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5 March 2013

AUDIT COMMITTEE

Thursday 14 March 2013
2pm
Council House (Next to the Civic Centre), Plymouth

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

Independent Members:
Mrs. Badger, Mr. Clarke and Mr. Stewart.

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 - 8)

To confirm the minutes of the meeting held on 13 December 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. APPOINTMENT OF INDEPENDENT MEMBERS

The Committee will confirm the appointment of its Independent Members.

6. STRATEGIC RISK AND OPPORTUINITY REGISTER MONITORING REPORT (Pages 9 - 24)

The Director for Corporate Services will submit a report on the Strategic Risk and Opportunity Register.

7. INTERNAL AUDIT PLAN 2013-14 (Pages 25 - 38)

The Director for Corporate Services will submit the Internal Audit Plan 2013-14.

8. FOLLOW UP OF AUDIT WORK (Pages 39 - 44)

The Director for Corporate Services will submit the Follow Up of Audit Work.

9. PUBLIC SECTOR INTERNAL AUDIT STANDARDS UPDATE (Pages 45 - 50)

The Director for Corporate Services will submit the Public Sector Internal Audit Standards Update.

10. INTERNAL AUDIT CHARTER (Pages 51 - 56)

The Director for Corporate Services will submit the Internal Audit Charter.

11. 2013/14 BUDGET (REVENUE AND CAPITAL) ALLOCATED TO CORPORATE PRIORITIES (Pages 57 - 112)

The Committee to note the report that went to Cabinet on 12 February 2013 and Full Council on 25 February 2013.

12. TREASURY MANAGEMENT PRACTICES – PRINCIPLES AND SCHEDULES 2013-14 (Pages 113 - 182)

The Director for Corporate Services will submit a report on Treasury Management Practices.

13. CERTIFICATION WORK REPORT 2011-12 (Pages 183 - 194)

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

14. AUDIT PLAN 2012/13 (Pages 195 - 208)

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

15. ROLLING WORK PRORGAMME (Pages 209 - 212)

The Committee to note the rolling work programme.

16. AX PAYROLL PROJECT UPDATE (Pages 213 - 222)

The Committee to receive an update on the AX Payroll Project.

17. OPERATIONAL RISK UPDATES (Pages 223 - 224)

The Committee to receive an update on the Plymouth and West Devon Records Office.

18. EXEMPT BUSINESS

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

PART II (PRIVATE MEETING)

AGENDA

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

19. AX PAYROLL PROJECT UPDATE (Pages 225 - 226)

The Committee to receive an update on the AX Payroll Project.

20. OPERATIONAL RISK UPDATES (Pages 227 - 230)

The Committee to receive an update on the Plymouth and West Devon Records Office and Community Infrastructure Levy (CIL).

Audit Committee

Thursday 13 December 2012

PRESENT:

Councillor Wheeler, in the Chair.
Councillor Dr. Mahony, Vice Chair.
Councillor Stark.

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

Apologies for absence: Councillors Murphy and Stevens.

Also in attendance: Rob Hutchins and Brenda Davis – Devon Audit Partnership, Barrie Morris and Geraldine Daly – Grant Thornton; Mike Hocking – Head of Corporate Risk and Insurance, Julie Hosking – Risk and Insurance Officer, Andrew Liddicott – Senior Accountant, Louisa Mann – Archives and Information Manager, Les Allen – Strategic Capital Portfolio Manager, David Northey – Lead Officer and Amelia Boulter – Democratic Support Officer.

The meeting started at 2.00 pm and finished at 4.30 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.

36. DECLARATIONS OF INTEREST

There were no declarations of interest.

37. MINUTES

The Committee had a discussion on the level of robustness of the minutes. It was reported that the Committee were downgraded in the past on minutes produced.

Agreed that –

1. the minutes of the meeting held on the 27 September 2012 were approved as a correct record.

2. future minutes should be an accurate reflection but not verbatim.

3. in future members receive a draft set of the minutes for comment prior to the next meeting.

38. CHAIR'S URGENT BUSINESS

There were no items of chair's urgent business.

39. **RECRUITMENT OF INDEPENDENT MEMBER**

It was reported that 5 applicants had raised an interest in the vacant independent member post. Interviews would take place in the New Year and new person to be appointed and in attendance at the March 2013 meeting.

40. **RIPA SURVEILLANCE REPORT**

The Corporate Information Manager provided the Committee with an overview of the RIPA Surveillance report. The Committee were informed that a review was undertaken on surveillance against the policy and to note the positive inspection reports on how officers had to behave when dealing with an investigation.

In response to questions raised, it was reported that -

a. it was hard to determine a success criteria as this would take away the suspicion from the person under investigation;

b. the annual report was to purely give the Committee an illustration on what investigations officers were involved in and was not an analytical report.

Agreed that the Committee -

1. note that the recent Inspections demonstrate that staff have appropriately implemented powers available under RIPA.

2. 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.

3. approve the Covert Activities and Surveillance Policy.

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

41. **INTERNAL AUDIT PROGRESS REPORT**

Devon Audit Partnership provided the Committee with an update on the Internal Audit Progress Report. The Committee were informed that the report included work undertaken up until the end of September. It was also reported that -

a. good progress made against the Audit Plan and confident on the delivery of the plan;

b. Appendix A sets out the work undertaken over the past year. Management had taken on board the recommendations made and were working to address areas where action was required to any reduce risk.

