years, the Council should consider areas of best practice including mapping resources to objectives and priorities and ensure that the allocation of resources to one area can be clearly mapped to the priorities and objective / measurement outcome that is set to be achieved. For example, the investment in children's social care is directly linked to the overall achievement of reducing Inequality in the City and will include outcome measures for reducing child poverty, child protection plans. By setting out the resource allocation in line with the outcome measures, the Council will have a framework to demonstrate how the resources at the Council are being used to the most effective way, not just to reduce spend and increase efficiencies, but also to deliver on the priorities for the Council and the wider Plymouth area. we have therefore recommended that the Council review the presentation of the initial budget reports to include clearer links between allocated resources and the priorities and outcome measures for the Council. 	<p>● Green</p>

1 Executive Summary

2 Key Indicators

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Appendix - Key indicators of financial performance

Financial Control

Key indicators of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance Management of Budgets	<ul style="list-style-type: none"> As mentioned above -The council have improved reporting since previous years. Largely because of the need to ensure that the £13m savings were being monitored and achieved in 2011/12, performance management reports contain a large amount of detail. Each directorate has to report the initial budget, performance against budget, forecast outturn and details of progress against savings plans. These are reported to cabinet each month. The financial and performance for each directorate have been reported throughout the year to Members through Budget Challenge Scorecards. These set out any key risks to the budget and performance targets, identifying the impact on performance on resources and vice versa. The scorecards also provide Members with a useful picture of how the Plymouth service compares with other unitary councils / family benchmarking group where data is available . To enhance the reporting and challenge process in future years, the Council should consider areas of best practice including mapping resources to objectives and priorities and ensure that the allocation of resources to one area can be clearly mapped to the priorities and objective / measurement outcome that is set to be achieved. For example, the investment in children's social care is directly linked to the overall achievement of reducing Inequality in the City and will include outcome measures for reducing child poverty, child protection plans 	<p style="text-align: center;">● Green</p>




Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p>Performance against Savings Plans</p>	<p>The 2011/12 budget setting process included the setting of financial delivery plans for each of the five directorates, identifying where savings would be made over a three year period. This process involved a number of senior officers coming up with their own delivery plans in relation to the savings to be made over three years . By identifying the saving to be made in totality, senior officers were then involved in identifying and suggesting they key areas across the Council where savings could be made.</p> <p>Involving the directorates and the officers, enabled the Council priorities to be communicated at the initial discussions, and for officers to be able to identify where savings could be made that would either not impact, or improve performance within their own departments. This approach, against the alternative of a percentage cut for each directorate has enabled a number of transformation schemes to take place . These risk based delivery plans used within each Directorate follow a standard template which outlines the areas of savings to be made, the value of these savings over the three year period, the year in which they will be achieved and the individuals responsible.</p> <p>In addition, each saving area identified within the delivery plan sets out the impact (if any) on the Council priorities (linked to one or more of the four top level priorities) along with legal concerns, customer impact and the implications for other service areas or partners. By explicitly stating the impact on these objectives, it enables the Council to have a framework for budget savings that ensures that each transformation and saving plan to be delivered is, in some way, contributing to the delivery of the objectives.</p> <p>However the delivery plans are focused primarily on the delivery of savings and how these savings are aligned to one or more of the four priorities. The delivery plans for each directorate do not currently show how the planned resources for the year are being used to contribute to the performance and outturn of the Council.</p>	<p>● Green</p>
<p>Finance Department resourcing and qualifications / experience</p>	<ul style="list-style-type: none"> • The Section 151 Officer is responsible for Internal Audit, the Corporate Finance Team and the Shared Transaction Service (STS). • The turnover within the finance function is low, The finance staff have a vast amount of experienced and sound knowledge of the councils budget and financial outturn. 	<p>● Green</p>

Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	In the main these are sound. Our external audit work has not identified any significant issues in the main financial systems that the Council operate. However, it should be noted that the introduction of the new Asset register in 2010/11 required a large amount of work and rescripting to ensure that asset values were shown at gross book value rather than net. The work in 2011/12 has identified that the reporting ability of the asset register is limited and not easily adaptable for year end reporting. A number of errors have been identified with the PPE balances for 2010/11 and this has resulted in a number of restatements included in the 2011/12 accounts.	 Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	Internal audit provide a satisfactory service and are compliant with the CIPFA code. However, in 2011/12 Internal audit had a number of staffing and capacity problems which has resulted in the late completion of work and final reporting to the Council and external audit. We have also undertaken a review of the reports presented by Internal Audit to Audit Committee members this year. In that review, we concluded that improvements could be made for reporting progress against the audit plan and the follow up of recommendations. We are currently working with internal audit to establish a more effective method of reporting to Audit Committee members.	 Amber
External audit arrangements and programme of activities	<p>External audit have identified key areas of risk as part of the 2011/12 audit plan. The audit of the draft financial statements considers these risks and a programme of work has been designed to incorporate specific testing as part of the audit of the financial statements for 2011/12. The work programme of external audit is:</p> <ul style="list-style-type: none"> • an evaluation of the systems and controls in place within the council's main financial systems • a review of internal audit's work on significant financial systems • the audit of the financial statements for 2011/12 • a review of the Council's ability to achieve value for money - specific work has been performed on: <ul style="list-style-type: none"> - the achievement of the strategic priorities - waste contract overview - Financial Resilience 2011/12 - Follow up of 2010/11 recommendations from the Procure to Pay and Project Management. 	 Green

1 Executive Summary

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Appendix A - Key indicators of financial performance

Key Indicators of Financial Performance

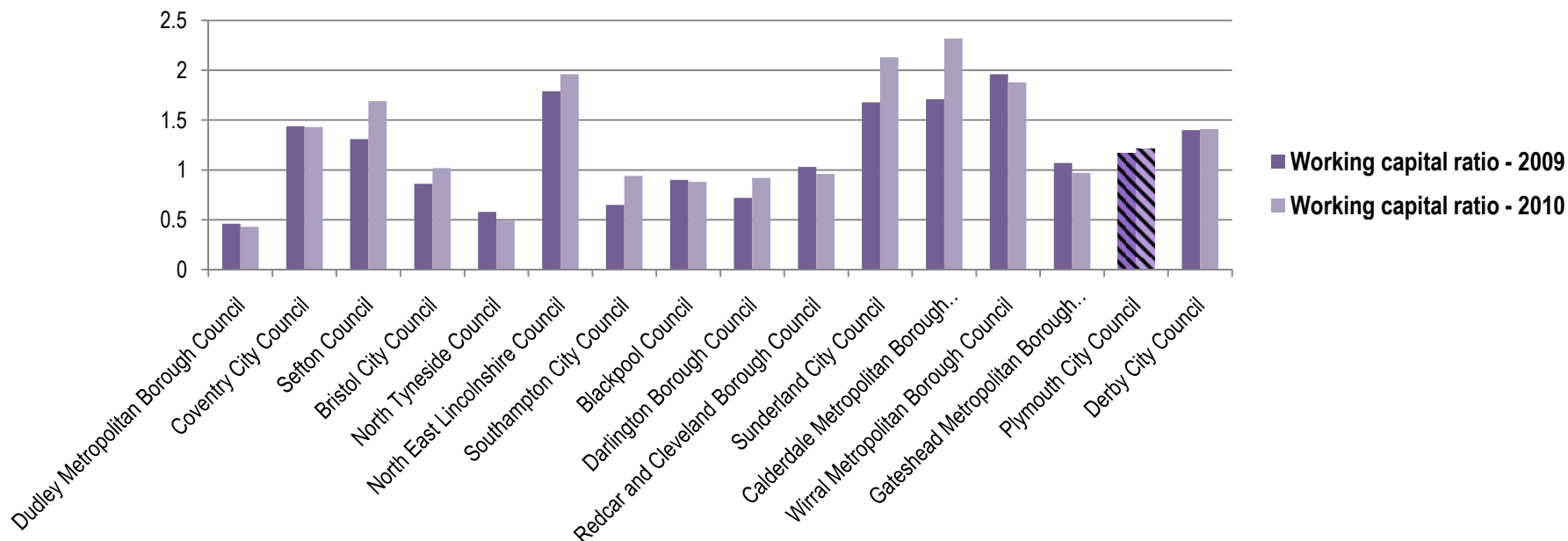
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash. The Council are, however, abiding by the treasury management strategy.

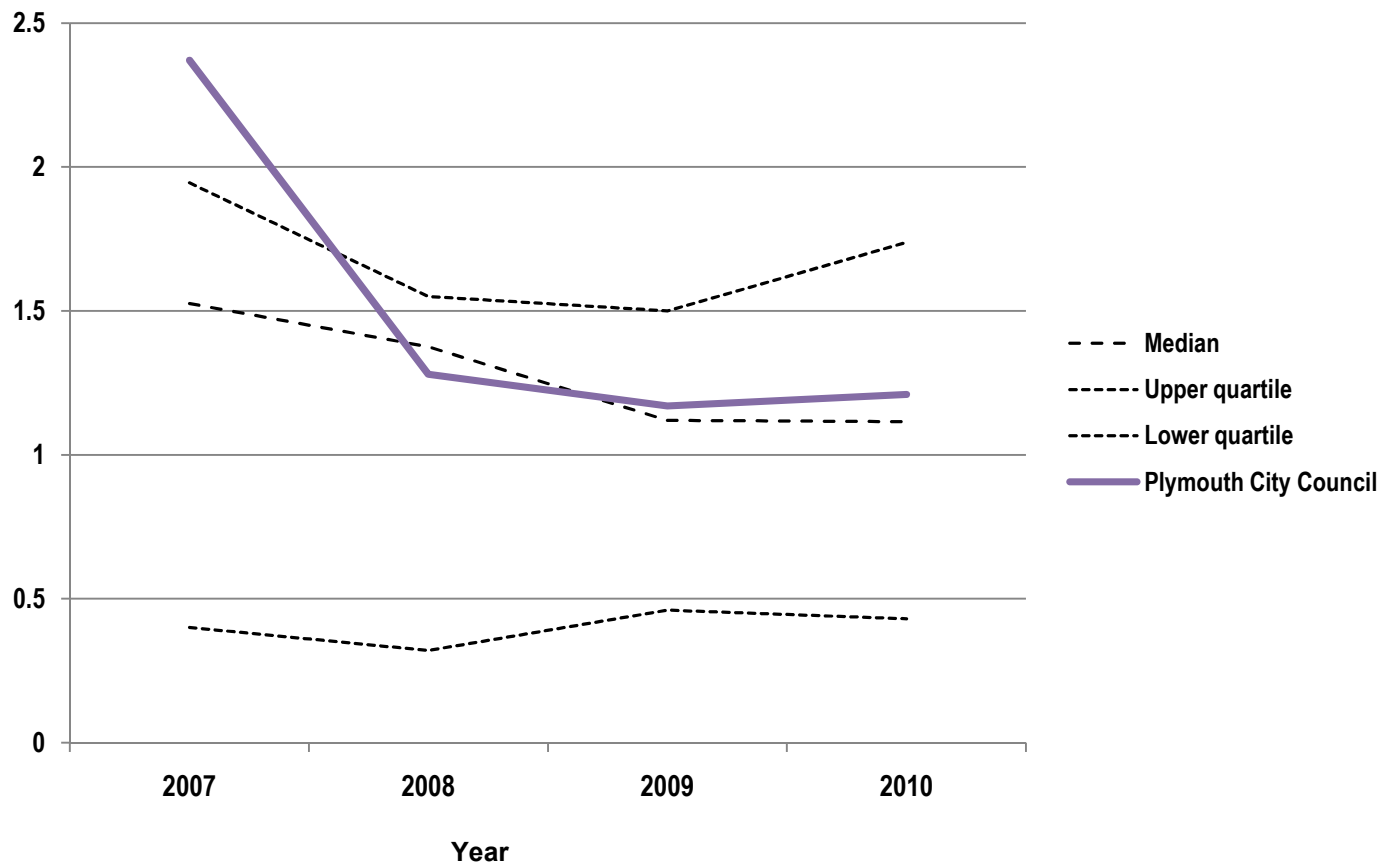
Findings

Plymouth City Council currently have a working capital ratio of 1.21:1 this is currently below the suggested level of 2:1 as outlined above. Plymouth are, however, within the average performance level in comparison with its statistical nearest neighbours i.e. those considered most like the Council. In 2010/11 the position did improve from 2009/10 where the ratio was 1.17:1. In 2011/12 the working capital ratio has been calculated as 1.09:1.



Key Indicators of Financial Performance

Working Capital - Trend



Trend analysis for working capital again demonstrates that Plymouth City Council's liquidity has decreased.

Their position has gone from the upper quartile to median within the group and the ratio has fallen to well below the recommended 2.5:1. Although the overall trend within the group is for slight deterioration the performance of Plymouth has deteriorated much more sharply.

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Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

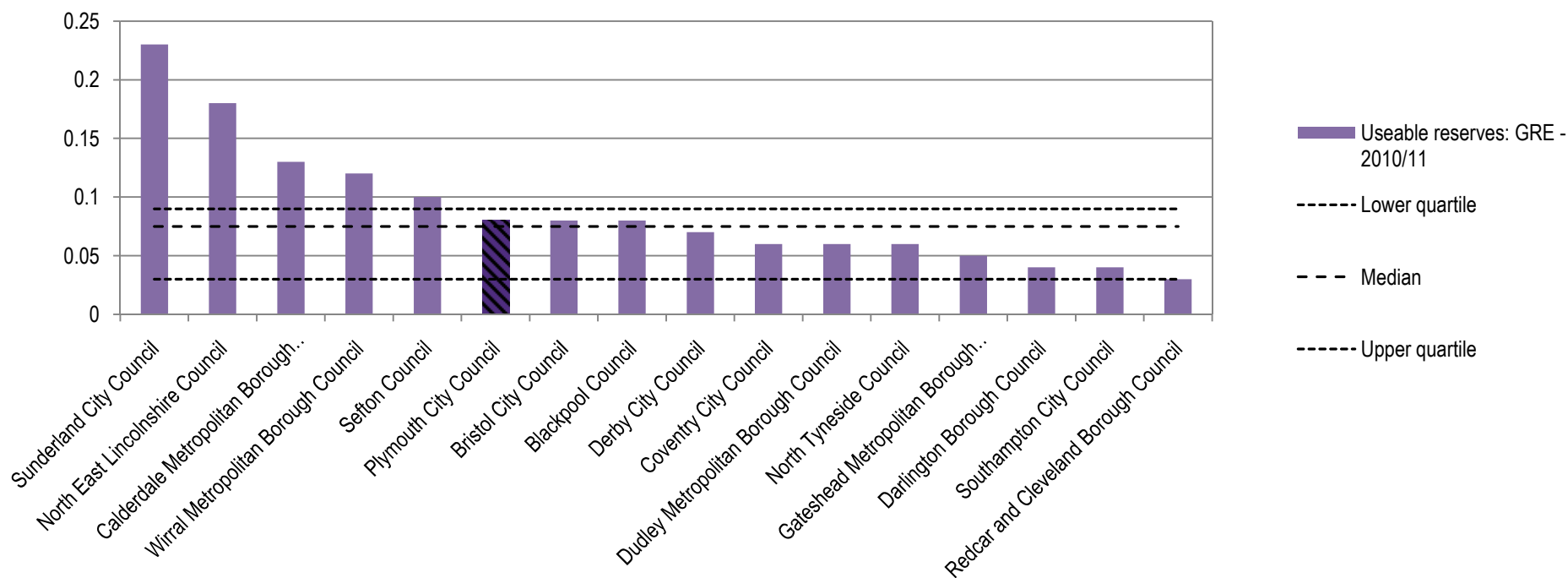
Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

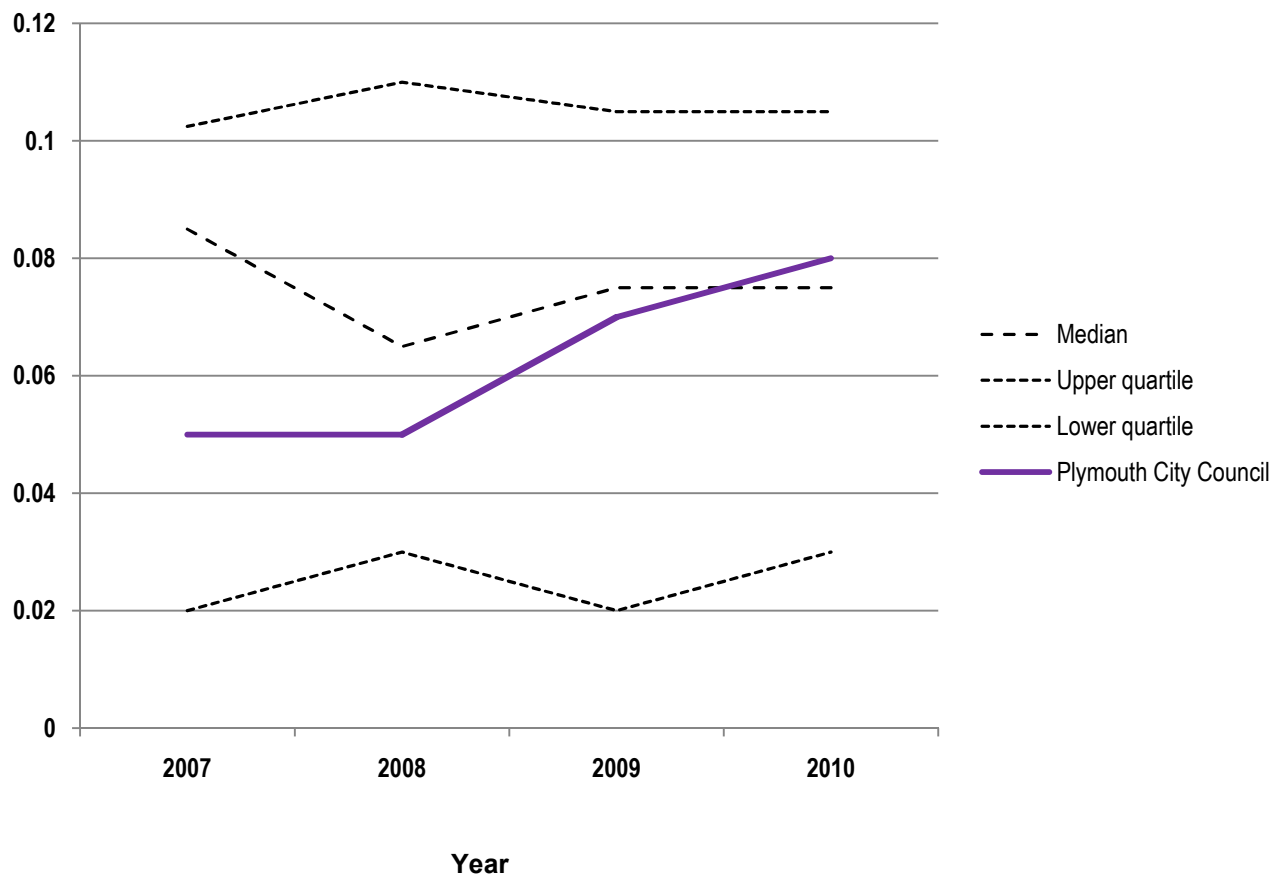
Findings

From 2009/10 Plymouth City Council has marginally increased the value of its useable reserves, from 0.07 to 0.08 in 2010/11. This means they are above average within the group and have taken some steps to addressing any reserve balance issues. The improvement is mirrored by the majority of the group within the current year and, as shown on the next page, over the past four years.