In response to questions raised, it was reported that -

c. in relation to the childcare issues reported, it was felt this area of work had moved on and the officer involved in the work was looking at other ways to resolve issues and did not want to misinform the Audit Committee. This resulted in asking the officer to make direct contact outside of the meeting to give an update;

d. Grant Thornton commended Internal Audit on the level of reporting but raised a slight issue in Section 6. A suggestion was put forward on whether it would be better to confirm that work was on-going to close off any issues;

e. there were challenges for ICT and PCC had been asked to undertake further work. The Committee to receive a report when work was completed. It was further reported that ICT were undergoing a restructure to divide the service into two strands, strategy and client and operations and happy to share the information as they move the service forward;

f. a tracker report came to the Committee in September and reporting on full report today. Improvements required were tracked and were included in the follow up reports in next year's Audit Plan. Anticipate reporting at the March meeting the key financial systems with the Annual Plan.

Agreed that –

1. the report is noted.

2. if any Committee Member makes a request for further information at a meeting a response to be reported back to the whole committee.

42. **OPERATIONAL RISK MANAGEMENT - UPDATE REPORT**

The Head of Corporate Risk and Insurance provided the Committee with an update. The Committee were informed that –

a. the report covers the last 6 months and operational risks had increased from 99 to 163;

b. a new red risk to report on Plymouth and West Devon Office which was a long standing issue from the National Archive on the storage of documents;

c. the Community Infrastructure Levy was another new red risk to report and was hoping to share a briefing paper with the Committee today;

d. the Devon Audit Partnership raised a fundamental weakness on our information management arrangements and as a result a lead officer group was formed to look at how we manage data and this group had been operating for the last 12 months;

e. that PCC were recently fined £60k by the Commissioners Officer for breach of information. A lot of work had been undertaken to mitigate that sort of breach.

The Archives and Information Manager and the Strategic Capital Programme Manager gave the Committee an overview of the new red risk relating to the Plymouth and West Devon Records Office. It was reported that -

f. this had been an amber risk for some time;

g. they were having regular communications and working closely with National Archive. This was a difficult standard to meet and hoping to give the Committee an update today on how things were progressing but had to reschedule a meeting due to the floods;

h. in August a feasibility study was undertaken on a site at Royal William Yard which has come back with costings of £28m and we have a budget of £2m;

i. a group of architects had been commissioned to look at 8 different options for the Records Office and work should have commenced 17 months ago;

j. by January we should have a preferred option with costings to address the storage of records. Discussions were taking place with the Lottery Fund to obtain further funding.

In response to questions raised, it was reported that -

k. the National Archive stipulated that a solution had to be found in 2013 for the storage of records. If a solution was not found Plymouth would lose half of the records;

l. other alternatives such as digitalising the information had been investigated but the costs to undertake this was in excess of costing more than moving the records to Royal William Yard;

m. the South West TV archive collection has been at risk for the last few years;

n. was unsure whether PCC would have to pay for records to be transported to Cheshire.

<u>Agreed</u> that –

1. the Committee note and endorse the current position with regard to operational risk management.

2. the Director for Place is requested to attend the next Audit Committee meeting to address the serious concerns raised over the potential loss of records and to report on preferred options for storage.

43. **RISK MANAGEMENT - REVISED CORPORATE STRATEGY**

The Head of Corporate Risk and Insurance provided the Committee with an update. The Committee were informed that –

a. following the annual review of the corporate risk management strategy resulted in the strategy to be renamed the Risk and Opportunity Management Strategy;

b. a revised Risk Register template was piloted in Finance, Efficiencies, Technology and Assets alongside the strategy and was well received by officers and enabled them to identify any opportunity that may arise from the successful management of a risk.

Agreed that the Committee note and endorse the Risk and Opportunity Management Strategy 2012 – 14.

44. **TREASURY MANAGEMENT AND STRATEGY 2012/13 - MID-YEAR REVIEW**

The Senior Accountant provided the Committee with an update on the Treasury Management and Strategy undertaken for the first half of the year compared with the approved strategy for 2012-13.

In response to questions raised it was reported that –

a) with regard to receiving money back from the Icelandic Banks, PCC should receive approximately 95 per cent of the Council's investments made with Heritable Bank in the next two years. The full amount should be received from Landsbanki and Glitnir over time and Bevan Brittan were currently working on behalf of the Council and other LA claimants to recover the remaining sums due;

b) the cost of repaying any debt was currently unaffordable as there were premiums to pay on early repayment. However officers keep this under review so opportunities could be taken at appropriate times;

c) although the fines were large for both HSBC and Standard Chartered they were still very strong and profitable banks. The main reason for PCC not having funds invested with them was that they were not looking for funding in sizes that would be viable for the Council.

Agreed that the report be noted and presented to full Council in accordance with TMP6.

45. **FINANCIAL RESILIENCE REVIEW**

Grant Thornton provided the Committee with an update. The Committee were informed that this was a detailed report which looked at 4 areas as directed by the Audit Commission.

In response to questions raised, it was reported that -

a. there were a couple of amber indicators to report on, liquidity and workforce. Amber was given for liquidity because PCC rated low within the benchmarking group. In relation to the workforce indicator it was reported that 8.7 days sickness per employee was too high and PCC were undertaking a review on what the target should be;

b. concerns were raised on whether best practice was being used on PCC borrowing and whether to spend money we have or to borrow. It was reported that it was about having a good understanding of benchmarking and following the strategy and being aware of the risks;

c. a huge amount of work was being undertaken to manage sickness and ensuring PCC had a consistent approach to reduce sickness levels.

Agreed that the Committee noted the report.

46. **ANNUAL AUDIT LETTER 2011/12**

Grant Thornton, provided the Committee with a summary of the work undertaken over the last year and the fee for work undertaken.

Agreed that the Committee noted the report.

47. **VALUE FOR MONEY REPORT**

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

a. the report contained a detailed review of the strategic priorities set by the PCC in 2011-12;

b. 4 key priorities were identified and officers needed to have an understanding on the action they would undertake to address any risks;

c. the framework was in place and the top level priorities can now be reported to Full Council and Cabinet.

In response to questions raised, it was reported that -

d. there had been a change in how staff work and they now have a greater understanding of the service which reflected in the good work undertaken in closing the accounts;

e. management gave a response to the report and we have taken on board the responses and happy to circulate to the Committee as a separate document.