Key Indicators of Financial Performance

Useable Reserves - Trends



Source: Audit Commission's Technical Directory

Plymouth City Council's useable reserves as a percentage of general gross revenue expenditure has increased over the past three years which mirrors the performance of the comparator group as a whole with the exception of those in the median quartile.

Plymouth City Council's performance has moved towards the median quartile over the past four years. It should be noted that although the performance has improved it is only marginal which again mirrors the performance of other Councils within the group..

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Key Indicators of Financial Performance

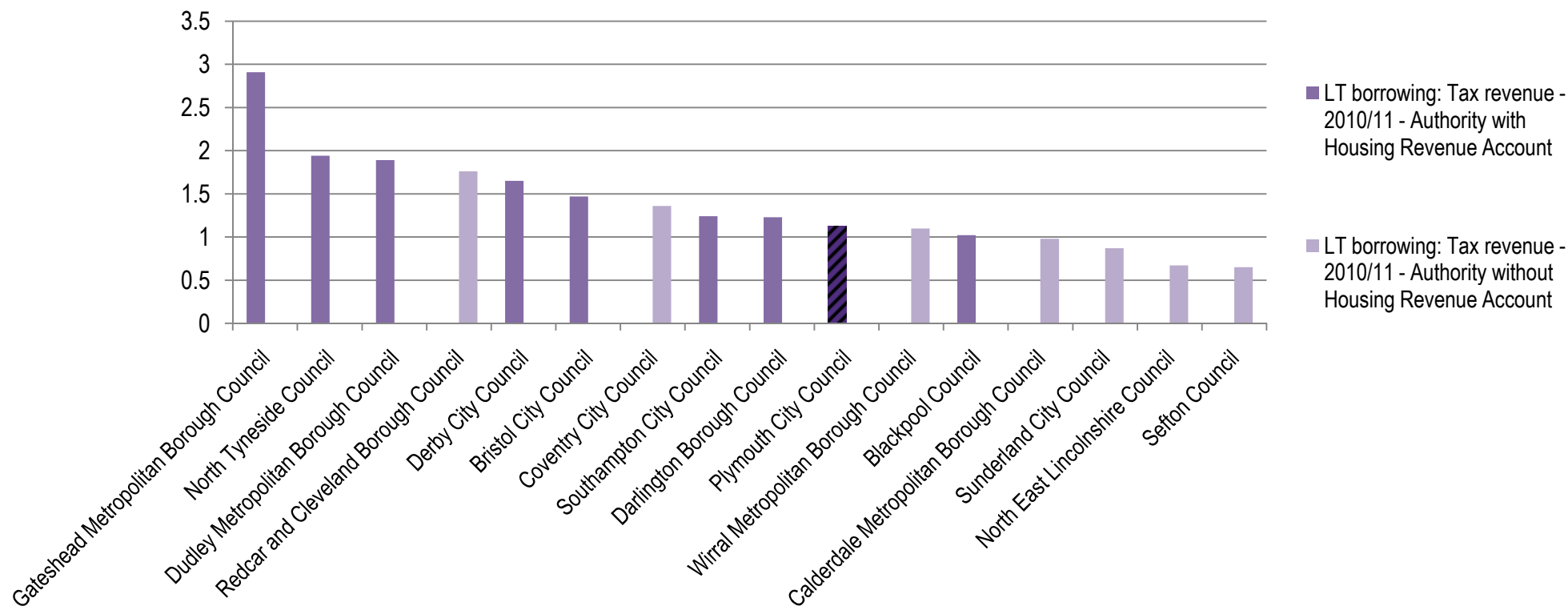
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Plymouth City Council has a ratio of 1.13:1 as a result of having a number of long term investments which is consistent with previous years. Plymouth's performance is towards the middle in terms of other Councils but is still in a position of having more long term borrowing than tax income. Only four councils receive more income than outstanding long term borrowing



Key Indicators of Financial Performance

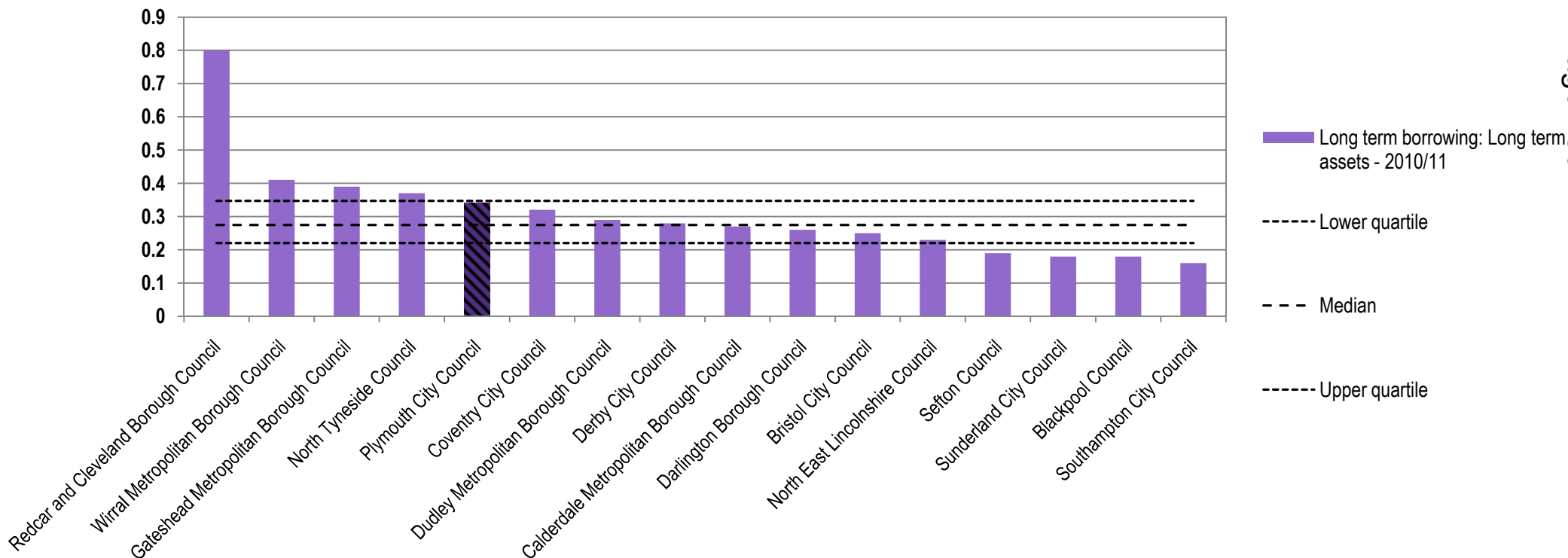
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

Plymouth have a ratio of 0.34:1 as a result of having few long term investments which is in line with previous years. The majority of Councils within the comparison group have a ratio of 0.4:1 or less which indicates that there are few issues that will arise.



Key Indicators of Financial Performance

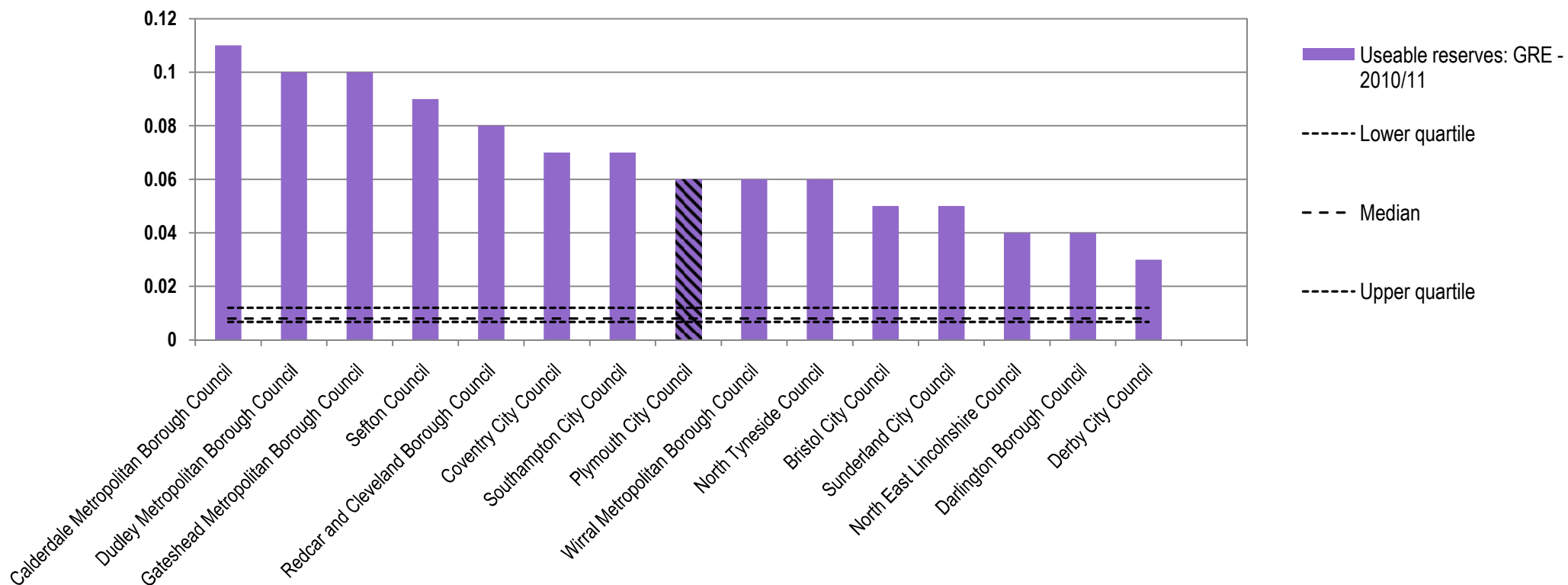
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Plymouth's ratio has decreased by 1% from 0.07 in 2009/10 to 0.06 in 2010/11. This is in line with the broad trend of the benchmark group. Plymouth has remained within the median over the two years but it should be noted that they are one of only two Councils to have improved their position.



Key Indicators of Financial Performance

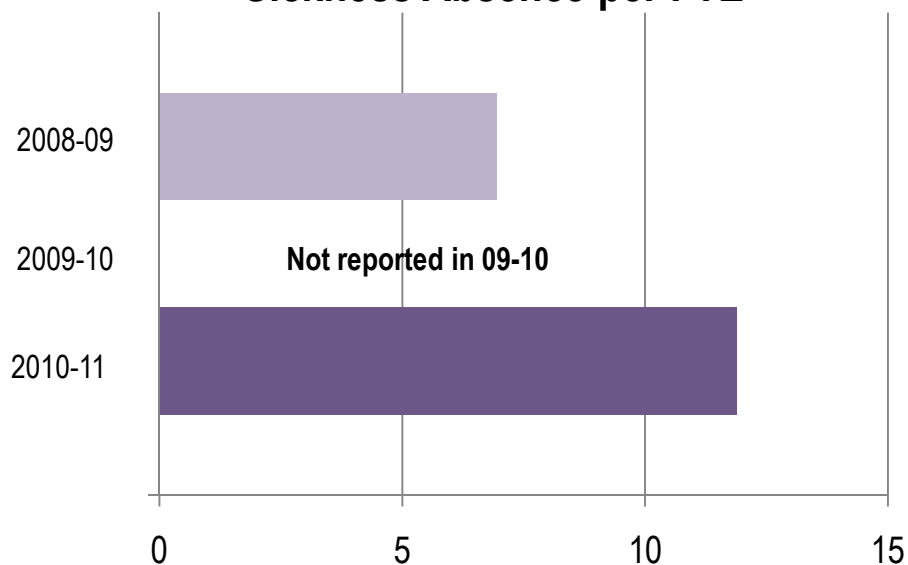
Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.
- Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Sickness Absence per FTE



Source: Annual performance reports

Findings

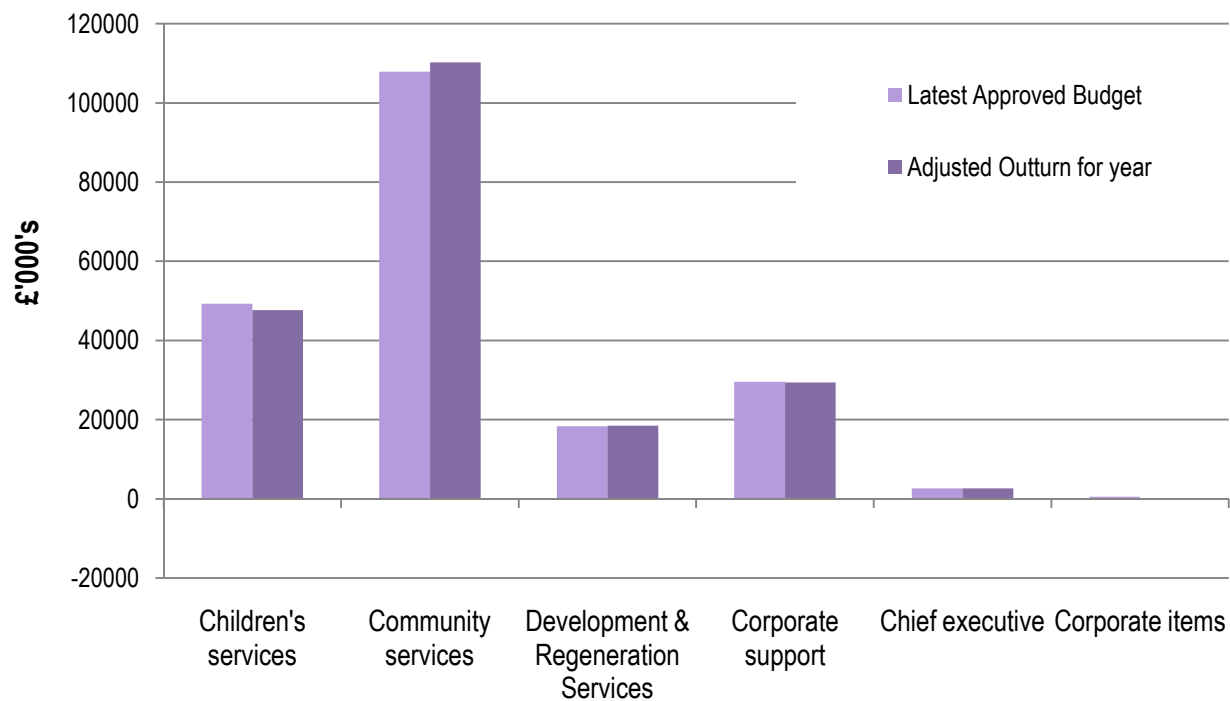
Plymouth's sickness absence levels have increased in the years between 2008-2011 by 4.94 (71%) .

The Council has a well regarded workforce management database, outputs of which form part of the finance and performance monitoring reports.

Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by CEMB. Given the significant organisational change that is taking place during 2011/12, it will be important for CEMB to maintain a robust approach to sickness absence monitoring for the recent downward trend to improve.

Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget



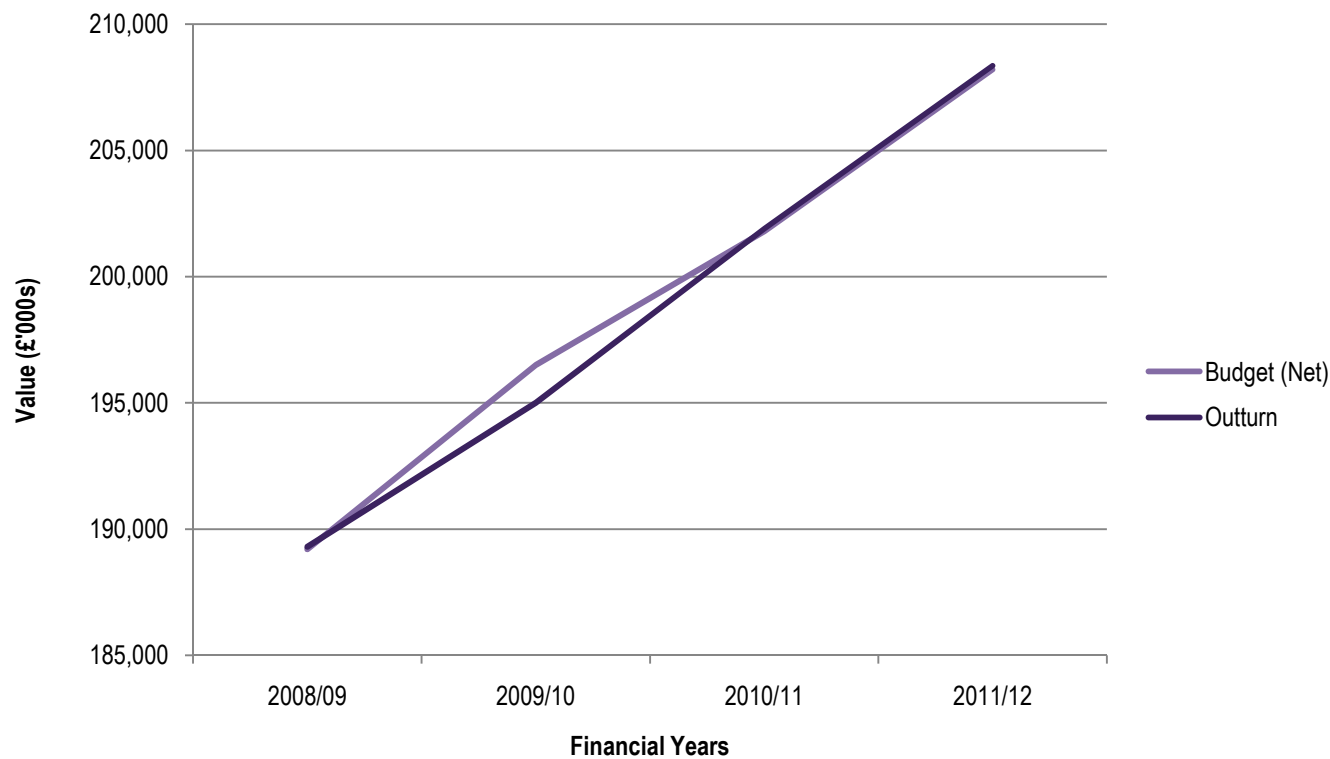
Plymouth continue to contain expenditure within planned limits and adjustments.

Source: Finance report presented to Cabinet in February 2012.

Key Indicators of Financial Performance

Performance Against Budget: Track Record

Outturn v Budget: Trend



The Council continue to maintain expenditure at a level that is in accordance with budget plans, forecasts - managing outturn at year end.

Source: : Annual audited financial statements and 2011-12 finance report presented to Cabinet in February 2012.



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Plymouth City Council

Annual Audit Letter 2011/12

22 October 2012

FINAL

Contents

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Introduction	1	Appendix A 2011/12 reports issued
Key Messages	2	A Fee Analysis

Introduction

Purpose of this letter

This Annual Audit Letter ("Letter") summarises the key issues arising from the work that we have carried out at Plymouth City Council ("the Council") during our 2011/12 audit.

The Letter is designed to provide a brief overview of our key messages to the Council and external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2011/12 audit, including key messages and conclusions from our work in:

- auditing the 2011/12 year end accounts;
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved; and
- certification of grant claims and returns to various government departments and other agencies.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to the local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

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

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Key Messages

Accounts audit

Following certification by the Council's Section 151 Officer, we were presented with draft financial statements for audit by the statutory deadline of 30 June 2012. The supporting working papers were of a high quality and officers responded promptly and efficiently to issues raised throughout our audit work.

In advance of our year end audit work, we have worked closely with members of the finance team throughout the year to consider and review emerging issues in relation to the financial transactions of the Council and their impact on the financial statements.

This work has informed our audit and included the first time inclusion of the Tamar Bridge and Torpoint Ferry Joint Committee's balances in the Council's financial statements, the detailed review of Community Assets performed by the Council following the implementation of our recommendations made in 2010/11 and the first time adoption of the accounting standards for Heritage Assets.

We issued an unqualified audit opinion on 28 September 2012.

Our audit work identified a number of areas where we recommended adjustments and additions to disclosure notes which accompanied the main financial statements. In particular, a number of adjustments were

made to the disclosures supporting the main financial statements. These included material amendments to the disclosures used to support the figures for Property, Plant and Equipment. Management agreed to make these adjustments and these did not result in any change in the Council's General Fund balance or net worth of assets.

Our main audit conclusions for the year

The 2011/12 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness.

We identified a number of areas where improvements could be made to the processes in place to prepare the accounts. We made particular recommendations to improve the accompanying working papers for capital transactions at year end and to ensure that management review capital entries prior to submission of the draft accounts for audit.

Management also agreed to continue to consider accounting guidance for the treatment of Icelandic Bank investments, which they departed from in 2011-12, to regularly reconcile the payroll system to the general ledger and clarify the governance arrangements between the Council and Cornwall County Council so that the respective roles and responsibilities in relation

to accounting for the Tamar Bridge and Torpoint Ferry Joint Committee's assets, liabilities, income and expenditure are formally agreed.

The actions agreed to all our recommendations were included in our report to 'Those Charged with Governance', which has been designated to be the Council's Audit Committee; on 27 September 2012. We will follow up progress on these matters as part of our 2012/13 audit.

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council.

The Council submitted its draft Whole of Government Accounts (WGA) information for audit by the Department for Communities & Local Government (DCLG) deadline of 30 July 2012. We submitted the audited WGA to the DCLG ahead of the deadline of 5 October 2012.

In 2012/13 we will discuss future accounting challenges with the Council, including planning for changes to financial reporting requirements, for example, around accounting treatment of Academy schools and of leased assets.

Value for Money audit

An unqualified Value for Money (VFM) conclusion was also issued on 28 September 2012 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

As part of this work we performed:

- an update of our assessment of key risk indicators;
- a review of the Council's arrangements for securing financial resilience over the medium term.

- follow up of our prior year work on procure to pay and project management; and
- a review of the achievement of strategic priorities set by the Council for 2011/12.

Securing financial resilience and economy, efficiency and effectiveness

We considered whether the Council has appropriate financial systems and processes in place to manage its financial risks and opportunities. We examined if there were robust medium to long term financial planning arrangements to secure a stable financial position so that the Council could continue to operate for the foreseeable future i.e. 12 months.

We looked at:

- key indicators of financial performance;
- the Council's approach to strategic financial planning;
- the approach to financial governance; and
- the approach to financial control.

Our overall conclusion was that the Council has sound arrangements in place. Our review identified a small number of areas where these could be strengthened further.

We recommended that the Council improve the information provided to Cabinet- linking performance against targets, medium term financial planning and monitoring and the achievement of strategic priorities so that the progress made against the corporate plan is more transparent in the future.

Key Indicators of Performance

In 2011/12 we used the Audit Commission benchmarking tool which analyses key indicators for 2009/10 and 2010/11. Where possible, we updated this information from our knowledge of the 2011/12 audit work ..

Our analysis indicated that the Council have followed the performance trends for its benchmark group across the majority of areas, with the exception of the working capital ratio and sickness absence rates.

We recommended that the council continue to review the working capital position over the medium term. The Council will continue to do this in line with the Treasury Management Policy.

At an average of 8.7 sick days per staff member, this is still higher than the target of 6 although this has improved from the 2009/10 average level of 10 days per employee. The Council are continuing to work on this area and reviewing the target level of 6 days to ensure that consideration is given to the possible disparity of working requirements between manual and clerical staff.

Strategic Financial Planning

The Council has strong arrangements in place to plan its finances over the next three years. Strategic financial planning incorporates finance and performance management reporting, scenario planning on income and expenditure levels and central government funding. The Medium Term Financial Plan is a comprehensive document modelled on the achievement of corporate priorities and objectives. Consideration has clearly been given to the financial challenges beyond 2012/13 with an appreciation that financial plans will need to be continually revised to address developments both locally and on a national level.

We recommended that the Council reconsider the use of zero based budgeting as a more effective approach. A review of the budget setting process will take place during the 2012/13 financial year which is an opportune time to evaluate the budget setting process. We also suggested expanding the use of scenario planning to capital and treasury management reviews.

Financial Governance

We concluded that the council has sound governance arrangements for financial planning, monitoring and reporting. In 2011/12 the council enhanced the scrutiny regime to plan and agree the budget for the forthcoming year with officers and members as well as key partners. The arrangements gave all involved an opportunity to challenge draft budgets prior to finalisation. We recommended that the Council now moves towards better integration of performance reporting using this to highlight the achievement of the Corporate objectives.

Financial Control

The Council has a good track record of achieving its planned budget. The Council reported a planned overspend of £113k in the final audited financial statements for 2011/12. We found the budget setting process to be robust involving senior officers, members and partner organisations with a well-developed challenge process.

Internal audit provide a good service that meets the CIPFA standards. During the course of the year we recommended that Internal audit improve reporting of progress against plan to the Audit Committee.

Overall review of the Council's achievement of strategic Priorities.

We reviewed the Council's ability to achieve its overall strategic priorities and objectives.

We concluded that the Council has made sound progress over the past year to ensure that corporate priorities and plans are acted upon. The Council has appropriate arrangements in place to identify high cost / low performance areas.

We recommended that the Council:

- could further improve service delivery plans by highlighting the transparency of the links with the Councils priorities. In particular, there is the opportunity to expand the current resource delivery plans to demonstrate how existing resources, and not just savings, are allocated to directorates to deliver on priorities;
- has scope to further improve the information presented to members to show how the Council is achieving against their top level priorities and any further actions that may be required to ensure their successful delivery;
- expand upon the information reported through the quarterly finance and performance outturn reports on the actual achievement of the top level objectives; and
- could consider increasing the transparency of the information around the shared priorities where there is scope to produce updates on how it is working on delivering these and therefore the progress made, to date, on achieving the strategic outcomes.

Follow up of 2010/11 Recommendations

In 2010/11 we reviewed the Procure to Pay and Project Management processes within the Council. The recommendations made in these reports were followed up as part of our VFM work in 2011/12.

Procure to Pay Review

In 2010/ 11 we made fourteen recommendations which management agreed to implement. The Council have yet to implement four of these and are in the process of reviewing these and timetabling revised dates. These recommendations incorporate the following:

- the need for an issues log that includes all issues for Procure to Pay schemes
- the development of a project communication plan
- monitoring of the Procure to Pay savings target; and
- the development of benefit profiles

Project Management Review

In 2010/11 we agreed ten recommendations with management aimed at improving procedures and processes, clarification of the role of managers, understanding and learning from outcomes publicising successes and developing an accommodation strategy. We were pleased to note that management implemented seven of these recommendations and have agreed to implement the remaining three by March 2013.

We will continue to review arrangements for securing VFM, focusing on key risk areas, as part of our 2012/13 audit.

Certification of claims and returns

Each year we review and certify grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2010/11 certification work we reported early in 2012 that performance had generally improved against key measures and that the Council continued to work on improving working papers to support the figures within each grant claim submitted for audit.

We are currently in the process of certifying the 2011/12 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

Outputs and fees

Our audit outputs and fees are shown in Appendices A and B.

Acknowledgements

This Letter has been agreed with Council management and will be presented to Audit Committee on 13 December 2012.

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

Grant Thornton UK LLP
22 October 2012

Appendix A 2011/12 reports issued

Report	Date Issued
Audit Plan	March 2011
Audit Approach Memorandum (Accounts)	June 2012
2010/11 VFM reports follow up: Procure to Pay and Project Management	August 2012
Financial Resilience Report	September 2012
Review of Strategic Priorities for 2011/12	September 2012
Annual Report to Those Charged With Governance (ISA 260)	September 2012

Report	Date Issued
Annual Audit Letter	October 2012
Grants Certification Report 2011/12	December 2012 (planned)

A Fee Analysis

Audit area	Budget 2011/12	Final
Total Code of Practice fee	£302,380	£302,380
Certification of grant claims and returns *	£50,000	To be confirmed on completion of work and reported in Grants Certification Report 2011/12
Questions and objections from the public	£nil	£nil
Non Audit Work :	0	£26,575
Plymouth City Airport review	0	£15,000
Employment status review	0	£3,500
VAT Academy review	0	£8,075

* The quoted fee for grant certification work is an estimate only and is charged at published hourly rates.



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Plymouth City Council

Value for Money Conclusion 2011-12: Review of the achievement of strategic priorities 2011-12
September 2012

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1 Executive Summary

1.1 Background

Against the backdrop of the current economic environment and the impact on available resources, there is a risk that 2011-12 Council's do not have adequate arrangements in place for strategic planning and prioritisation of resources. Consequently, in the Audit Plan for 2011-12, we identified the need to review the arrangements that the Council has put in place for prioritising resources and improving productivity at Plymouth City Council .

This review assesses the extent to which the Council is on course to meet the strategic objectives set within the resources available, and that appropriate mechanisms are in place to monitor and evaluate progress in the future.

1.2 Key Findings

Plymouth's Corporate Plan for 2011 – 2014 sets out the vision and the four top level priorities for the City to be delivered in the context of reductions in spending and the need for increased efficiencies. The corporate plan was revised following the election of the labour administration in May 2012. The revisions to the Corporate Plan and its impact on the Council's arrangements for securing value for money will be considered as part of our audit for the 2013/14 financial year and will be reported as part of our value for money conclusion for 2013/14.

We have performed a more detailed review of the Council's arrangements to ensure secure financial resilience which is reported separately but should be considered alongside the findings included within this review.

The Council has made sound progress over the past year to ensure that corporate priorities and plans are acted upon and we recognise the successes achieved by the council within this report. In particular, the Council has appropriate arrangements in place to identify high cost / low performance areas and where additional efficiencies are required, and can be delivered, within the context of the strategic priorities.

We have made a number of recommendations where we consider there is scope to introduce a more cohesive approach across Plymouth. These recommendations are aimed at improving an already sound system of review and monitoring.

We have recommended that the Council should focus on the following key areas:

- the Council is making decisions and setting out service and delivery plans based on the priorities of the Council. These plans could be improved further by highlighting the transparency of the links with the Council's priorities. In particular, there is the opportunity to expand the current resource delivery plans to demonstrate how existing resources, and not just savings, are allocated to directorates to deliver on priorities;
- the Council has the framework in place to monitor and measure achievement of the Level 2 and Level 3 outcome measures. There is scope to further improve the information produced to show how the Council is achieving against their top level priorities and any further actions that may be required to ensure their successful delivery;

- there is limited information reported through the quarterly finance and performance outturn reports on the actual achievement of the top level objectives. This information could be expanded upon; and
- there is the opportunity for the Council to consider increasing the transparency of the information around the shared priorities. There is scope to produce updates on how it is working on delivering these and therefore the progress made, to date, on achieving the strategic outcomes.

Details of the full recommendations identified from this review are included in Appendix 1 of this report and our included in the detailed section of this report.

1.3 Next Steps

The Council should consider the findings from our review in relation to the arrangements in place to prioritise resources at a high level and addressing the recommendations raised through this review.

As part of the Council's own review into the priorities and outcome measures, the Council should continue to review the risk and cost implications and continue to drive forward improvement in line with the aspirations of the Council.

Our review has also identified the potential impact on the performance management framework going forward under the new directorates and new administration. As part of this we would like to bring to your attention four key areas we have identified from discussions with officers for the Council to consider as part of the next steps and planning for a cooperative Council and as part of the Plymouth 2020 plan.

2 Introduction

2.1 Background

The 2011-12 audit plan for Plymouth City Council (the Council) identified that we would review the arrangements for prioritising resources and improving productivity and efficiency at the Council. This review has been undertaken against the backdrop of the current operating environment where budget reductions arising from the 2010 Spending Review are having a significant impact on the level of resource available to the Council.

Against this background, the Council have responded to the challenge well, and reviewed their management structure and the services provided to local residents. As it progresses with the implementation of the service transformation programme and cost reduction plan over the next three years, it is essential that outcomes are monitored and evaluated effectively to test whether the benefits being achieved match or exceed the benefits originally forecast. This is of particular interest to members and senior management of the Council

The Council needs to ensure that it is on course to meet the strategic objectives set, and that appropriate mechanisms are in place to monitor and evaluate progress.

Our review has considered the achievement of the Council's priorities for key service areas in the context of the corporate plan and planned efficiencies in 2011-12. The 2011-2014 corporate plan sets out the overarching vision to be "one of Europe's finest, most vibrant waterfront cities where an outstanding quality of life can be enjoyed by everyone"¹.