Agreed that –

1. the Committee noted the report.

2. a copy of the management response to be circulated to the Committee.

48. **AUDIT PLAN 2012/13 PROGRESS REPORT**

Grant Thornton, provided the Committee with an update on the Audit Plan 2012/13 progress report and the Committee were informed that a summary of findings would come before the Committee in June.

Agreed that the Committee noted the report.

49. **ROLLING WORK PROGRAMME**

The Committee noted the rolling work programme.

50. **FUTURE MEETING TIMES**

Agreed that all future Audit Committee meetings will commence at 2 pm.

51. **EXEMPT BUSINESS**

There were no items of exempt business.

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PLYMOUTH CITY COUNCIL

Subject:	Strategic Risk and Opportunity Register – Monitoring Report
Committee:	Audit Committee
Date:	14 March 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	Mike Hocking, Head of Corporate Risk and Insurance
Contact details	Tel: 01752 304967 email: mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Purpose of the report:

This report provides a summary of the latest formal monitoring exercise completed for the Strategic Risk and Opportunity Register for the period September 2012 to February 2013.

The total number of strategic risks reported has increased from 36 to 37 with the addition of 2 new risks and the deletion of 1. The number of red risks has increased from 2 to 4.

Appendix A to the report provides a traffic light summary showing the current status of each risk, the movement in risk scores compared with previous monitoring periods and explanatory commentary on the key issues for each risk.

Corporate Plan 2012-2015:

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

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 and Risk Management:

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

Equality and Diversity

Has an Equality Impact Assessment been undertaken? Not required

Recommendations and Reasons for recommended action:

The Audit Committee is recommended to:

- Note and endorse the current position with regard to the Strategic Risk and Opportunity Register.

Alternative options considered and rejected:

Effective risk management processes are an essential element of internal control and as such are an important element of good corporate governance. For this reason alternative options are not applicable.

Published work / information:

Plymouth City Council Risk and Opportunity Management Strategy

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off

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<tr><td>Fin</td><td>Djn 1213. 042</td><td>Leg</td><td>DJS</td><td>Mon Off</td><td></td><td>HR</td><td></td><td>Assets</td><td></td><td>IT</td><td></td><td>Strat Proc</td><td></td></tr>
<tr><td colspan="14">Originating SMT Member</td></tr>
<tr><td colspan="14">Has the Cabinet Member(s) agreed the contents of the report? Yes</td></tr>
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1.0 Introduction

1.1 The position with regard to the Strategic Risk and Opportunity Risk Register was last reported to this Committee on 27 September 2012 and this report now provides a summary of the latest monitoring exercise covering the position at 28 February 2013.

2.0 Strategic Risk and Opportunity Register – Monitoring Summary

2.1 In accordance with the strategy requirement for twice-yearly monitoring, the latest monitoring exercise was completed in February 2013 with the results discussed and agreed by CMT and Cabinet Planning on 26 February 2013 and 5 March 2013 respectively.

2.2 Attached to this report at Appendix A is a summary showing the current status of each risk and any movement in risk scores compared with previous monitoring periods together with explanatory commentary on the key issues for each risk.

3.0 Headline Issues

3.1 The number of strategic risks has increased from 36 to 37 with the addition of 2 new risks and the deletion of 1. The number of red risks has increased from 2 to 4.

3.2 New Risks

Red Risk 92 – Deterioration of the condition of the City's Highway Network (carriageway and footways) – Scored 20 – (Row No. 4)

- The condition of the highway network has deteriorated significantly following some of the coldest and wettest winters on record. The volume of defects being picked up on the network and the need to make defects safe within 24 hours has put extreme pressure on Transport's current revenue budgets. Some permanent repairs are completed but for the most part there is not sufficient budget to carry out permanent repairs. The public see this as inefficient working and a poor use of resources. There is currently a backlog of approximately 42,000 defects on the network awaiting permanent repairs. A three staged approach to tackle the condition of the highway network is being recommended:-

1. Change the way we carry out temporary repairs and move to first time permanent repairs with only minimal temporary repairs being undertaken.
2. Adopt a medium term patching and resurfacing programme to address the roads that have been subject to customer complaint - the Council intends to invest an additional capital investment of £2m per annum over the coming years to help to clear the backlog of defects on the network.
3. Adopt a long term strategy to repair our unclassified network. A report will be taken to Cabinet setting out the options and seeking approval for a preferred strategy in the coming months.

Amber Risk 91 – Failure to keep abreast of and track new and emerging legislation as part of the powers following Localism Act (Regulations) – Scored 12 – (Row No. 22)

- This risk has escalated from the Legal Services Operational Register due to the overarching effects of the Localism Act. Senior Lawyers and Heads of Service are currently made aware of new legislation through a variety of sources but a more structured process needs to be developed. Currently recruiting to vacant post of Contract & Corporate Governance Lawyer to mitigate this risk.

3.3 Deleted Risk

Green Risk 80 – Planning Obligations – implications of new legal framework and current economic circumstances – Scored 8 – (Row No. 38)

- The Community Infrastructure Levy (CIL) Charging Schedule is working and the Planning Obligations and Affordable Housing Supplementary Planning Document was formally adopted by Full Council on 30/08/12.

3.4 The table below shows the movement in the number of red, amber and green risks over the last two monitoring periods:-

Risk Category	No. of Risks Aug 12	No. of Risks Feb 13	Deleted Risks Feb 13	New Risks Feb 13
Red	2	3	0	1
Amber	27	23	0	1
Green	7	11	1	0
TOTAL	36	37	1	2

3.5 The summary at Appendix A gives a more detailed commentary on the key issues affecting each risk as at 28 February 2013.

3.6 The headline issues are:-

3.6.1 Risk Score Unchanged

Red Risk 21 – MTFF Issues – (Row No. 1)

- Revenue and Capital budgets for 2013/14 to be approved at Full Council 25 February 2013. Once signed off, a new MTFF will be written for approval at Cabinet in July 2013. CMT have a monthly strategic finance meeting scheduled where regular challenges and updates to the MTFF occur.

Red Risk 49 – Future of Civic Centre & Council House – (Row No. 2)

- The procurement process is proceeding as planned and the Council is currently in dialogue with four potential developers. It is currently anticipated that a contract award will be made in June 2013. However, as the Council does not have any legal certainty of an acceptable outcome at this stage the risk score remains unchanged.

Amber Risk 46 – Information Governance – (Row No. 4)

- The Information Lead Officers Group (ILOG) is becoming established and considering the use, security and dissemination of the Council's information asset. There has been one monetary penalty from the Information Commissioner and to address this risk each department will monitor compliance through an Information Governance Risk template. Once the use of the template is standardised and particular risk hotspots identified for remedial action, the overall risk assessment of this risk will be reduced.

Amber Risk 84 – Impact of Welfare Reform on Plymouth City Council and our customers (Row No. 7)

- Work to mitigate the effect of the cuts includes two new local schemes due to be implemented in April 2013, advice and support for claimants training and Plan for Jobs and child poverty. Officers Working Group continues to meet and implement work plan.

Amber Risk 88 – Failure to secure Government funding through new process to deliver sufficient Major Transport Schemes – (Row No. 9)

- The number of schemes being submitted for funding has been prioritised down to 5. The Government has allocated some funding but this is unlikely to be enough to contribute to all 5 schemes. A minimum of 10% local contribution by PCC as the scheme promoter will be required through developer contributions either through the Section 106 process, through the Community Infrastructure Levy or through PCC's own Investment Fund. Other external grant opportunities will need to be explored but the requirement for local contributions as part of external grant conditions will remain.

3.6.2 Risk Score Decreased

Amber Risk 52 – Delivery of Capital Programme – Decreased from 16 to 12 (Row No. 16)

- Recent success in receiving grant funds has given the capital programme a more affordable position. Decisions in the 2013/14 budget setting to move funds from reserves and to increase borrowing to allow the council to set up an investment fund also puts the capital programme into a more healthy position.

Amber Risk 28 – Increase in the number of looked after children and cost pressures on independent placements – Decreased from 15 to 12 (Row No. 17)

- Children in care numbers have decreased slightly in the last 3 months due to the impact of the Family Justice Review and reduced court timescales. The complexity of need for children in the care system means that there is a continuing pressure on the independent sector placements budget, however, we are beginning to see increased sufficiency in our in-house foster care service that should have a positive impact in terms of less reliance on independent foster care.

Green Risk 82 – Potential legislative non-compliance of PCC buildings due to fragmented ownership and responsibility – Decreased from 15 to 10 (Row No. 27)

- Consolidation of budgets and responsibilities is now complete under the Corporate Landlord initiative which went live on 1 April 2012.

Green Risk 76 – Gypsy Sites – not being able to progress development – Decreased from 12 to 9 (Row No. 31)

- Some funding secured and planning application has been made for transit site.

Green Risk 77 – Carbon Reduction Commitment (CRC) Energy Efficiency Scheme – Decreased from 12 to 8 (Row No. 33)

- A report goes to Cabinet next month for £13m of carbon reduction schemes, including replacing the City's street lighting with LED, installing solar panels on roofs and replacing ageing boilers.

Green Risk 87 – Failure to maximise opportunities from the Council's property assets – Decreased from 12 to 6 – (Row No. 36)

- Funding of £25k received from the LGA Capital and Assets Pathfinder Programme has been used to employ Chartered Surveyors who have been instructed to work on the Strategic Property Review. The Council's estate is currently 95% let demonstrating a pro-active approach.

3.6.3 Risk Score Increased

Red Risk 89 – Development of HR Transformation Project – Increased from 12 to 20 – (Row No. 3)

- Testing through August and September identified some fundamental flaws in the functionality within the AX environment. This was coupled with delays in supplier deliverables all of which are being managed at senior levels of all organisations (PCC and supplier. One of the secondary suppliers went into administration in January 2013 – replacement suppliers are being sourced by our primary contractor KPMG.

4. Risk and Opportunity

4.1 The revised Risk and Opportunity Management Strategy was reported to this Committee on 13 December 2012. This strategy outlines the objectives and benefits of managing risk whilst exploiting any opportunities arising out of the successful management of risk.

4.2 Lead Officers are now being encouraged by their Risk Champion to use a new risk template which invites them to include details of any opportunity or benefit that exploits and maximises the positive benefits of managing individual risks. It is anticipated that in time, this approach will positively impact on business outcomes as the process becomes fully implemented as a routine business practice.

5. Summary and Conclusion

5.1 The Council's success in dealing with the risks that it faces can have a major impact on the achievement of key promises, objectives and ultimately therefore, the level of service to the community.

5.2 The movement in risk scores and the consequent changes to the Council's overall strategic risk profile outlined in this latest review provides good evidence of the dynamic nature of the Strategic Risk Register and the maturity of the Council's approach to the identification and management of strategic risk.

5.3 The inclusion of risk management considerations is a key feature in the Council's key corporate processes featuring in the Corporate Plan preparation, the Business Planning Framework, Budget Planning and Monitoring and Performance Management.

5.4 Managing Risk is also one of the five core management competencies in the Council's Competency Framework ensuring that the success of managers in managing risk in their area of responsibility is assessed as part of their annual performance appraisal.

5.5 This embedded approach now acts as an effective early warning system for the recording, monitoring and management of risks that threaten the delivery of the Council's strategic objectives and plans.