This vision is supported by four top level, shared, priorities for the Council which are to:

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

Our review has focused on the outcomes set under the 2011-14 corporate plan, but also covered the mechanisms in place to link outcomes and priorities under the new Council structure from January 2012.

2.2 Audit objectives and scope

The scope of our work was agreed with the Council in August 2012 and set out the following objectives:

- to review the adequacy of the high level arrangements in place to prioritise resources for Plymouth City Council as part of the delivery of the value for money opinion for 2011-12;
- to consider whether key risks in meeting corporate priorities have been identified and are being appropriately managed; and
- to make recommendations, if and where appropriate, to help the Council strengthen the prioritising and monitoring process.

¹ Plymouth City Council Corporate Plan 2011-14

We have used this work to inform our overall view that will support our statutory duties. We emphasise that our review focussed at a relatively high level on the overall arrangements in place and, as such, was only intended to indicate potential risk areas. Our work has not encompassed the detailed work that would be required to provide full assurance to the Council on all potentially significant risks and this may be an area that the Council would want its Internal Audit service to review.

The scope does not extend to an assessment of the robustness of the strategic priorities, the performance data or the likelihood of projected financial and performance outcomes being delivered in future. However, it does highlight any weaknesses identified through our work that may have a bearing on these aspects.

2.3 Audit Approach

Our audit approach has included interviewing key officers and reviewing a sample of documentation. We have reviewed the outturn performance for 2011-12 and reviewed in further detail the outturn performance of three key service areas, the results of which have been incorporated into our findings and this report.

The key officers interviewed include:

- Assistant Director for Finance, Efficiencies, Technology and Assets
- Senior Policy, Performance and Partnerships Adviser
- Head of Finance, Finance, Efficiencies, Technology and Assets
- Senior Policy, Performance and Partnerships Adviser
- Assistant Director of Joint Commissioning and Adult Social Care

The key documents we have reviewed include the following:

- Corporate Plan 2011–2014
- Corporate Plan 2012–2015
- Member Reports on Finance and Performance in 2011-12
- 2011-12 budget book
- Reports on performance indicators in 2011-12
- The Plymouth Plan – initial report, September 2012
- Scrutiny and Overview Board reports in 2011-12
- Service Business Cases (2010, 2011)

2.4 Report Structure

The following section sets out our findings in relation to the ability of the Council to measure and report on the achievement of the Council Priorities in the context of the Corporate Plan and the planned efficiency savings for 2011-12.

We have reviewed the current arrangements in place and focused on key service areas where significant efficiencies were planned in 2011-12, reviewing the impact on the performance outturn for 2011-12 for these areas.

We have looked at the finance and performance outturn for the following key service areas:

- i Revenue and Benefits;

- ii Adult and Social Care; and
- iii Children and Young People.

These areas were selected based on the finance and performance outturn for 2011-12 for the Council, and following initial discussions with the Council of the areas where transformation plans had been implemented.

A summary of our findings for these areas is included in Appendix 2 of this report.

Our key findings are set out within the next five sections, where we have split our findings into a summary of what is working well at the Council, and what issues are emerging.

These sections, as agreed in the initial scope of work (August 2012), are:

- How is the Council linking the priorities to the resource delivery plans?
- How is the Council assessing the achievement of the priorities in 2011-12?
- To what extent does the performance management structure enable the Council to assess the outcomes?
- How is the Council using performance indicator data to assess the achievement of the priorities?
- How are the current arrangements being reviewed for 2012-13 and the longer term?

As part of our review, where there are potential risks to the Council we have taken the opportunity to make recommendations for improvement to the current and/or future arrangements.

3 How is the Council linking the priorities to the resource delivery plans?

3.1 Summary

Our review has considered the process undertaken by the Council to link the overall priorities and vision of the Council to the resource delivery plans. We have reviewed how these priorities form the basis of the delivery and wider strategic plans to enable the measurement of achievement against these objectives in 2011-12.

The Council has four top level priorities which are supported by a number of priority outcome measures and these are clearly set out in the Corporate Plan 2011-2014.

We have concluded that the Council is making decisions and setting out service and delivery plans based on the priorities of the Council, however improvements could be made in improving the transparency of these links. In particular, there is the opportunity to expand the current resource delivery plans to demonstrate how existing resources, and not just savings, are allocated to deliver on these priorities.

3.2 Background

The 2011-2014 corporate plan sets out the vision and the four top priorities of the Council that apply to each department across the organisation. These priorities provide the focus for all strategies and it should be clear, in everything the Council is doing, how all activities contribute to the delivery of required outcomes in one of these four priority areas.

The performance indicators and targets for the Council have been set at four levels to address the priorities and vision for Plymouth in the medium to longer term. The four levels are linked to the four top level priorities of the Council and their partners.

The Level 1 outcome measures are outlined in the corporate plan, set at a strategic level and cover a ten year period. Level 2 and 3 outcome measures are high level operational indicators which are matched against one of the four priority objectives and are measured by each Directorate. The outcome of the measures, where relevant, are reported to Members on a quarterly basis, and monitored by senior officers on a monthly basis. This regular reporting allows for any risks to performance to be identified and mitigating action plans to be drawn up and the risks communicated to senior officers.

Level 4 outcome measures are used for managing and monitoring at a departmental level and on a more regular basis.

3.3 What is working well?

The 2011-12 delivery plans

Individual service plans

There is evidence to suggest that the Council are mapping the priorities at a high level to the departmental priorities, and that any resource and performance targets and decisions are made within the overall council framework. The individual service plans identify which of the four priorities they are primarily focused towards.

3.4 Emerging issues and recommendations

Budget setting arrangements 2011-12

A report on the budget setting arrangements to members in 2011-12 sets out the departmental priorities. Our review identified that there is scope to make clearer links to demonstrate how each department contributes to the overall priorities and vision of the Council. This would enable the Council to be clear how each service is planning to contribute to the vision. Further, in the event that priorities are reviewed in the future, the resource implications associated with each can be more readily identified.

For 2011-12, the delivery plans are focused primarily on the delivery of savings and how these savings are aligned to one or more of the four priorities. The delivery plans for each directorate do not currently show how the planned resources for the year are being used to contribute to the performance and outturn of the Council.

By setting out how resources are planned to contribute to the delivery of the priorities of the Council, it will be in a better position to monitor and ultimately report, using case studies where possible, how those plans have helped to deliver those priorities.

R1 We recommend that the Council consider the current planned resources and set out how these, irrespective of the efficiency savings, are contributing to the delivery of the priorities of the Council and Plymouth as a whole.

The budget scrutiny report in 2012-13 made a number of recommendations that the Council should be considering in relation to how the services and their linked service plans, are contributing to the delivery of its priorities.

This focus on planning the resources would then enable the Council to report in a positive way on their achievement for the year, along with the savings delivered. For example "we spent £xm in this area in 2011-12 which has increased the number of jobs in Plymouth by yy and therefore contributed to our growth agenda...".

Undertaking a detailed review of how the existing resources are being spent across the Council, will help make more robust future investment decisions based on previous experience. As resources become further constrained over time, the Council will need the data in place to be able to consider how the existing services are contributing to the delivery of the vision, and also consider the level of service the Council will provide in the future, as its key objectives and vision change.

R2 In line with the budget scrutiny report, we recommend that the Council reviews how the directorates service plans are contributing towards the achievement of the Council priorities.

Priority focus in budget setting 2011-12

At a local level, budget delivery plans are used on a day to day basis for monitoring against expected performance. These are focused on the saving plans required to be delivered in each financial year. However, further evidence is required on how decisions are being made when additional investment is needed to meet priorities, or, if a service / area is not contributing to a corporate priority, if this service could be run at minimum cost and standard.

As the Council prepares for the longer term and its contribution to the wider Plymouth Plan, it needs to consider how the decision-making framework underpins resourcing decisions.

The Council vision and priorities should define how the Council makes decisions on spend and performance. If an area can be clearly defined as a priority, how are decisions made regarding keeping / increasing / reducing resources and / or services? Further consideration should be given to developing potential trigger points that identify a service that has continual poor performance and high costs in the future.

From the areas considered in this high level review, it is not clear how each directorate is taking ownership of the top level priorities at the Council. The corporate plan sets out these priorities and outcome measures, but it is not clear what the responsibilities of each directorate are to deliver these through the use of individual service plans.

These outcome measures are high level, and do not clearly define the measures of success, for example "increase the number of jobs in Plymouth" is not clear what the target increase in employment is or what the current position is. The resource allocation does not clearly identify where investment is being made to increase the number of jobs, or how this responsibility is shared across the Council and its partners.

"Reduce Child Poverty" is another Level 1 outcome measure, which does not identify to what extent, or how the Council plans to make improvements. For this priority, however, there is a direct link to the Children and Young People plan, which sets out how child poverty will be measured and what steps will be taken to work towards this measure.

The Council should consider further how the Level 1 outcome measures are defined and assessed when setting the revenue budgets to ensure that the measure is clearly understood and the actions required to achieve the measure can be set out and resources allocated.

This will also enable the Council to have a sound basis for measuring the current services provided and inform future decisions regarding investment into services and the level of services provided.

R3 We recommend that the Council consider how Level 1 outcome measures are defined for the individual directorates and service plans to ensure that the actions required to achieve the measure can be resourced appropriately.

4 How is the Council assessing the achievement of the priorities in 2011-12?

4.1 Introduction

Our review has included an assessment of how the Council is monitoring and reporting on the financial and the performance outcomes achieved in 2011-12.

We have taken into account the revenue monitoring and outturn position for 2011-12 and the overall performance outcomes to assess the arrangements the Council has in place to assess the achievement of the Council priorities.

Our review has found that the Council has the framework in place to monitor and measure achievement of the Level 2 and Level 3 outcome measures, however it could improve the information reported showing how the Council is achieving its top level priorities, together with any further actions required.

Our findings are set out below which identify three recommendations to improve how the Council is assessing and reporting on the achievement of the high level priorities and outcome measures.

4.2 Background

The medium term financial plan for the Council states that value for money is driven by robust benchmarking and value for money targets set for the key areas of high spend and poor performance. In 2011-12, the Council focused primarily on two service areas, transformation of the Revenue & Benefits provision and the working practices within Adult Health and Social Care.

In addition, the Council is undertaking a significant programme of investment in its Accommodation Strategy. As this is primarily focused on capital investment, it has not been covered in the scope of our review, although we recognise the revenue impact could be across all Council directorates and contribute to the delivery of priorities at the Council.

Service Outcomes for 2011-12

The financial and performance scorecards for each directorate have been reported throughout the year to Members through Budget Challenge Scorecards. These set out any key risks to the budget and performance targets, identifying the impact on performance on resources and vice versa. The scorecards also provide Members with a useful picture of how the Plymouth service compares with other unitary councils / family benchmarking group, where data is available.

As part of our review, and to support our findings into the arrangements for prioritising resources and improving value for money, we selected three key service areas to review in further detail the impact that any savings plans and transformation plans had on performance in 2011-12. Originally, we set out to review service areas seen as high cost and low performance or low cost and high performance. The areas we have selected are high cost, and have a mixture of high and low performance outcomes for 2011-12, despite the transformation

schemes implemented. A summary of the performance for each of the areas selected is summarised below, with further information included in Appendix 2 to this report.

Children and Young People

The 2011-12 financial and performance outturn is summarised in the below tables.

Children and Young People – Social Care Financial Summary £'000			
2010-11 Budget	Saving Plan for 2011-12	2011-12 Budget	2011-12 Outturn
27,206	3,890	28,102	27,757

Performance Summary – targets which were not met				
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12
Number of Children in care who are placed in 'independent sector foster placement' - EOM snapshot	3	new	56	67
Number of Children in care who are placed in 'residential care placement' - EOM snapshot	3	new	13	21
NI 117 16 to 18 year olds who are not in education, training or employment (NEET) - Qtrly	2	7.10%	5.3% (472)	6.10% (489)

Within this department, there are 35 Level 2 and Level 3 outcome measures. Eleven relate to Social Care, 17 are for lifelong learning and the remaining seven concern learner and family support. Not all of the indicators were available at the year end, especially those in relation to schools. The final outturn report identified that, in social care, overall performance had been good and the key areas of good performance included the stability of children in care and assessment timescales. An overall position of the number of outcome measures met, marked as amber or red, was not reported in the final report to members in July 2012. The two Children in Care indicators highlighted in the above relate to social care, which is a high cost area and also generated an underspend for 2011-12.

For Children and Young People, it was reported in November 2011 (Quarter 3) that budget pressures were created by increased number of children in care and a rise in the number of NEETS. There was a forecast shortfall of £60,000 against the delivery plan target.

Whilst a final outturn scorecard has not been reported to Members, details are summarised through the final 2011-12 outturn report to members in July 2012. The delivery plan revenue savings for children social care and learner and support including savings on restructures, catering and care services totalled £1.31m for 2011-12.

The final outturn position for Children and Young People was an overall underspend of £1.83m and performance areas noted as a concern remain around the level of NEETS and Children in Care in Plymouth, compared to benchmarked figures.

Further discussions with the Council have identified that there are programmes in place to address the performance of these areas, including early intervention schemes and a priority for youth unemployment.

The underspend within this area indicates that the saving plans are being delivered. But the Council should ensure that it is satisfied that the outcomes where underspends are identified are

not detrimental to the overall service objectives. From a high level review of the outturn and the reporting information, the underspend relates to savings made in advance of expectations and staffing /commissioned spend slippage, whereas the performance outturns are driven by increased demand for services and the current economic environment.

R4 We recommend that the Council should ensure that they are satisfied that the investment needed in these areas can be made out of the children's budget, without impacting on other areas of performance or the resources allocated.

Adult Social Care

The 2011-12 financial and performance outturn reported to Cabinet in May 2012 is summarised in the below tables.

Financial Summary £'000			
2010-11 Budget	Saving Plan for 2011-12	2011-12 Budget	2011-12 Outturn
72,646	1,991	71,845	71,920

Performance Summary				
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12
1C (ex NI 130) Proportion of people using social care who receive Self Directed Support, those receiving Direct Payments	2	30.29%	60.00%	33.10%
NI 131 Delayed transfers of care (per 100,000 population aged over 18)	2	4.95	17.30	17.3
2A (ex 1ADF) Permanent admissions to residential and nursing care homes per 100,000 population	3	18.87	107.71	148.4
1H (ex NI 149) Proportion of adults in contact with Secondary Mental Health services living independently with or without support	3	63.67%	65.00%	71.10%
1F (ex NI 150) Proportion of adults in contact with Secondary Mental Health services in paid employment	3	7.98%	85.00%	8.70%

There are just five key performance measures for Adult Social Care, a division of Community Services in 2011-12, as set out above.

For Adult Social Care in 2011-12 it was reported in November 2011 (Quarter 3) that an overspend of £0.9m was forecast, based on increased costs of social care and care packages. Reference is made to the likely non-achievement of the direct payment target and the transformation of the service, and highlights that performance has been impacted, in the short term, by overall structural changes becoming embedded in the directorate.

The delivery plan savings for adult social care, which include the new ICT system, remodelling of services and delivery of care services totalled £1.99m for 2011-12 (revenue saving).

Overall, Adult Social Care achieved a breakeven position. Per the outturn report to Members, this was achieved through an increase in the health and social care funds against increased demand and increased performance within delayed transfers of care, adults with mental health problems and learning disabilities.

We note that the transformation for adult social care is anticipated to deliver further savings in 2012-13 and that the Council is planning a more detailed review on the outcome and impact of

the 'invest to save' project when it is fully completed. This review should be reported to Members along with any value for money considerations.

Corporate Support (encompassing Revenues and Benefits)

The 2011-12 financial and performance outturn is summarised in the below tables.

Financial Summary £'000			
2010-11 Budget	Saving Plan for 2011-12	2011-12 Budget	2011-12 Outturn
15,335	2,360	13,939	13,972

Performance Summary				
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12
BV009 Percentage of Council Tax collected	3	96.10%	97.00%	96.30%
BV010 Percentage of NNDR collected	3	97.30%	98.00%	96.20%
BV078a Time processing new claims	3	30 days	20 days	28 days
BV078b Time for processing notifications of changes of circumstances	3	19 days	15 days	17 days
L(Fin)25 Benefits accuracy	3	95.00%	98.00%	88.00%
L(Fin)27 Reduce costs of the Revs & Bens dept compared to benchmark costs	3	N/A	£-400,000	£-452,526

Within the Corporate Support Services directorate (which includes revenues and benefits), there are 11 performance measures used. Six of these relate to the performance in this department as identified above.

For the revenue and benefits transformation programme, the corporate support budget at November 2011 was reporting significant progress against budget delivery programmes with an underspend forecast – the spend within revenue and benefits is reported as below the Unitary Council benchmark for cost, and further improvements in performance are anticipated in 2012-13.

The final outturn position stated that performance benefits are starting to materialise, but a significant increase in service demand has impacted on the final outturn. The financial target has not only been achieved, but exceeded and whilst income collection targets have been missed, an improvement has been made on prior years.

The delivery plan savings specifically for the revenue and benefits programme, including cashiers and debt management, totalled £0.85m for 2011-12 (revenue saving). This indicates that, despite the transformation, a positive impact has been made on the financial position of the department, but the planned increase in performance has yet to materialise. Following further discussions with officers, it is clear that improvements in the performance is high on the agenda for the Council and along with agency staff brought in to clear backlogs in claims, changes in working practices and responsibilities continue to be implemented to ensure improved performance outcomes at Level 3 are realised in 2012-13.

4.3 What is working well?

Review of Service Areas

The review of the selected service areas identified above, for finance and performance outturn in 2011-12, provides evidence that the Council is committed to investing in services and transformation programmes with the aim of improving performance and reducing expenditure. The outcomes are being monitored by officers and members at a high level.

Monitoring and reporting procedures

In 2011-12, the Council established a reporting package which combines the budget outturn and the performance outturn for the performance indicators at Levels 2 & 3². These reports form the basis of reporting to members.

Reporting to Members – use of Scorecards

Alongside the presentation of the delivery plan progress, the Council also use a scorecard approach to present a two page summary, per Directorate, of the financial and performance risks, including a benchmark comparison (for example, the community service scorecard reported to Cabinet in November 2011).

4.4 Emerging issues and recommendations

Financial Reporting Procedures

A final outturn of the delivery plans for 2011-12 was not included in the June 2012 revenue outturn report to Cabinet, although the achievement of the delivery plans can be taken from the overall outturn of the revenue budgets for each directorate. It is noted, however, that the delivery plans set out the savings and / or additional income to be achieved over a three year period.

A summary of the achievement against the 2011-12 budget and potentially future year savings plans would enhance the transparency of the information presented to Members and the public in relation to the achievement of the efficiencies for 2011-12.

R5 We recommend that the Council improve the transparency of the final outturn report and achievements of resource delivery plans for the financial year.

Invest to save projects

The performance information at the Council is also used to drive and support specific 'invest to save' projects at the Council – these are projects driven by either increased service or poor performance and therefore require changes to ensure performance is increased, revenue savings made and for delivery of targets to be met. These changes often require investment and therefore specific 'invest to save' business cases are developed to identify the resource required and the benefits expected. In 2011-12, the following 'invest to save' projects were reported on throughout the year to Cabinet:

- Parent and Child Assessments;
- Intensive Support for Young People with Multiple and Complex Needs;
- Accommodation Strategy; and
- Procurement Category Management.

In addition, the corporate plan for 2011/14 outlined the following as 'invest to save' projects already approved:

- supporting the launch of a new website for customers that will allow 24/7 access, greater functionality and more efficient electronic transactions with the council; and,
- the upgrade of the Care First system to improve management of client information in adult and children's social care

Progress against these projects were reported in the monitoring reports to Cabinet, although a review of the June 2012 outturn report does not include information on the overall progress for

² Corporate Plan 2011 - 2014

these projects in 2011-12, in terms of the level of investment made against the original business case or the level of savings generated. Earlier reports refer to the monitoring arrangements by the management team, but the Council should consider whether the outturn of the 'invest to save' projects is reported in the final outturn report, especially where these projects span more than one financial year.

R6 We recommend that the results of any investments made in the year to improve performance and/or create efficiencies should be included in the final outturn report to Members.

5 To what extent does the performance management structure enable the Council to assess the outcomes?

5.1 Introduction

The Council has a performance management structure in place which has been restructured in 2011-12. This provides a set framework against which to set targets, record and measure performance and report the results at different levels across the Council.

We have found that the finance and performance management structure enables the Council to identify high cost and low performance services areas and identify where performance could be improved within the overall priority framework.

For the longer term, the Council should ensure that this information is able to be used to review future service delivery against the priorities and outcome measures, that they remain appropriate and progress and achievement can be measured and understood.

Background

There is a set performance framework in place against which to set targets, record and measure performance and reporting results at different levels of the Council. Overall, the performance management structure provides a framework which cuts across the Council to enable data to be collected, monitored and reported in line with the resource outcomes.

The impact of performance across the council is at risk of increasing as revenue resources continue to be constrained through reduced government funding and increased demand on some areas for example adult social care. There are likely to be conflicts between priorities, for example, as a restructure in one department could result in the loss of jobs, which directly impacts, therefore, on the priority for growth in employment. If the individuals are redeployed within the Council instead, this could impact the new department's ability to consider restructure and opportunity for savings through a rationalisation of resources..

5.2 What is working well?

Performance management structure

Performance data is reported through a variety of means and tailored for the intended audience. Using a central system, information is collated and shared with relevant managers as required. Formal monthly meetings are held with representatives from finance, HR and performance, which focus on the targets, outturn and risks faced by the service. A combined finance and performance report is drafted following these meetings and shared with members, based on the scorecard approach identified in section 4.

In 2011-12, the Council restructured the performance teams, which resulted in a centralised Performance, Policy and Partnerships department, serving the whole Council. By centralising the performance team, the Council should benefit from a more cohesive and informative

reporting regime, with benchmarking data and information being standardised and collated in one central place. This has also enabled, which should become more evident as the arrangements become further embedded in the Council, an increase in awareness of performance across services and an understanding of how performance in one department could have an impact on another department.

Having a centralised performance team in place, which is heavily involved in the setting of the delivery plans and overall financial budgets, should reduce the risk of conflict and will enable this type of issue to be identified in advance of the delivery plans being set. By taking a holistic view, but working towards the key priorities of the Council, the departments will need to work across service areas and directorates to ensure that the impact of each initiative is understood and decisions are made in the best interests of the wider community.

Performance data

The level of performance and revenue data collected enables the Council to identify where there are high cost services and poor performance and follow these up through:

- a review of the appropriateness of the targets;
- a review of the resources available;
- a review of the service overall;
- a review of sickness levels and the associated impact given the high level of sickness at the council;; and
- a review of the need for investment (ie ICT) and / or a change in service

In 2011-12 the Council have identified the need for change and investment in the ICT systems which have included the Microsoft platform supporting the revenue and benefits systems, the performance management system and adult social care systems for flexible working and direct payments.

The investment needs have been presented to members setting out the level of investment required and the implications of the investments, prior to being approved. It is encouraging that the Council recognises there is a need for investment to be made in some areas to allow for improved performance, service and resources going forward, despite the constraints facing the overall resources of the Council.

Assessment of outcomes

The Council are monitoring both saving achievements and performance targets together to enable a comprehensive picture of the delivery of the saving plans and the performance outturn. A development in 2011-12 has been to hold regular monitoring meetings with the relevant department manager, a finance representative, an HR representative and a performance manager to discuss the monthly out-turn. This representation at these meetings ensures that the implications of any reductions in resource could have on the departmental (and higher level) performance targets is taken into account and vice versa – if a performance target is at risk, a rounder discussion can be held as to the resource implications of meeting the targets.

In terms of monitoring and reporting, departmental score cards are used and a Red, Amber, Green ('RAG') rating is given which enables the management team and members to quickly identify where performance is on track or at risk. This RAG rating is used for both performance target results and delivery plan results in year. The discussions held at the internal meetings inform any action plans required and the narrative that will be included in the formal reports to members.

The regularity and the attendance of these meetings enables the performance management structure to support the delivery and transformation plans for efficiency and also provide a challenge role on the impact on efficiencies on performance.

In 2011-12, for example, within revenues and benefits, a major transformation scheme was undertaken, driven by the high cost, low performance of the service. The transformation scheme was undertaken for more than just the direct service lines, it also encompassed related departments, to reduce the duplication of work for cashiers and data processing.

The 2011-12 outturn delivered over £1m of savings through restructuring, increased use of ICT and staff changes and the structure was fully implemented from November 2011. A review of the performance of the department for collections and processing identifies that, despite the investment made in the year, performance has not met the targets set for 2011-12. This has led to increased monitoring within the department and through the performance team. It is noted that for 2011-12, there was a period of backlog of cases which has impacted on the final outturn.

A review of the performance for 2012-13 quarter one, indicates that progress continues to be made towards meeting these targets.

5.3 Emerging issues and recommendations

Service demand levels

The finance and performance reports for revenue and benefits, as an example, refers to an increase in demand. However, the figures for the demand levels are not stated in the quarterly monitoring reports, or the possible financial and resource implications of the increase demand.

We note that the final outturn report for June 2012 identifies that the performance targets have been missed and demand has increased, but the report does not clearly identify the level of increase in demand. To increase clarity and understanding of how demand is impacting on services, this information should be reported to members to enable a clear picture of the service to be understood and the full impact of the increased demand, against the restructure to be considered.

If the trend for demand is forecast to increase, this may provide further information to Members as to the suitability of the existing performance measure targets and /or the level of resources committed to cope with the demand levels.

R7 We recommend that the Council consider increasing the performance information reported to clearly set out how demand for services has had a direct impact on the financial outturn and on the achievement of the set targets and wider priorities.

Performance information in the future

As the new arrangements become embedded in the Council, there is the opportunity for reviewing the information that is gathered from across the Council, analysed, benchmarked and reported to Members.

This is especially important going forward, as demand levels potentially increase / decrease and will enable the Council to be in a good position to review future service delivery requirements against the priorities and outcome measures and have a developed understanding of the intricate relationship between performance, resources and service delivery.

The following key questions are examples that may form part of the review of the information gathered and used to as a means for assessing future outcomes:

- do the performance targets capture the information required to assess how the service is delivering on the priority areas?
- do the targets indicate progress to achieving the aspirations of the directorate, the Council and the wider partners?
- do the changing external environment and demographics impact the targets?
- are the targets realistic?
- in the context of restricted resources, are the measurements considered best value?

For 2012-13 onwards, the Council should consider these questions in the context of evidence for reviewing future service delivery against the priorities and outcome measures. It will also provide a basis for ensuring that the performance measures remain appropriate and ensure that progress and achievement can be measured and understood.

6 How is the Council using performance indicator data to assess the achievement of the top level priorities?

6.1 Introduction

Performance indicator data is collected at a number of levels across the Council and our review assessed how the Council is using the performance indicator data to assess the achievement of the top level priorities and overall vision.

A key element to our review is that the vision and the top level priorities have been set and agreed with Plymouth's key partners within the NHS, Police and wider community and are documented in the Plymouth 2020 plan. Our review has considered how the Council is assessing their contribution to these objectives.

Overall, there is limited information reported through the quarterly finance and performance outturn reports in respect of the achievement of the top level objectives and this information could be expanded. The Council should increase the transparency of the information around the shared priorities and include updates as to how they are working towards these and the progress made to date in achieving these strategic outcomes.

Our findings are set out below with a small number of recommendations to improve how the Council is using the performance indicator data to assess the achievement of the shared priorities.

6.2 Background

The Council has set out the shared vision and four priorities which they are working towards along with key Plymouth partners, with the organisations working together to deliver improvement within Plymouth.

The shared vision and priorities are set out in the Plymouth 2020 plan, and the Council are continuing to work towards identifying the practicalities of the partnership in practice and the delivery of these priorities.

6.3 What is working well?

From a review of the performance information available and discussions with officers at the council, it is evident that the impact of costs on performance and outcomes is understood across the management team and that this has been enhanced through initiatives during 2011-12 including:

- joint finance, performance & HR reporting;
- the senior management team discussing budgets together and not in silos with the finance team;
- the policy, performance and partnership team have been centralised rather than operating within departments; and
- clear performance and finance reports – were reported monthly at departmental management team meetings and quarterly at senior management team meetings.

These arrangements are likely to be enhanced further in the future through:

- the consistent use of the same benchmarking club (unitary group/LGA);
- the full roll out of a new with improved functionality performance reporting system;
- consistent reporting on performance and finance and HR to aid risk assessments and understanding of the potential impact on ideas and decisions; and
- the use of the 'invest to save' projects that will ensure in a time of resource reductions, investment into technology is being recognised and investment decisions continue to be made in line with need.

To reduce the risk that performance cannot be measured against the four shared priorities, the Council should review how to demonstrate contribution to the Level 1 objectives and the wider Council priorities and vision. A review of the reports to Members regarding policies and strategies identifies that prior to approval, new policies and projects are required to consider the relevance to the four corporate priorities, but this is then not transferred through the overall performance and finance outturn reports.

For example, the Health & Adult Social Care biannual report in November 2011, outlines that the key areas for the adult social care service are around delivering value for communities and reducing inequalities. However, the performance outturn report does not make it clear how, in 2011-12, the service has contributed to these high level measures. By excluding this information in the outturn reports to members, it is not clear how the Directorates are contributing to the Council's priorities and vision.

This finding is explored further in the following paragraphs.

6.4 Emerging issues and recommendations

Assessment of top level priorities

From our review, we found that there is limited reporting on how the Council is working towards the level 1 outcomes and the four top priorities. The quarterly finance and performance reports refer to a percentage figure in their headline performance summary, for example for 2011-12 the Council reported that 50% of indicators met target with 50% showing actual improvement between 2010-11 and 2011-12.

It is not clear from the report, how the performance of the Level 2 and Level 3 outcome measures in adult and children social care and revenues and benefits have contributed to this measure in the achievement of the Level 1 objectives.

The outturn report provides further explanation on why performance is at 50% and the implications that this has for the Council's Level 1 objectives and four priorities. It is not clear what the target performance is for these outcome measures, or if the remaining 50% have deteriorate or remain on track. One explanation given is that some of the targets are set over a three year period and therefore reporting as a totality could be misleading. In our view, the Council should consider establishing interim indicative targets to measure performance where a longer timeframe objective has been set.

In addition, some of the performance outcomes were not available at the date the outturn report was produced, which means that a complete picture cannot be shown.

Initially, it would appear that only achieving 50% of high level targets is a potentially poor performance. The context around this performance needs to be provided to members and the

public with appropriate explanations for the actual figures being reported. This is a key issue for Members who should ensure that they are comfortable with the outturn performance for the financial year and understand what the impact of not achieving the remaining 50% of targets could be.

R8 We recommend that the reporting of Level 1 outcome measures and the shared priorities is expanded to include interim measures where appropriate, to enable a more comprehensive understanding of the performance for the Council to be understood.

Reporting arrangements

Currently the achievement of Level 1 outcome measures is reported at a high level, using the red, amber and green ('RAG') rating, to Cabinet members on a six monthly basis. This is separate to the performance and resource reports presented every quarter.

We note that the Council is planning to revise and update the finance and performance reporting arrangements in 2012-13, including the information and the reporting timetable.

To improve transparency, the Council should make best use of examples to identify how resources are delivering the performance improvements. This could incorporate information from partners working with the Council as well as Council specific projects / initiatives.

R9 We recommend that consideration is given to the headline performance information reported and the implications of the outturn performance on the achievement of the Council's key priorities.

6.5 Allocation of top level priorities amongst Plymouth and the Partners

Our review identified that it is not currently clear from the information reported, how the priorities have been allocated across the different partners and therefore how much of a specific contribution the Council has set themselves to achieve. There are a number of different partners involved, of varying size and service delivery priorities.

For example, is each partner committed to delivery of the priority as a whole, or has the Council committed to deliver a specific proportion of the objectives and the remainder needs to be delivered by other partners.

Despite the aspirational nature of these high level priorities, there continues to be an opportunity for the Council to expand on how Plymouth as a whole is delivering the vision.

We note that the Plymouth Plan and the Plymouth Report have been cited as documents which will contain more detail at a strategic level, in the longer term, on how the priorities are being delivered. However, we feel that there is scope for the Council to improve its reporting of delivery against objectives on an annual basis, highlighting the Council's own involvement and contribution in the delivery of each priority.

R10 We recommend that the Council review the current arrangements for reporting on the achievement of the top level priorities and identify how they are specifically contributing to the overall vision of Plymouth.

6.6 Partnership Working

Where there are shared priorities across the Council and other organisations in Plymouth, there is a risk that policies and delivery plans from these partners could have outcomes that directly impact on the demand for services provided by the Council and vice versa.

This is an increasing concern in the current economic environment and could impact demand for revenues and benefits (if job losses are forecast), social care (depending on NHS policies and strategies) and or businesses objectives (depending on the partner's own planning and development activities).

The Council should ensure, therefore, that they are reviewing the current performance measurements set for:

- suitability to services and the way in which they can be delivered;
- changing demographics;
- increased or reduced demand / costs for some areas; and
- consistency with Partners strategies, objectives and developments in the wider sector.

R11 We recommend that the Council continue to monitor the strategies and direction of the partners for any impact on the delivery of the shared priorities and vision to reduce the risk of conflicting outcome measures and it should seek opportunities to align shared resources appropriately.

7 How are the current arrangements being reviewed for 2012-13 and the longer term?

7.1 Introduction

Our review has also considered the appropriateness of the arrangements for the future issues as the Council enters into a new era under a different administration. Consequently, we have reviewed the Council's arrangements for assessing and prioritising resources and improving value for money over the 2011-12 period and for the future. In this section of our report, we identify the changes that have occurred in 2011-12 and highlight areas for the Council to consider as it continues to develop and review the existing priorities and outcome measures for Plymouth.

Capital and investment is out of the scope of this review, but should also be subject to detailed consideration by the Council to ensure that investment isn't made in areas that may not be required in the longer term.

Our findings are set out below and follow a theme of reporting and governance which we recommend the Council take into consideration as part of any planning around outcome measures and performance in the future.

7.2 Background

In the 2012-13 financial year, the Council had a change of administration and a new corporate plan for 2012 – 2015 was published. In addition, in January 2012, the Council restructured its directorates from five to three (People, Place and Corporate Services).

The new administration has kept the overall vision and corporate priorities as measured in 2011-12 and has added an additional 100 pledges – targets to be met within the 2012-13 financial year.