5.6 The next formal review of the Strategic Register will take place in August 2013.

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER SIXTEEN FEB 2013 - Summary by Risk Rating APPENDIX A

ROW NO	RISK REF	POTENTIAL RISKS IDENTIFIED	RESIDUAL RISK RATING Aug-11			RESIDUAL RISK RATING Feb-12			RESIDUAL RISK RATING Aug-12			CURRENT RESIDUAL RISK RATING Feb-13			CHANGE IN RISK RATING	COMMENTS	LEAD OFFICER	RISK CHAMPION
			*P	*I		*P	*I		*P	*I		*P	*I					
1	21	**Medium Term Financial Forecast** issues - unable to meet spending reduction targets, negative impact on budgets, loss of reputation, negative impact on front line services and a negative opinion from external audit.	5	5	**25**	5	5	**25**	5	5	**25**	5	5	**25**	R	COMMENTS AUG 12: With the election of a new administration and their adjustments to the corporate plan linked to the 100 manifesto pledges, a new MTFS is currently being written and will be presented to the Council in the coming quarter. **COMMENTS FEB 13: 13/14 Revenue and Captial budgets to be approved at full Council 25 February 2013. Once signed off, a new MTFF will be written for approval at Cabinet July 2013. CMT have a monthly strategic finance meeting scheduled where regular challenges and updates to the MTFF occur.**	Malcolm Coe	Angie McSweeney
2	49	Future of **Civic Centre** and Council House following listed status as not currently fit for purpose.	4	5	**20**	4	5	**20**	4	5	**20**	4	5	**20**	R	COMMENTS AUG 12: A formal procurement process has now commenced with Executive Project Board and Project Team in place. If no solution is provided following this process the Council would be forced to carry out necessary works to bring the building into a 'fit for purpose' condition. **COMMENTS FEB 13: The procurement process is proceeding as planned and the Council is currently in dialogue with four potential developers. It is currently anticipated that a contract award will be made in June 2013. However, as the Council does not have any legal certainty of an acceptable outcome at this stage of the procurement process the risk remains unchanged.**	Alwyn Thomas	Carol Rowe
3	89	Development of **HR Transformation Project**				**New**			3	4	**12**	4	5	**20**	R	COMMENTS AUG 12: Project plan includes appropriate testing of systems and processes. Contingency plan in place to cover all eventualities during the implementation phases. Additional budget approved for resources as required. **COMMENTS FEB 13: Testing through August and September identified some fundamental flaws in the functionality within the AX environment. This was coupled with delays in supplier deliverables all of which are being managed at senior levels of all organisations (PCC and supplier). One of the secondary suppliers went into administration in January 2013 – replacement suppliers are being sourced by our primary contractor KPMG.**	Mark Grimley	Helen Cocks
4	92	Deterioration of the condition of the City's **Highway Network** (carriageway and footways)							**New**			5	4	**20**	R	**COMMENTS FEB 13: The condition of the highway network has deteriorated significantly following some of the coldest and wettest winters on record. The volume of defects being picked up on the network and the need to make defects safe within 24 hours has put extreme pressure on Transport's current revenue budgets. Some permanent repairs are completed but for the most part there is not sufficient budget to carry out permanent repairs. The public see this as inefficient working and a poor use of resources. There is currently a backlog of approximately 42,000 defects on the network awaiting permanent repairs. A three staged approach to tackle the condition of the highway network is being recommended:- 1. Change the way we carry out temporary repairs and move to first time permanent repairs with only minimal temporary repairs being undertaken, 2. Adopt a medium term patching and resurfacing programme to address the roads that have been subject to customer complaint and allocate a Capital injection of £2 million per year over the coming years to help to clear the backlog of defects on the network. 3. Adopt a long term strategy to repair our unclassified network.**	Tom White	Carol Rowe

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER SIXTEEN FEB 2013 - Summary by Risk Rating APPENDIX A

ROW NO	RISK REF	POTENTIAL RISKS IDENTIFIED	RESIDUAL RISK RATING Aug-11			RESIDUAL RISK RATING Feb-12			RESIDUAL RISK RATING Aug-12			CURRENT RESIDUAL RISK RATING Feb-13			CHANGE IN RISK RATING	COMMENTS	LEAD OFFICER	RISK CHAMPION
			*P	*I		*P	*I		*P	*I		*P	*I					
5	46	Ensure the Council has robust **Information Governance** processes in place to safeguard information assets and prevent fines for non-compliance being imposed by the Information Commissioner's Office.	4	4	**16**	4	4	**16**	4	4	**16**	4	4	**16**	— A	COMMENTS AUG 12: The Information Lead Officers Group (ILOG) has been in operation since March 2012 and is now developing an Action Plan to coordinate strategic interventions within each directorate in order to minimise the opportunity for sensitive personal or commercial data to be inappropriately disclosed or stolen from the council. Failure to manage Information Governance could result in regulatory penalties from the Information Commissioner or the Courts. Each department will monitor compliance through completing an Information Governance Risk template. No change to scoring as the IG risk templates have not yet been updated or Action Plan outcomes known. **COMMENTS FEB 13: The Information Lead Officers Group (ILOG) is becoming established and considering the use, security and dissemination of the Council's information asset. There has been one monetary penalty from the Information Commissioner, and to address this risk each department will monitor compliance through an Information Governance Risk template. Once the use of the template is standardised, and particular risk hotspots identified for remedial action, the overall risk assessment of this risk will be reduced.**	Richard Woodfield	Dave Saunders
6	83	**Health Inequalities** - not meeting high level partnership target to reduce the gap in life expectancy by at least 10% between the fifth of areas (eight neighbourhoods) with the lowest life expectancy and the population as a whole by 2020	**New**			4	4	**16**	4	4	**16**	4	4	**16**	— A	COMMENTS AUG 12: Plan implemented and being integrated with JSNA work and Health and Wellbeing Board plan and commissioning. **COMMENTS FEB 13: Key findings of JSNA now incorporated in draft Health and Wellbeing Strategy. Tackling Health Inequalities is one priority. Health and Wellbeing Strategy finalised by March. Delivery of priorities will be coordinated through the Joint Commissioning Partnership.**	Peter Aley	Lynn Clark
7	84	Impact of **Welfare Reform** on Plymouth City Council and our customers	**New**			4	4	**16**	4	4	**16**	4	4	**16**	— A	COMMENTS AUG 12: Identified as key priority for the Council and working groups delivering workstreams to anticipate /mitigate effects. **COMMENTS FEB 13: Work to mitigate the effect of the cuts includes: two new local schemes due to be implemented in April 2013, advice and support for claimants training and plans for jobs and child poverty.**	Peter Aley	Lynn Clark
8	33	Ensuring there is adequpate **capital for Education Infrastructure**	4	4	**16**	4	4	**16**	4	4	**16**	4	4	**16**	— A	COMMENTS AUG 12: Cabinet report presented March 2012 securing resources and approval for Waves 3 and 4. Reporting back to Cabinet on Waves 5 & 6 in the Autumn term 2012 to secure further resources for projects. **COMMENTS FEB 13: The Waves 1-4 basic need projects are all in hand and on track. There has been a delay in waves 5-6 whilst we are awaiting to hear about allocations from central government. We anticipate providing a cabinet paper in the spring where proposals will be listed.**	Jayne Gorton	Julie Reed

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ROW NO	RISK REF	POTENTIAL RISKS IDENTIFIED	RESIDUAL RISK RATING Aug-11			RESIDUAL RISK RATING Feb-12			RESIDUAL RISK RATING Aug-12			CURRENT RESIDUAL RISK RATING Feb-13			CHANGE IN RISK RATING	COMMENTS	LEAD OFFICER	RISK CHAMPION
			*P	*I		*P	*I		*P	*I		*P	*I					
9	88	Failure to secure Government funding through new process to deliver sufficient **Major Transport Schemes (MTS)**				New			4	4	**16**	4	4	**16**	A	COMMENTS AUG 12: Outline Business Cases being prepared by April 2013 for 3 schemes - 2 x Eastern Corridor Major Transport Schemes and the Northern Corridor Whole Route Implementation Plan for section north of A38. **COMMENTS FEB 13: Number of schemes being submitted for Major Scheme Funding has been prioritised down to 5 schemes (2 x Eastern Corridor, 2 x Northern Corridor and 1 x City Centre). Government has allocated £40m to HotSW LTB (2015-19). Funding bids across HotSW currently amount to £114m of which £31.7m, based on scheme costs calculated at Q3 2012 prices is required by PCC. While some funding is likely through this source, it is also likely that this new funding process will not be able to contribute to all 5 PCC schemes for completion by 2019. A minimum of 10% local contribution by PCC as the scheme promoter will be required through developer contributions either through the Section 106 process, through the Community Infrastructure Levy or through PCC's own Investment Fund. Other external grant opportunities will need to be explored but the requirement for local contributions as part of external grant conditions will remain.**	Philip Heseltine	Carol Rowe
10	42	Maintain and support **Health & Safety Management** processes to aid the wellbeing of staff and reduce sickness levels.	3	5	**15**	3	5	**15**	3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: HSE audit of waste and recycling completed Feb 2012 concluded good level of HS management. Corporate health and safety policy implemented. **COMMENTS FEB 13: Formal Internal Audit programme implementation underway.**	Mark Grimley	Helen Cocks
11	59	Financial risk associated with investigation and clean up of **contaminated land**	3	5	**15**	3	5	**15**	3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: Contaminated Land Strategy under review. Prioritisation has been undertaken on those sites initially assessed, and a priority list produced. This is under continual review as new information becomes available. **COMMENTS FEB 13: The situation has not changed and the last comments are still relevant to the citywide risk.**	Jayne Donovan / Robin Carton	Carol Rowe
12	67	Working with partners in the prevention of **Violent Extremism.**	3	5	**15**	3	5	**15**	3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: Prevent Plan updated and being delivered with partners, including training and Counter Terrorism Local Profile received and being responded to. **COMMENTS FEB 13: Prevent action plan continues to be implemented and Members briefed on CTLP.**	Peter Aley	Lynn Clark
13	24	Ensuring processes are in place to **protect staff from violent incidents** whilst carrying out their duties.	3	5	**15**	3	5	**15**	3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: A prototype for PVP case management, using CRM, has been produced. This is being reviewed by HSW team in preparation for review by service user group in August. **COMMENTS FEB 13: CRM and protal development is on target to be complete by the end of March 2013, training package under development. Launch will be delayed as key reporting requirements depend on the payroll solution, so will not be available until May 2013.**	Mark Grimley	Helen Cocks