2012 – 2015 Corporate Plan

The 2012/2015 corporate plan sets out the new directorates and provides a summary of the challenges, agendas, and priorities for the period. For each directorate it outlines "major achievements to draw on" which is a list of example projects and services that have been undertaken within the directorate.

These are at a high level, for example, "reduction in overall crime" and "raising educational attainment, including that for children in care".

Whilst we appreciate that the corporate plan is at a high level, we consider that the Council should review the benefits of improving the transparency of the achievements to date, stating specifically what has improved and by how much - this will enable the wider public to understand exactly how the Council is able to prioritise the services to deliver the objectives and understand the level of progress that has been made, and that which is still to be delivered.

A further list for each directorate is included "moving on - the big issues" which highlights the key issues facing the directorate which need to be addressed. These include, for example, "increased birth rate in more deprived areas", "reducing costs in adult social care" and "ensuring commitment from partners around multi-disciplinary team locality working".

These are at a high level and the Council is monitoring these through individual directorate plans (for example the Children and Young People Plan, the Plymouth Plan) where the objectives and measure of achievement can be made.

The current performance indicator basket at level 2 and level 3 are supporting the measurement of these issues, but there is **an opportunity for the Council to revisit the current indicators used to ensure that they are able to collect the data required to enable the achievement of these "big issues" to be accurately measured on an on-going basis.**

The Plymouth Plan

The Council are compiling a Plymouth Plan' which is aiming to be a "strategic document that encompasses the whole of the city...It will set out a vision and path to improvement."

Primarily a planning development strategy, it supports the Council's priority for sustainable growth and overall vision for Plymouth.

It is clear that the Council are aware of the resource constraints and the need for a joint commitment across Plymouth to enable delivery of the overall vision and priorities of the City. To ensure that the plan is achievable, the Council should ensure that there are clearly identified objectives which are shared across the council and partner organisations. These objectives should follow the SMART format and be monitored for progress on a regular basis, to ensure that the Plymouth Plan does not just remain aspirational, but is a working and achievable strategy for Plymouth.

The Council should ensure that it is viewing the Plymouth Plan in its entirety as a working document to achieve its vision and reviews how the Plan links to other strategies and delivery plans at the Council. The resource implications, not just of the Plan, but also of the objectives set, will need to be understood and monitored. It is likely that there will be additional resources for some of the objectives, but also opportunities for savings to be made. The cost : benefits of the objectives should be reviewed prior to being agreed to ensure that it is clear what investment levels are required by the Council to enable delivery of the Plymouth (and other) relevant plans.

When the outcomes of the objectives supporting the Plymouth plan are monitored and reported across the Council, this should be in line with any direct and indirect resource implications, to enable the value for money implications of the delivery of the plan to be fully assessed.

Within the Plymouth Plan report in September 2012, there were nine initial Plymouth plan themes identified, mapped against the nine Council commitments. **When the Plan is drafted in full, these should also be mapped against the four Council priority areas and ensure that the Level 1 to 4 objectives set for performance management and reporting purposes are aligned to the themes and objectives within the Plymouth Plan.**

Additional 100 Pledges

The new administration at the Council has set an additional 100 pledges to be met, based on their manifesto commitments, which are designed to complement the existing outcome measures in the 2012 – 2015 corporate plan. Going forward, the Council should consider how

these relate to the existing measures of performance and ensure that the individual service plans are consistent with both sets of performance measures.

There is a risk that some of the measures and pledges could conflict against each other or require additional resource which has not been allocated in the initial 2012-13 budgets. **The Council should assure itself that the pledges are able to demonstrate the achievement of service and Council priorities which have already been drawn up and resourced or formally amended.**

This will reduce the risk that spending is occurring in non-priority areas.

Future risks to the achievement of strategic priorities

As part of our review including discussions with officers, we have identified three key risk areas which the Council should ensure are being fully considered when setting performance measures and resource allocations going forward. By considering these risks throughout any decisions on performance and resources, the council should ensure that they are in a position to respond, and mitigate the potential negative impact on Council priorities. There is evidence to suggest that these areas are already being considered at various levels, however, we feel it is useful to repeat them here to ensure that they form an intrinsic part of any decision making at the Council.

Risk 1 – Partnership Involvement

The Council is fully committed to delivering the outcome measures with the Plymouth Partners and in line with the 2020 plan that has been developed. As changes are made to the operating environment of the Council and the partners, attention should be given to the current outcome measures and priorities set and to reduce the risk of any delivery failures and ensure that responsibilities and expectations are clear, including:

- clear SMART definitions of the priorities are set, including stages of progress which can be assessed by partners individually and as a whole;
- clear definitions of the expected outcome measures which are agreed and understood by each partner; and
- a review of the priorities and measurements to ensure that they remain fit for purpose for all partners and any potential conflicts between them are identified and reviewed.

Risk 2 – Changing Demographics

The council should be considering if the priorities and outcome measures at each level remain consistent with changing demographics in Plymouth and the surrounding area. A question to be considered throughout the setting of resources and performance measures is how the latest economic information and future trends is being considered.

Risk 3 – Increased demand on services that are already poor performance or high cost

In line with the changes in demographics, the Council should ensure that it has the capacity and capability to review future demand levels, and associated costs and performance impact. Key questions the Council should consider include:

- If the demand for services is expected to increase, are the Council able to forecast the likely costs of increased demand? Can this be met within current resources for example, or is additional investment required? Are these services delivering against the priorities, or are there changes to the provision required?

- If demand is expected to be increase only for a short period, how much investment and change is likely to be required?

These questions should form part of any medium to longer term planning taking place, in line with the Plymouth Plan that is currently being considered by the Council and ensure that the delivery of future services is in line with priorities and the forecast demand levels.

8 Conclusion

Throughout our review we have considered the arrangements in place for the Council to review and assess the achievement of their strategic priorities.

Overall we have found that there is a strong performance management framework in place and consideration of performance and the priorities feature heavily throughout the Council, with a strong relationship evident between finance and performance.

There is a clear understanding of the links between resources and performance, which is evident through the saving delivery plans, the joint finance and performance reporting process and the ability to identify and implement changes to the high cost and low performance areas.

Despite these arrangements at an operational level, there is scope for improvement for the Council to measure, understand and report on their contribution to the overall delivery of the shared priorities and Level 1 outcome measures, which are aspirational, but significant for decision making and setting resources.

The Council need to be confident that the strategic priorities set for Plymouth remain fit for purpose and that the Council are informing Members and the wider public exactly how they are working towards the achievement of these.

By considering the recommendations that we have raised in this report, the Council should be able to:

- reduce the risk of resources being allocated to non-priority service areas;
- enhance the transparency of decision making as resources become further constrained; and
- improve the information reported on how the Council and the Directorates are contributing to the wider priorities for Plymouth.

Appendix 1 - summary of recommendations and action plan

Recommendations and action plan

Our review has identified that there are a number of areas of best practice being developed which, although in various stages of implementation, are being supported by a specific department, Corporate Property, with an action plan, included in the draft 2010 Corporate Asset Management Plan. These developments are aimed at ensuring there is a clear, strategic approach to asset management across the Council.

We have also set out in our report a number of recommendations, identified from our discussions with officers and review of key documents, which will enable the Council to continue with their strategy and maximise opportunities to improve asset management.

The recommendations identified are repeated in the table below along with space for the Council to respond with the proposed actions.

Area	Recommendations relating to 2011-12	Rating	Council response and action	Responsible officer and target date
Priorities linked to the delivery plans	1 We recommend that the Council consider the current planned resources and set out how these, irrespective of the efficiency savings, are contributing to the delivery of the priorities of the Council and Plymouth as a whole.	Medium		
Priorities linked to the delivery plans	2 In line with the budget scrutiny report, we recommend that consideration is given as to how the directorates service plans are working towards the delivery of the achievement of the Council priorities.	Medium		
Priorities linked to the delivery plans	3 We recommend that the Council consider how the Level 1 outcome measures are clearly defined for the individual directorates and service plans to ensure that the steps to achieve the measure can be resourced appropriately.	Medium		

Area	Recommendations relating to 2011-12	Rating	Council response and action	Responsible officer and target date
Assessment of achievement for 2011-12	4 We recommend that the Council ensures that they are satisfied that the investment needed in Children and Young People Social Care can be made out of the Children's services budget, without impacting on the other areas of performance or resources allocated.	High		
Assessment of Achievement for 2011/12	5 We recommend that the Council consider the means of improving transparency of the final outturn report and achievements of resource delivery plans for the financial year.	Medium		
Performance Management	6 We recommend that the results of any investments made in the year to improve performance and/or create efficiencies should be included in the final outturn report to Members.	Medium		
Performance Management	7 We recommend that the Council consider increasing the performance information reported to clearly set out how demand for services has had a direct impact on the financial outturn and on the achievement of the set targets and wider priorities.	Medium		
Strategic Priorities	8 We recommend therefore that the reporting of Level 1 outcome measures and the shared priorities is expanded to include interim measures where appropriate, to enable a more comprehensive understanding of the performance for the Council to be understood.	Medium		
Strategic Priorities	9 We recommend that consideration be given to the headline performance information reported and the implications of the outturn performance on the achievement of the Council's key priorities	Medium		
Strategic Priorities	10 We recommend that the Council review the current arrangements for reporting on the achievement of the top level priorities and identify how they are contributing to the overall vision of Plymouth.	Medium		

Area	Recommendations relating to 2011-12	Rating	Council response and action	Responsible officer and target date
Strategic Priorities -partnerships	11 We recommend that the Council continue to monitor the strategies and direction of the partners for any impact on the delivery of shared priorities and vision in order to reduce the risk of conflicting outcome measured an seek to align shared resources appropriately.	Medium		

In addition to the above recommendations, we would also like to draw your attention to the following areas we have identified for further review as the Council progresses in 2012-13 with the new directorate structure, the new administration and the continuing pressure on resources across Plymouth.

Area	Opportunity for further review
2012 – 2015 Corporate Plan	<ol style="list-style-type: none"> 1. There is an opportunity for the Council to revisit the current performance indicators used to ensure that they are able to collect the data required to enable measurement of the achievement of these "big issues" and therefore progress can be measured going forward.
The Plymouth Plan	<ol style="list-style-type: none"> 2. Within the Plymouth Plan report in September 2012, there are nine initial Plymouth plan themes identified, mapped against the nine Council commitments. When the Plan is drafted in full, these should also be mapped against the four Council priority areas and ensure that the Level 1 to 4 objectives set for performance management and reporting purposes are aligned to the themes and objectives within the Plymouth Plan.
Additional 100 pledges	<ol style="list-style-type: none"> 3. There is a risk that some of the measures and pledges could conflict against each other or require additional resource which hasn't been allocated in the initial 2012-13 budgets and therefore the Council should assure themselves that the pledges are able to demonstrate the achievement of service and Council priorities which have already been drawn up and resourced.
Future risk considerations	<ol style="list-style-type: none"> 4. The questions around Partnership, demographics and demand should form part of any medium to longer term planning taking place, in line with the Plymouth Plan that is currently being considered by the Council and ensure that the delivery of future services is in line with priorities and the forecast demand levels.

Appendix 2 - Key Service Areas 2011-12

Introduction

To support our findings into the arrangements for prioritising resources and improving value for money, we selected three key service areas to review the impact of any savings plans and transformation plans has had on the performance in 2011-12. Originally we set out to review service areas seen as high cost and low performance and high cost and high performance. The areas we have selected are high cost, and have a mixture of high and low performance outcomes for 2011-12, despite the transformation schemes implemented. The areas for recommendation are included in the main report, but the summaries below provide an overview of the performance and resource outturn for 2011-12.

Overall resource performance for 2011-12

Directorate	£'000							
	2010-11 Budget	Budget Prioritisation Review	Budget Delivery Targets	Indicative 2011-12 Budget (December 2010)	Adjustment	Budget 2011-12	Adjusted Budget 2011-12 (June 2012)	Outturn 2011-12
Children & Young People	51,111	750	(1,241)	50,620	(1,237)	49,383	49,292	47,693
Corporate Items	(9,905)	(662)	0	(10,567)	14,259	3,692	537	(206)
Community Services	110,977	800	(2,723)	109,054	126	109,180	107,905	110,271
Corporate Support	31,679	(200)	(3,790)	27,689	(289)	27,400	29,566	29,434
Development & Regeneration	16,234	(50)	(295)	15,890	1,184	17,074	18,326	18,522
Chief Executive	1,728	-	(211)	1,517	(8)	1,509	2,611	2,636
Total for 2011-12	201,824	638	(8,260)	194,203	14,035	208,237	208,237	208,350

Source: Performance and Finance report to Cabinet, July 2012

Children and Young People

The overall outturn position for Children and Young People in 2011-12 was an underspend of £1.829m. This is against a number of targets that were not met in 2011-12 around Children in Care, take up of school meals and primary school floor targets. Achievement of the underspend, per the commentary³ was reached through early implementation of saving plans, staff savings and slippage in commissioned spend. This raises a question that should be considered by the Council, as to whether the underspends occurring have had a direct impact on the performance of the department. A further high level review indicates that the performance targets that were not met have been caused by increased costs and increased demand, especially for social care as noted below.

Where a performance issue has been identified, for example with the Primary School floor targets or levels of NEETs, early intervention programmes have been put into place to focus on improvement in these areas.

The performance information to members in the June 2012 report focuses on exception reporting – there are a number of performance indicators within this department that have been met within the 2011-12 resources available, however, this information, and key projects that have been undertaken to achieve outturn / performance aside from staff savings or spending slippages have not been highlighted. The mechanisms are in place to review achievement of strategic priorities, however, there are opportunities for the Council to be doing more to report these outcomes, as noted in the main report.

Children & Young People - Social Care

Financial Summary £'000		
2010-11 Budget	Saving Plan for 2011-12	2011-12 Budget
27,206	3,890	28,102
		2011-12 Outturn
		27,757

Source: Performance and Finance report to Cabinet, July 2012

In 2011-12 there were two invest to save projects. From the quarter one finance report, an update on these was given, outlining the progress made to date on the two projects: Parent and Child Assessments and ASD and Complex Needs.

Performance Summary					
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12	Target 2012-13
Number of Children in care who are placed in 'independent sector foster placement' -EOM snapshot	3	new	56	67	
Number of Children in care who are placed in 'residential care placement' -EOM snapshot	3	new	13	21	

³ Performance and Finance report to Cabinet – July 2012 and February 2012

In the June 2012 outturn report to Cabinet, an update on progress on these projects was included which although includes an operational update, it does not set out what costs or savings have been incurred / made to date. A previous report from February 2012 had outlined the expected savings to be made from the Parent and Child Assessments project (an estimated saving of £0.135m per year from year 3 and for 2011-12 a saving of £0.05m). It is not clear therefore from the final outturn Cabinet report to members for 2011-12, how the invest to save projects are driving the required performance forward. These projects are ongoing and further updates are expected in future performance reports.

A review of the performance and finance report for 2011-12 (Cabinet, June 2012) highlights the increased levels of demand for children services, especially within Children's Social Care. The outturn position was favourable with £0.346m underspend at the year end. The report identifies that overall performance has been good, however due to the increased number of cases for children in care the targets for 2011-12 have not been met.

The outturn report provides summary information on the risks associated with the performance of Children's Social Care and identifies that strategies will be implemented and that additional work is required to address the underlying trends of increased demand and increased costs.

Adult Social Care

Financial Summary £'000		
2010-11 Budget	Saving Plan for 2011-12	2011-12 Outturn
72,646	1,991	71,920

Performance Summary					
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12	Target 2012-13
IC (ex NI 130) Proportion of people using social care who receive Self Directed Support, those receiving Direct Payments	2	30.29%	60.00%	33.10%	
NI 131 Delayed transfers of care (per 100,000 population aged over 18)	2	4.95	17.30	Not available until 15th May	
2A (ex IADF) Permanent admissions to residential and nursing care homes per 100,000 population	3	15.57	107.71	148.4	
IH (ex NI 149) Proportion of adults in contact with Secondary Mental Health services living independently with or without support	3	63.67%	65.00%	71.10%	
IF (ex NI 150) Proportion of adults in contact with Secondary Mental Health services in paid employment	3	7.98%	85.00%	8.70%	

Source: Performance and Finance report to Cabinet, July 2012

The Level 2 performance indicator, Direct Payments, was not met in 2011-12, with a target set of 60%, against actual achievement of 33.1%. This was an improvement on the prior year (15.9%) and is set against a backdrop of transformation within Adult Social Care. In February 2011, a pilot project begins which focused on customer need and changed the processes within the directorate to serve the customer, which includes the use of direct payments. Supported by a

new system, the change was rolled out across the service and by July 2012, the transformation was complete. This resulted in the same number of front line staff but reduced management and clerical staff and a permanent reduction in the revenue budget.

Over a five year period, this project has been allocated a capital budget of £2.5m and a revenue budget of £3m and the results expected from the business case include:

- improvements in KPI's
- reduction in backlogs of work as a result of increase capacity through process efficiencies and enhancements
- reductions in numbers of caseloads
- improved management oversight of cases

An update of the outcome of this project was provided to members of the support services overview and scrutiny panel in February 2012, which confirmed that the adult social care revenue budget delivery plan of £0.320m is on schedule to be delivered and the saving is estimated to increase to £0.9m from 2012-13.

In 2012-13, the department is predicting that the number of direct payments will increase in 2012-13 and the target will be met. The national target for April 2013 is 100%.

The invest to save projects are predominantly capital and revenue projects and therefore are outside the scope of this review. In line with our review, the invest to save projects are stated as supporting the four key corporate plan objectives, "through improving 'Value for Communities'⁴ by financially investing in initiatives that secure service improvements and net reduced service costs to offset the project costs ."

It is noted that the invest to save projects were not fully complete in 2011-12 but expected to be completed in 2012-13 when a full evaluation of the impact on service improvements and budget savings will be undertaken by the Council⁴. We recommend that the outcome of the reviews are reported to Cabinet members and the impact on performance and resources incorporated into the current finance and performance reporting regime

⁴ Invest to Save Projects update, Support Services Overview and Scrutiny Panel, February 2012.

Corporate Support Services – Revenues and Benefits

Financial Summary £'000		
2010-11 Budget	Saving Plan for 2011-12	2011-12 Budget
15,335	2,360	13,939
		13,972

Performance Summary					
Performance Indicator	Level	Outturn 2010-11	Target 2011-12	Outturn 2011-12	Target 2012-13
BV009 Percentage of Council Tax collected	3	96.10%	97.00%	96.30%	
BV010 Percentage of NDR collected	3	97.30%	98.00%	96.20%	
BV078a Time processing new claims	3	30 days	20 days	28 days	
BV078b Time for processing notifications of changes of circumstances	3	19 days	15 days	17 days	
L(Fin)25 Benefits accuracy	3	95.00%	98.00%	88.00%	
L(Fin)27 Reduce costs of the Revs & Bens dept compared to benchmark costs	3		£400,000	£452,526	

Source: Performance and Finance report to Cabinet, July 2012

The overall outturn position for Finance Estate & Efficiencies was an overspend of £0.03m. This underspend is against a number of targets that were almost met, but were an improvement on the position for the prior year. Finance Estate & Efficiencies implemented a significant transformation plan in 2011-12 which encompassed the following key service lines:

- revenues and benefits
- cashiers
- debt management
- income collection

The scheme led to a management restructure throughout these departments and a change in roles for many individuals impacted. The delivery of over £1m of savings in the year was generated through the following key areas of the transformation:

- deletion of management posts
- revised working through a lean / mixed team approach
- use of customer services
- closure of the cashiers services

A member led task and finish group undertook an impact review into the restructure and the outcomes in January 2012⁵ and this identified a number of recommendations going forward to improve staff morale and ultimately the performance of the new structure. The report did identify that the "service was operating a very long processing time for benefits claims, although there was a clear direction on how the service aspired to reduce processing times and improve its performance" which is in line with our findings from discussions with officers and review of related documents.

A significant amount of work was undertaken by the Council to consult on the transformation and work with staff to find the best solutions available to the staff and to the customers, including formal and informal consultations and staff surveys throughout the process⁵. A number of changes to roles and positions were made, and the performance has been monitored throughout the transformation. Improvements in areas are being realised, however, these did not fully materialise for the final outturn for 2011-12.

A review of quarter one performance for 2012-13⁶ for the department indicates that performance is increasing, although this is on a steady basis and the Council is monitoring the performance position closely.

In terms of resources, the saving plan forecast for Corporate Support (which includes finance estates & efficiencies) was £8.58m over the three year period 2011 – 2014. £2.1m of this was allocated against 2011-12 and the report in February 2012 identifies that good progress had been made against the budget delivery plans, with significant savings made and an underspend forecast for the year end of £0.15m over and above achievement of the delivery plans. As at quarter three, £0 of the delivery plans were highlighted as at risk (red rating).⁷

Following discussions with officers, there is an awareness of the reasons for the performance and there is an understanding that full transformation takes time to fully embed – incentives within the new departments and the new working practices are expected to lead to increased performance in the future, despite the expected increases in demand and the impact of government policy changes through the Welfare Reform.

Service plans are now in place to focus on the improvement of performance, and this is consistent with officer discussions. The transformation of the service has enabled the Council to position themselves favourably for future developments including the welfare reform impact, additional usage of the transaction centre, and a new way of working across this department.

⁵ Reported to the Overview and Scrutiny Management Board, February 2012

⁶ Performance & Finance Report to Cabinet, September 2012

⁷ Performance & Finance Report to Cabinet, February 2012



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Plymouth City Council

Audit Plan 2012/13 – Progress Report

Audit Committee

December 13 2012

2012/13 Audit Plan Update – December 2012.

Work area	Reason performed	Work objective	Draft to lead officer	Plymouth Lead Officer	Progress to date
Financial statements					
Audit Plan 2012/13	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.	January 2013	Adam Broome	Planning meetings and discussions are on-going and will continue throughout December. Our initial risk assessment is in progress and will be used to inform the Audit Plan. Risks will be updated on a continual basis throughout the year. Officers and members will be kept informed of progress.
IT risk assessment and review	Code of Audit Practice	To perform a detailed review of the IT systems employed within the Council with particular examination of the new Payroll system	March 2013	David Northey	A timetable for initial meetings and visits is currently being planned.
Interim Report & Update to Financial Audit Plan	Code of Audit Practice	To gain assurance from systems of financial control for the opinion.	May 2013	David Northey/ Malcolm Coe	
Accounts opinion	Code of Audit Practice	To provide an opinion on the accounts and determine the value for money conclusion.	September 2013	David Northey/ Malcolm Coe	
ISA260 report	Code of Audit Practice	To summarise the findings from our final accounts and other Code work that impacts on our opinion and to discuss these findings with those charged with governance.	September 2013	Adam Broome/ David Northey/ Malcolm Coe	
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/ David Northey/ Malcolm Coe	
Value for Money (VfM) conclusion					
VfM risk assessment	Code of Audit Practice	To identify areas of risk relating to the VfM conclusion and where more detailed work is required.	January 2013	Malcolm Coe	We are currently in the process of collating information to inform our initial risk assessment. We will share the initial assessment with officers in January 2013 and discuss specific pieces of work that may be required to be undertaken to inform our Value for Money conclusion in 2012/13. The outcome of our assessment will be included in our Audit Plan.
Financial Resilience	Code of Audit Practice	To assess the Council's arrangements in place in the following areas: – Strategic financial planning	September 2013	Malcolm Coe	

2012/13 Audit Plan Update – December 2012.

Work area	Reason performed	Work objective	Draft to lead officer	Plymouth Lead Officer	Progress to date
		<ul style="list-style-type: none"> - Financial governance and - Financial control. 			
Follow up of previous years' work and recommendation	Code of Audit Practice	To review the progress against agreed action plans for the VfM work performed in 2011/12.	September 2013	Malcolm Coe	
VfM conclusion	Code of Audit Practice	To provide conclusion on the Council's arrangements for achieving VfM.	September 2013	Adam Broome	
Other reports					
Annual Audit Letter	Code of Audit Practice	To summarise key findings and conclusions from the work performed under our audit plan.	October 2013	Adam Broome – Audit Committee Members	
Grant claims and Certificates					
	Grant claim work	To certify the Council's grant claims and returns that require audit certification and testing. Grant claims will be reported on an individual basis throughout the year.	June 2013 – November 2013	David Northey	
Grant Claim summary report	Grant Claim work	To summarise the key findings from our certification of all grant claims in 2012/13	November 2013	David Northey	

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PLYMOUTH CITY COUNCIL

Subject: Covert Activities, Surveillance and the Regulation of Investigatory Powers Act 2000 (RIPA)

Committee: Audit

Date: 13 December 2012

Cabinet Member: Councillor Peter Smith

CMT Member: Adam Broome (Director for Corporate Services)

Author: Richard Woodfield (Corporate Information Manager)

Contact: Tel: 304067
Email: richard.woodfield@plymouth.gov.uk

Ref: RIPA Annual Report 2012

Key Decision: No

Part: I

Purpose of the report:

Council are required to be informed about the use of covert surveillance by staff when undertaking criminal investigations and to agree a policy.

Audit Committee are requested to note the two recent positive inspections, accept this report and the proposed Covert Activities and Surveillance Policy.

Members are required to have oversight of the use of covert activities and surveillance for Council purposes; but do not take decisions on individual cases.

These are necessary tools to have available for enabling the Council to fulfil its obligations to investigate crime, prevent disorder, recover debt, protect the public and establish the facts about situations for which the Council has responsibility.

This report informs Members about covert surveillance that has taken place, changes to legislation and the steps being taken to ensure that the Council is compliant in respect of covert activities.

Staff may consider that it is appropriate to undertake covert activities that result in the subject of enquires being unaware that their actions are being monitored, or enquires are being undertaken without their knowledge and managers may wish to covertly monitor staff activities. However, covert activities compromise an individual's 'right to privacy', so the use of a covert activity must be lawful, necessary and proportionate in order to comply with the Human Rights Act.

A change of legislation concerning Local Authority use of RIPA requires that the Council's current approach to covert activities is amended. Since the 01 November 2012 Local Authorities are no longer entitled to make authorisations under RIPA to the same extent as previously and thus the current procedures, which were approved by Audit Committee in 2003, require replacing and the proposed Covert Activities and Surveillance Policy is recommended for approval in their place.

Corporate Plan 2012 – 2015:

Undertaking covert activities contributes to the Corporate Plan through assisting in developing an outstanding quality of life to be enjoyed by everyone. The contribution is through assisting safeguarding – reducing crime, making people feel safe, making the most of our environment and promoting inclusive communities by reducing the impact of unwanted behaviour on the community. Covert activities are often jointly undertaken with other agencies, so as to assist with developing a safer and greener Plymouth.

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

There are no significant implications for the medium term financial plan as the undertaking of covert activities is a departmental casework related process and any equipment that is required is obtained through current budgets.

However in order to ensure compliance with the requirements of the HRA and other relevant legislation; sufficient trained managers and staff are required to be available and the resourcing of specialist staff role profiles must be incorporated into Directorate action plans.

There is not a specific budget cost code and all costs are subsumed within service team budgets.

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

The Covert Activities and Surveillance Policy is recommended so that authorised covert methods are available to support community safety, environmental protection, fraud investigation, individual casework and to investigate employment disputes. Implementing this Policy will prevent the Council breaching its obligations under the HRA and associated legislation.

There is a risk to the Council of loss of reputation and that evidence obtained for an investigation will not be accepted; if covert activities are not in accordance with the requirements of legislation and good practice. The recommended policy provides for processes and procedures to be in place so that the Council will be able to successfully use the product of covert surveillance.

There is a risk to staff involved in undertaking covert activities, as they are potentially at greater risk from the perpetrators of crime, than other employees. The council is also required to implement a duty of care towards the public who assist investigations by providing a base (their own property) from where surveillance is undertaken. There could be an impact on community cohesion through the activities of the investigators and through the use of the product of the surveillance. These implications will be controlled through adherence to the proposed Policy.

Recommendations & Reasons for recommended action:

To note that the recent Inspections demonstrate that staff have appropriately implemented powers available under RIPA.

To acknowledge that covert activities can be a necessary and proportionate response for achieving the Council's objectives by accepting the Covert Activities and Surveillance Policy; which allows covert activities to be deployed where necessary and proportionate, under the control of a good practice process based on the RIPA requirements.

Alternative options considered and reasons for recommended action:

The alternative option is for Members to limit the options for undertaking investigatory activities by staff by:

- a) deciding that Officers will not undertake covert activities or surveillance on behalf of the Council, or
- b) Officers they may only use this option when a serious crime is being investigated, which would then limit Officers to only deploying surveillance that was in accordance with the revised RIPA controls which do not include previous uses of covert surveillance.

These alternative options are rejected as the current changes to RIPA are in response to concerns that Local Authorities have been irresponsible; whereas successive Inspection reports of the Council have found that Officers act in accordance with requirements and the Council has not initiated unnecessary investigations and has always been proportionate in its use of covert activities. Thus staff have been found to have the expertise to deploy the available powers appropriately and to now limit the use of the powers that are available would have a detrimental impact on implementing the investigation responsibilities of the Council.

Covert activities are kept to a minimum through the professionalism of Authorising Officers. The adoption of this Policy will implement a consistent approach to any covert activity and require consideration of necessity and proportionality by a trained manager, before any covert activity proceeds.

An annual report to Committee will provide Members with the opportunity to review the operation of this Policy.

Background papers:

1. Office of the Surveillance Commissioner Inspection report from the last inspection on 30 May 2012
<http://www.plymouth.gov.uk/homepage/councilanddemocracy/information/investigatorypowersact2000.htm>
2. Interception of Communications Commissioner Inspection report from the last inspection on 31 July 2012
<http://www.plymouth.gov.uk/homepage/councilanddemocracy/information/investigatorypowersact2000.htm>
3. RIPA Authorising Managers internal list – not for public distribution (only available from a computer attached to the council system)
http://documentlibrary/documents/RIPA_Authorising_Managers_internal_list.pdf
4. Home Office guidance for Local Authorities on the use of RIPA
<http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/local-authority-ripa-guidance/>

Sign off:

Fin	DJN 1213. 013	Leg	TH 2012 1129	HR	JS 2012 1203	Corp Prop		IT		Strat Proc	
Originating SMT Member: Adam Broome – Director for Corporate Services											
Have you consulted the Cabinet Member(s) named on the report? Yes 25/09/2012											

1.0 Introduction

- 1.1 Since the Human Rights Act 1998, until 31st October 2012, the Council has undertaken covert activities in line with the Regulation of Investigatory Powers Act (RIPA) and has been subject to inspection by the regulatory bodies.
- 1.2 All covert activity to support service area based criminal investigations, or to prevent disorder, has been undertaken through a process of internal authorisation in accordance with RIPA Codes of Practice. These covert activities have been monitored by Inspectors.
- 1.3 Any employee related or civil offence investigations have been undertaken in compliance with the Data Protection Act and the Lawful Business Practice Regulations; but these activities have not been monitored as there is no direct inspection process.
- 1.4 RIPA compliant authorisations of covert surveillance enable the Council to demonstrate that a covert activity is compliant with the Human Rights Act (HRA). However this year, the ability of Local Authorities to self-authorise covert activities has been removed, as an internal authorisation must now be confirmed by a Justice of the Peace. Also a RIPA authorisation is now only available for the investigation of serious crime (apart from investigating the sale of alcohol or tobacco to underage children and the acquisition of communications data) rather than for any offence and now excludes covert activity in respect of 'disorder', whereas previously the Anti-Social Behaviour Unit were able to deploy a covert intervention.
- 1.5 These changes to RIPA do not take away the ability to undertake covert activities, but remove the ability of Local Authorities to obtain a RIPA authorisation to justify any covert activity. The Council is still empowered to undertake covert activities, providing it does not contravene the HRA.
- 1.6 As the RIPA authorisation process is intended to demonstrate compliance with the HRA, it is therefore proposed that in order for covert activities to be available for investigations, that the Council uses a RIPA based authorisation process for all proposed covert investigations.
- 1.7 This would be through adopting a Covert Activities and Surveillance Policy that requires all covert activities to be considered in line with the RIPA authorisation process, so that the standards of the regulated activities would also be applied to all other non-regulated covert activities.
- 1.8 The benefit of this approach is to provide a structure that enables staff to have available covert activity as a tool, where it is appropriate for an investigation and for managers to be confident that they can deploy this tool.
- 1.9 Members are also required to annually consider whether RIPA authorisations to undertake covert activity are compliant with the Policy. Adopting the proposed Policy and through quarterly updates to the lead Member and an annual report, will enable Committee to monitor not only RIPA authorisations, but also the use of all covert activities.

2.0 Inspection Reports:

- 2.1 Until 31 October 2012 all covert surveillance deployed to investigate a criminal offence was authorised under procedures arising from the Regulation of Investigatory Powers Act (RIPA) and the Council earlier this year had two inspections from two separate bodies that monitor compliance with the two different covert activities that Local Authorities can authorise under RIPA.
- 2.2 On 30 May 2012 an Inspector from the Office of the Surveillance Commissioner (OSC) visited the Council and in the subsequent report concerning directed surveillance activities, stated that “good standards are being maintained” and no recommendations for improvement were made.
- 2.3 On 31 July 2012 an inspector from the Interception of Communications Commissioner (IOCCO) visited the Council for the first time. No previous inspection visit had been made due to the Council’s low use of the power to access communications data.
The summary was: “Overall Plymouth City Council emerged reasonably well from this their first inspection. The Council has a satisfactory level of compliance with the Act and Code of Practice. The Inspector was satisfied that the Council is acquiring communications data for the correct statutory purpose and importantly the Inspector found no evidence that the Council’s powers under Part I Chapter II of RIPA had been used to investigate trivial offences. However there is some room to improve the systems and processes in place for acquiring communications data.”
Recommendations from the Inspector are being implemented by staff.

3.0 Requirements for the Council:

- 3.1 The RIPA Code of Practice requires that the Senior Responsible Officer (SRO) reports annually to Council in respect of RIPA authorisations and the surveillance policy so that Councillors can determine whether the covert surveillance being undertaken is consistent with policy. This role has been undertaken by the Audit Committee and the Deputy Leader will receive quarterly updates.

4.0 Covert Activities and Surveillance Policy

- 4.1 The current surveillance policy comprises the explanations and procedures which are on the Council’s web site at: <http://www.plymouth.gov.uk/homepage/councilanddemocracy/information/investigatorypowersact2000.htm> these have been sufficient until now and have been accepted by Inspectors.
- 4.2 However, with the change to RIPA there is now a lack of clarity for staff as to when and how they can undertake covert activities. Thus a new Policy is presented which seeks to provide standard practices for all types of covert activities and its intention is to enable staff to be able to make use of covert activities when to do so would be lawful, necessary and proportionate in the circumstances.
- 4.3 The proposed policy requires that covert activities are considered in the same way that we have been successfully done so up to now and where the new Magistrate authorisation process is required, that is to be implemented.