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ROW NO	RISK REF	POTENTIAL RISKS IDENTIFIED	RESIDUAL RISK RATING			RESIDUAL RISK RATING			RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			CHANGE IN RISK RATING	COMMENTS	LEAD OFFICER	RISK CHAMPION
			Aug-11			Feb-12			Aug-12			Feb-13						
			*P	*I		*P	*I		*P	*I		*P	*I					
14	51	**Delivery of sustained and accelerated economic and population growth** in line with the Council's Corporate Plan and vision for the City.	3	5	**15**	3	5	**15**	3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: Unemployment trends have remained stable with a slight drop in the overall rate but stubborn high levels of young unemployed and long-term unemployed. The Council received confirmation that a £2m application for Coastal Communities Fund money had been successful at first stage. The city has applications waiting assessment in both the Regional Growth Fund and Growing Places Fund. Local company KPM has received £1m of Grant for Business Investment for expansion at Ernesettle. Preparations are being made to secure further ERDF funds for the Urban Enterprise Programme. **COMMENTS FEB 13: Unemployment has fallen month on month although there remains a significant problem with high levels of long-term unemployed and within younger age groups. We have launched a major initiative by way of the Plan for Jobs which included 19 projects to create over 2000 jobs; we secured a major piece of inward investment with the Money Group commencing and creating circa 200 jobs; we are hopeful of a positive announcement of receipt of some monies from the CCF within the next week; a City Deal proposal has been submitted which can help the city target economic growth if approved; we have secured monies to progress issues around digital exclusion; the 1000 Club already has over 100 members and has created approx 200 jobs since October; we are putting bids in for Flexible Support Funding; working with the LEP on future access to new EU funding programmes from 2014 onwards; are working with the private sector and the LEP to support companies and / or co-ordinate bids into the next round of the Regional Growth Fund; Cabinet has approved the next stage of work to look at the creation of a new Community Economic Development trust in the north of the city.**	Chris Grace / John Dixon	Carol Rowe
15	85	**Health Integration** - Transfer of public health commissioning activity, functions and staff from NHS Public Health departments to PCC				**New**			3	5	**15**	3	5	**15**	A	COMMENTS AUG 12: The detailed local transition plan has now been developed however the establishment of key milestones timeframe remains difficult due to most national deadlines now behind schedule. Models of integration have been initially scoped, a vision and outcomes workshop is planned for the beginning of August and a joint risk register is being developed. Commissioning mapping activity across Plymouth in relation to the transition has been acknowledged at a cluster level as an excellent model which is now being followed by others. **COMMENTS FEB 13: Good progress generally. Draft Health & Wellbeing Strategy presented to Shadow Board. Terms of Reference for Joint Commissioning Partnership being developed. Public Health transfer model agreed with implementation on 1 April 2013. Shadow Health & Wellbeing Board in place. NEW Devon CCG - a number of senior positions have been filled and the remaining vacancies are in the process of being appointed to. Tender award for Healthwatch agreed.**	Tony Hopwood	Lynn Clark

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			*P	*I		*P	*I		*P	*I		*P	*I					
16	52	Ensure the **Capital Programme** is delivered within agreed financial targets	3	5	**15**	3	5	**15**	**4**	**4**	**16**	3	**4**	**12**	A	COMMENTS AUG 12: Score increased due to changes in staff and restructure. However, all new staff have adopted existing protocols and governance to mitigate this risk. New governance and processes are being developed which will reduce the impact further. **COMMENTS FEB 13: Recent success in receiving grant funds (circa £5.5m) has given the capital programme a more affordable position. Decisions in the 2013/14 budget setting to move funds from reserves and to increase borrowing to allow the council to set up an investment fund also puts the capital programme into a more healthy position. The reliance on capital receipts is now a balanced position. Progress on reconsidering the governance of the captial programme has stepped up and plans to make constitutional changes for April 2013 are in progress.**	Gareth Simmons	Carol Rowe
17	28	Increase in the number of **looked after children** and those subject to a Child Protection Plan leading to cost pressures on independent placements, staffing and resources	3	5	**15**	3	5	**15**	3	5	**15**	3	4	**12**	A	COMMENTS AUG 12: In terms of risk areas there has been over the last year a 20% increase in referral rates to Social Care and the present increase in the number of pre-birth assessments taking place with vulnerable young women in particular could lead to an increase in numbers of children in care. As predicted there has been an increase in the number of Special Guardianship applications from relatives and the additional costs to fund needs based allowances. From November young people on remand will become classified as Children in Care and from April next year the LA will be responsible for the full cost of the accommodation whilst on remand. In mitigation we are continuing to receive applications for foster carers and adopters and alongside this the Family Justice Review and Adoption Action Plan should reduce delay in placements and also the provision of 'foster to adopt' carers. **COMMENTS FEB 13: Referrals to Children's Social Care are continuing to increase at the rate of approximately 10% per year. Whilst CAF activity has significantly increased it is essential that the Early Intervention and Prevention Programme begins to deliver on targeted wrap around support services to impact on Social care front door. Children in Care numbers have decreased slightly in the last 3 months due to the impact of the Family Justice Review and reduced court timescales. However the complexity of need of Children in the care system means that there is a continuing pressure on the indeptendent sector placements budget. We are beginning to see increased sufficiency in our in house foster care service that should have a postive impact in terms of less reliance on Independent Foster care.**	Dave Simpkins / Anne Osborne	Julie Reed