The effect of this Policy should be to demonstrate that the Council will be compliant with legislation when undertaking any covert activity and thus enable the product of covert activity to be usable as evidence.

5.0 Staff Development and funding implications:

- 5.1 training of staff who could make use of covert activities, so that they meet the regulatory standards
- 5.2 specific training for senior managers as to requirements to be considered before authorising a covert activity or surveillance
- 5.3 an accredited officer for obtaining communications data (Single Point of Contact) or funding of an external provider (National Anti Fraud Network)
- 5.4 maintenance of surveillance equipment
- 5.5 developing the Councils web site information for staff and the public
- 5.6 documentation and the authorisation process to be fit for purpose
- 5.7 achieving annual reporting and biannual inspection requirements
- 5.8 maintenance and development of the current ICT application for logging covert activities, to enable the tracking and reporting on all authorisations

6.0 Examples of RIPA in operation:

- 6.1 **Fraud Investigation**
Sometimes facts about a claim for benefit payments are called into question and to assist the gathering of evidence about a person's relationships or activities, the Investigating Officer may need to covertly observe a person's contacts and work activities.
- 6.2 **Public Protection**
Investigating whether goods or services are being obtained or sold within the relevant legislation, may involve obtaining details about traders and their activities, which they have not made public.
- 6.3 **Anti-Social Behaviour Unit**
In order to obtain evidence of any person engaging in activities that disrupt other individuals, when witnesses are reluctant to come forward, may require covert filming of the anti-social behaviour, in order to support the implementation of controls.
- 6.4 **Cooperation with law enforcement agencies**
A law enforcement agency such as the Police may request use of Council facilities in order to investigate or prevent crime.
The City Centre CCTV cameras could be used to observe a particular individual and if a properly authorised application is made to the control room manager then covert tracking of the person may be undertaken by the camera operator. Normally a camera operator does not follow any individual without obvious justification.

Appendix I

Regulation of Investigatory Powers Act (RIPA) authorised covert activities to support departmental case work 2010 to 2012:

Members are reminded that contrary to popular statements, RIPA is not anti-terror legislation; but was enacted to provide an accredited process to follow by any crime investigating agency (including the Council) when there was likely to be an interference with a person's 'right to privacy' under Human Rights Act Article 8 (HRA).

An authorisation made in accordance with RIPA is a statutory defence against an allegation that the Council has contravened the HRA.

The departments, who have made use of RIPA, are the Anti-Social Behaviour Unit, the Housing Benefit Fraud Investigations Team and the Public Protection Service.

In order for these departments to undertake Council investigations to enforce legislation, they have used an authorised activity to confirm or identify who has been involved in a crime, what has taken place and when events have taken place.

The types of use are offences in connection with fraud investigations, dealings in counterfeit goods, traders who prey on vulnerable people or sell banned goods to children and identifying those whose behaviour causes distress to others.

Authorisations under RIPA since 2010						
Team	Authorised Date	Cancelled Date	Number of Working days	Type	Purpose	Outcome
Benefits Fraud	14/01/2010	05/03/2010	36	Directed Surveillance	To link a suspected cohabitee with the claimants address	Prosecution successful
Anti-Social Behaviour Unit	15/06/2010	23/06/2010	11	Directed Surveillance	Use of camera to view behaviour of individuals in street	No incidents captured Camera seen and operation aborted
Trading Standards	22/06/2010	29/06/2010	5	Communications data	Consumer Protection from Unfair Trading Regs	Subscriber details fail to identify alleged offender.

Team	Authorised Date	Cancelled Date	Number of Working days	Type	Purpose	Outcome
Benefits Fraud	22/09/2010	11/10/2010	13	Directed Surveillance	To gain sufficient evidence to link a suspected cohabitee with the claimants address	Both interviewed under caution but due to the circumstances of this particular case it was decided not to proceed with a prosecution
Trading Standards	15/10/2010	22/10/2010	5	Communications data	Consumer Protection - Unfair Trading Regulations	Unable to positively ID offender
Trading Standards	02/11/2010	17/11/2010	11	Communications data	Consumer Protection - Unfair Trading Regulations	Confirming registered address was not possible
Environmental Health	23/08/2011	24/08/2011	1	Communications data	Food Hygiene Regulations	Trader interviewed then untraceable for service of documents – case open
Benefits Fraud	22/11/2010	03/03/2011	70	Directed Surveillance	To ascertain whether a cohabitee was at a claimants address	Interview Under Caution. This is a joint case with DWP decision pending on sanction
Benefits Fraud	06/12/2011	23/12/2011	13	Directed Surveillance	To see whether the vehicle of a potential cohabitee was parked near a claimants address	No sighting of the vehicle at the claimants property

Team	Authorised Date	Cancelled Date	Number of Working days	Type	Purpose	Outcome
Benefits Fraud	24/01/2012	14/02/2012	15	Directed Surveillance	To ascertain whether a cohabitee was at a claimants address	Cohabitee regularly left the property for work. This a joint case with DWP and a decision is pending on prosecution
Public Protection Service	04/04/2012	06/04/2012	2	Directed Surveillance	To identify if illicit goods being sold	Evidence obtained for prosecution
Public Protection Service	24/04/2012	11/05/2012	13	Directed Surveillance	To identify if illicit goods being sold	Not able to find the person
Public Protection Service	25/04/2012	11/05/2012	12	Directed Surveillance	To identify if illicit goods being sold	Not able to find the person
Trading Standards	07/09/2012	09/10/2012	23	Communications data	To identify apparent contravention of Copyright, Designs and Patents Act 1988	Trader interviewed, the data was used to link trader to adverts on Facebook
Public Protection Service	19/09/2012	19/10/2012	30	Directed Surveillance	To identify the storage of counterfeit goods	Observation not conclusive and case remains open

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COVERT ACTIVITIES AND SURVEILLANCE POLICY

Information Management



1. INTRODUCTION:

- 1.1. The Council has statutory duties of investigation and of proper operation. In order to meet its responsibilities, officers will sometimes consider obtaining information without explicitly making clear that an assessment is taking place. Any activity by Council staff or contractors that is designed to obtain information relevant to criminal or civil concerns about a citizen, service user, or employee without the person's knowledge, is a covert activity. On occasions, so as to assist in concluding an enquiry, formal surveillance of a location or a person may also be considered.
- 1.2. However the Human Rights Act 1998 (HRA) Article 8; provides that everyone has the right to respect for their private and family life, their home and correspondence and this is the key consideration when officers consider obtaining information using a covert activity or surveillance. This right is however subject to an important qualification as Paragraph 2 of Article 8 provides that:
"There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic wellbeing of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others."
- 1.3. In order to provide for covert activities and surveillance to be authorised and conducted compatibly with Article 8 the Regulation of Investigatory Powers Act 2000 (RIPA) and associated Codes of Practice provide a statutory framework, but do not cover every circumstance when it may be appropriate to support a Council function through undertaking a covert activity or surveillance.
- 1.4. The purpose of this Policy is to direct officers and contractors as to the requirements that must be in place if any covert activity or surveillance is considered to be necessary on behalf of the Council. The product of covert activities undertaken in respect of an individual is described as 'private information'.

2. ACTIVITIES NOT INCLUDED IN THIS POLICY:

- 2.1. An authorisation in accordance with this Policy is not required if the Council has a specific legal basis for conducting covert activities or surveillance, nor does this Policy apply where the proposed action is not likely to result in the obtaining of private information.
Such as when:
 - 2.1.1. Agreement has been sought and obtained from all those to be monitored
 - 2.1.2. Use of properly signed CCTV or ANPR systems
 - 2.1.3. Recording of excessive noise, or other activities that a person is displaying to the public
 - 2.1.4. General observations obtained in the course of employees undertaking their public work role
 - 2.1.5. The operational use of any statutory powers of entry, or seizure, on behalf of the Council which are available to an employee in a certain job role
 - 2.1.6. Test purchases when there is no intention to record a specific conversation or establish a relationship with the suspected offender
 - 2.1.7. Reviewing recorded information
 - 2.1.8. Obtaining covertly data, objects, artefacts, fauna, or flora, which is not private information.

3. COVERT ACTIVITY OR SURVEILLANCE COVERED BY THIS POLICY:

3.1. There are seven categories of covert activity that the Council can consider deploying to support its functions and each has a process that must be followed in order to make use of the product from that covert activity.

These are:

- 3.1.1. Serious crime investigation
- 3.1.2. Investigating the sale of tobacco, or alcohol to underage children
- 3.1.3. Acquisition of communications data
- 3.1.4. Monitoring of the use of Council communications equipment / email system
- 3.1.5. Undertaking covert activities as part of a Council function or service delivery
- 3.1.6. Monitoring employees' activities
- 3.1.7. Immediate response to a situation by an employee

4. REQUIREMENTS:

4.1. If it is considered that in order to carry out an assessment, investigation or enforcement responsibility, that there is a need to acquire private information through using covert activities, then the obligations of this Policy must be followed by employees and contractors.

4.2. Undertaking any covert activities or acquiring any personal data without informing the person under observation, are only appropriate when it is in accordance with the powers of the Council, necessary and a proportionate response in the circumstances.

4.3. This Policy provides for processes to be implemented and followed; so as to ensure that the Council has regard to the HRA and to enable the product of covert activities to be used as evidence to support the implementation of Council responsibilities.

5. RESPONSIBILITIES:

5.1. Chief Officers are responsible for ensuring the implementation of relevant processes for authorising and recording covert methods of obtaining private information.

5.2. Council employees and contractors must complete the relevant authorisation or reporting process required by this Policy; so as to demonstrate that using covert means has been in accordance with statutory controls on obtaining private information.

6. PROCESS REQUIRED FOR EACH TYPE OF COVERT ACTIVITY:

6.1. Serious crime investigation:

This is in respect of a criminal offence which is sought to be prevented or detected, which is punishable whether on summary conviction or on indictment, by a maximum term of at least 6 months of imprisonment. If the deployment of a covert activity is being considered then the RIPA process must be followed. This includes following the relevant Code of Practice and obtaining confirmation for the proposed covert activity from a Magistrate; before any covert activity or surveillance can proceed.

6.2. Investigating the sale of tobacco, or alcohol to underage children:

This is in respect of an offence under sections 146, 147 or 147A of the Licensing Act 2003 or section 7 of the Children and Young Persons Act 1933. If the deployment of a covert activity is being considered then the RIPA process; including following the relevant Code of Practice and obtaining confirmation of any proposed covert activity from a Magistrate, before any covert activity can proceed.

6.3. Acquisition of Communications Data:

This must be in accordance with Chapter II of Part I of the Regulation of Investigatory Powers Act 2000 (RIPA) and the relevant Code of Practice must be followed by employees and contractors.

RIPA Section 21(4) defines three categories of communications data, however Local Authorities are not authorised to acquire “traffic data” i.e. information that identifies any person, equipment or location to or from which a communication is or may be transmitted. Nor does the power to acquire communications data extend to obtaining the content of the communication.

6.4. Monitoring usage of the Council’s electronic communications systems:

This is required to be in accordance with the Lawful Business Practice Regulations and can only be undertaken after an internal authorisation process, (which is the RIPA process excluding authorisation by a Magistrate) that includes an impact assessment undertaken in line with guidance from the Information Commissioner on the implementation of the DPA.

6.5. Undertaking covert activities as part of a Council function or service delivery:

Should an officer consider that undertaking a covert activity or surveillance is necessary in order to progress an assessment or investigation as part of their work role and the activity does not fall under any of the other types of covert activity listed in this policy; then the internal assessment process must be followed, (which is the RIPA process excluding authorisation by a Magistrate).

6.6. Monitoring employees’ activities:

The observation and monitoring of employees without their knowledge or consent must only be undertaken after an internal authorisation process, (which is the RIPA process excluding authorisation by a Magistrate) that includes an impact assessment, undertaken in line with guidance from the Information Commissioner on the implementation of the DPA.

6.7. Immediate response to a situation by an employee:

If because of an employee’s work role, a person or situation of interest to the Council is suddenly observed, but there is insufficient time to seek a formal authorisation to undertake a covert activity or surveillance in response to immediate events.

An employee can determine that it is appropriate in the light of any known risks to their safety to immediately undertake a covert activity in order to gain private information which seems likely to support the functions of the Council. However the following must then be completed:

- 6.7.1. Only undertake necessary covert activities or surveillance
- 6.7.2. Record the events as soon as practicable within the case file
- 6.7.3. A manager is to review the situation within one working day
- 6.7.4. The case plan to be updated to identify when and how the person who has been observed is to be told of the information observed or collected
- 6.7.5. A manager must consider whether authorisation should be considered for any additional covert activity or surveillance.

7. MONITORING AND REPORTING ON THE EXTENT OF COVERT ACTIVITIES:

- 7.1. Monitoring of the use of covert activities and surveillance is through a report to Councillors by the Senior Responsible Officer (SRO), which is a required role to oversee compliance with RIPA.
- 7.2. The SRO is the Director for Corporate Services, who must advise the lead Councillor quarterly and report annually to Council on the use of covert activities and surveillance.
- 7.3. Reports from the SRO are to include analysis of the covert activities undertaken by service teams and the annual returns required by the RIPA oversight Commissioners; so as to enable Councillors to approve activities as being consistent with this Policy.
- 7.4. In order to support the SRO, a working group is to be established to:
 - 7.4.1. Develop the processes required by this policy
 - 7.4.2. Promote a consistent approach to all covert activities across all service teams
 - 7.4.3. Implement internal monitoring of covert activities undertaken within the Council
 - 7.4.4. Represent the Council to regulators or inspectors.

8. APPROVAL

Audit Committee 13th December 2012

APPENDIX – GLOSSARY AND REFERENCE

Term	Meaning
2000 Act RIPA	Regulation of Investigatory Powers Act 2000. http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/
ANPR	Automatic Number Plate Recognition
Authorisation	An application which has received the approval of an authorising officer
Authorising officer	A person within a public authority who is entitled to grant authorisations. List available in Document Library
CCTV	Closed Circuit Television Recording
Code of Practice	Codes of Practice issued under RIPA section 71. http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-codes-of-practice/
Councillors Members	They should not be involved in making decisions on specific authorisations. Section 3.30 of CoP for covert surveillance
Covert	Surveillance is covert if, and only if, it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place. As defined in section 26(9)(a) of the 2000 Act
Lawful Business Practice Regulations	The Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000 provide that it is lawful to intercept a communication with the express consent of the system controller in a number of circumstances. It is lawful for a public authority to monitor staff emails without their consent in order to establish the existence of facts relevant to the business or activities of the organisation. The system controller must make all reasonable efforts to inform staff that their communications may be intercepted. It is permissible to monitor (but not record) communications without individuals' consent to determine whether or not the communications in question relate to the business or activities of the organisation.
Local Authority use of RIPA	Updated from 01/11/2012 http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/local-authority-ripa-guidance/
Private information	Any information relating to a person in relation to which that person has or may have a reasonable expectation of privacy. This includes information relating to a person's personal or family affairs. Private information includes information about any person, not just the subject(s) of an investigation. May include personal data, such as names, telephone numbers and address details.
Surveillance	includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained. See section 48(2) of the 2000 Act.

Audit Committee Work Plan 2012/13

Item	Cabinet Member / Lead Officer	2012							2013					
		J	J	A	S	O	N	D	J	F	M	A	M	J
Internal Audit Annual Report (including six month Internal Audit Progress Report - Dec)	Cllrs Lowry and Peter Smith / DfCS	21						13						√
Statement of Accounts 2011/12	Cllrs Lowry and Peter Smith / DfCS	21			27									√
Operational Risk Management - Update Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	21						13						√
Risk Management Annual Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	21												√
Annual Governance Statement	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	21												√
RIPA Surveillance Report	Richard Woodfield							13						

Audit Committee Work Plan 2012/13

		2012							2013					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Strategic Risk Register Monitoring Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)				27						14			
Internal Audit Annual Plan	Cllrs Lowry and Peter Smith / DfCS (Sue Watts)										14			
Interim Report and Update to Financial Audit Plan 2010/2011	External Auditor Grant Thornton				27									
Annual Report to Those Charged with Governance (ISA260 Report) 2011/2012	External Auditor Grant Thornton				27									
Financial Resilience Review	External Auditor Grant Thornton							13						
Project Management Review	External Auditor Grant Thornton				27									

Audit Committee Work Plan 2012/13

		2012							2013					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Annual Audit Letter 2011/2012	External Auditor Grant Thornton							13						
Certification Work Report 2012/2013	External Auditor Grant Thornton										14			
Audit Plan 2012/2013	External Auditor Grant Thornton										14			
Audit Fee Letter 2012/2013	External Auditor Grant Thornton										14			
Actions from previous meeting (21.06.12) –	Lead Officer/DSO													
<ul style="list-style-type: none"> • Audit Commission consultation; • Recruitment of Independent Member; • Report on red risks – why they have moved to red • Training for members 					27									

Audit Committee Work Plan 2012/13

		2012							2013					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Review of rolling workplan	Lead Officer/DSO	21			27			13			14			√