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			Aug-11			Feb-12			Aug-12			Feb-13						
			*P	*I		*P	*I		*P	*I		*P	*I					
18	68	Failure to reach **recycling targets** and divert waste from landfill	3	4	**12**	3	4	**12**	3	4	**12**	3	4	**12**	— A	COMMENTS AUG 12: The total biodegradable municipal waste (BMW) landfilled in 2011/12 was 381 tonnes less than the same period in 2010/11 and with its LATS allocation and purchased credits the Council has sufficient permits to cover this biodegradable amount and hence no fines will be levied for 2011/12. The Q1 2012/13 performance has improved slightly compared with similar period in 2011/12 with recycling/reuse/composting performance up by 0.5% and the amount of waste landfilled down by 224 tonnes over similar period. The PFI reference recycling initiative to collect glass from the kerbside is due to begin a pilot collection service on one round from Sept 2012. **COMMENTS FEB 13: Recycling rates to end of Q3 2012/13 are up 0.75% on last year and tonnage to landfill is down 0.75%. The commingled glass pilot has commenced, however the procurement to replace PCC's MRF was delayed whilst awaiting DCLG bid announcement although is now underway which will delivery on a PFI commitment.**	Jayne Donovan / Mark Turner / Sue Lorne	Carol Rowe
19	60	Economic downturn affecting **treasury management**	3	5	**15**	3	4	**12**	3	4	**12**	3	4	**12**	— A	COMMENTS AUG 12: On-going monitoring of global economic situation in place. **COMMENTS FEB 13: Treasury Management Board continues to meet and opposition spokesman for Finance has been invited to join to strengthen strategic view. Working with advisors on new strategies eg. 1 April £5m investment in property fund to yield 6% return. Looking at Investment in Local property.**	Malcolm Coe	Angie McSweeney
20	81	Impact of trading services and loss of local authority funding through **academy status**	4	4	**16**	3	4	**12**	**3**	4	**12**	**3**	4	**12**	— A	COMMENTS AUG 12: Whilst the government is anxious to increase the number of primary schools to academy status the level of buy back and the impact will need to be monitored. Changes to the schools funding formula will mean schools have the money in their budgets through further delegation to purchase services, but there will be more choice available in the market place. **COMMENTS FEB 13: Continuing to respond to changes and work with Schools Forum to address the unique situation in Plymouth. Each school irrespective of status has a Plymouth Leadership Adviser from the Schools & Settings Team who will discuss buy-back with the Headteacher.**	Gareth Simmons / Jayne Gorton	Julie Reed
21	72	Significant pressure on **Adult Social Care budget**	4	4	**16**	3	4	**12**	3	4	**12**	3	4	**12**	— A	COMMENTS AUG 12: We continue to closely monitor and manage variation in budget pressures in order to minimise any potential overspend at year end. **COMMENTS FEB 13: ASC budget is presently projected to have an overspend. Management actions have been agreed by CMT to reduce the risk.**	Pam Marsden	Lynn Clark
22	91	Failure to keep abreast of and track new and emerging legislation as part of the powers following **Localism Act** (regulations)							**New**			3	4	**12**	A	**COMMENTS FEB 13: Currently recruiting to vacant post of Contract & Corporate Governance Lawyer to track emerging legislation.**	Dave Shepperd	Rosie Clahane
23	36	Ensuring systems are in place to deal with **staff stress** issues which could lead to sickness absence.	3	5	**15**	3	4	**12**	3	4	**12**	3	4	**12**	— A	COMMENTS AUG 12: HSW processes in place with managers (as part of business plans) that recommend team stress risk assessments are undertaken on annual basis. Thorough review of approach to resilience in 12/13 business plan year. **COMMENTS FEB 13: Audit of stress management arrangements carried out by Gallagher Health - awaiting report.**	Mark Grimley	Helen Cocks
24	73	**Employee Relations**	3	5	**15**	3	4	**12**	3	4	**12**	3	4	**12**	— A	COMMENTS AUG 12: On-going liaison with trade unions office and legal teams. **COMMENTS FEB 13: Case Management Discussions (CMD) directed through courts. Some claims settled, regular consideration of remaining claims.**	Mark Grimley	Helen Cocks

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			*P	*I		*P	*I		*P	*I		*P	*I					
25	47	**Concessionary Fares** - increased take up of concessionary travel above forecast which could put additional pressure on budgets.	3	4	12	3	4	12	3	4	12	3	4	12	A	COMMENTS AUG 12: The 2012/13 reimbursement rate has been published and the period for 'challenge' to the SoS has now passed. The residual risk for this year is the possibility of an increasing number of journeys, which could put pressure on the budget. **COMMENTS FEB 13: The 2013/14 proposed reimbursement rate was published on the 1 December 2012 and notified to Operating Companies (Opcos), we are currently in a period of negotiation with Opcos until 3 March when we are required to publish the reimbursement rate we will pay on 1 April. Two companies have registered concerns and are providing further data to the Council which we are analysing. Opcos are able to challenge the rate for 56 days from the 1 April through the SoS for Transport. The risks for 2013/14 are the possibility of an increasing number of journeys and a successful challenge which could put pressure on the budget.**	Clive Perkin / Adrian Trim	Carol Rowe
26	86	**Strategic Housing Transformation Agenda**. The Housing Plan 2012-17 captures the city's housing ambition and sets out priority objectives for developing, improving and investing in people's homes, neighbourhoods and communities				New			3	4	12	3	4	12	A	COMMENTS AUG 12: The Housing Plan 2012-2017 captures the city's housing ambition and sets out priority objectives for developing, improving and investing in people's homes, neighbourhoods and communities. **COMMENTS FEB 13: 4 x Delivery Plans set out detailed actions to address these and are monitored regularly.**	Stuart Palmer / Paul Barnard	Lynn Clark
27	82	Potential legislative non-compliance of **PCC buildings** due to fragmented ownership and responsibility	3	5	15	3	5	15	3	5	15	2	5	10	G	COMMENTS FEB 12: The Corporate Landlord initiative has now been adopted and goes live 1 March 2012. No change to risk score at this time as it is too early to measure the impact of this initiative. COMMENTS AUG 12: Corporate Landlord initiative went live on 1 April 2012. This initiative brings all the responsibility for statutory compliance items into one area to ensure that contracts are extended to cover all relevant council properties. All buildings are now covered in accordance with statutory legislation and will continue to be monitored. **COMMENTS FEB 13: Consolidation of budgets and responsibilities is now complete under Corporate Property reducing the risk of non-compliance.**	Chris Trevitt	Angie McSweeney
28	30	**ICT Resilience** - Ensuring there is adequate disaster recovery in place to deal with the unavailability of ICT.	2	5	10	2	5	10	2	5	10	2	5	10	G	COMMENTS AUG 12: The data centre project at Windsor House is progressing to plan and will undergo commissioning and go live in January 2013. This will further reduce the likelihood of system downtime and provide a platform for future improvements. **COMMENTS FEB 13: The data centre project at Windsor House is currently in delivery and commissioning will now begin in March 2013.**	Malcolm Coe	Angie McSweeney
29	14	Ensuring robust systems are in place to combat **fraud** and protect Council assets.	2	5	10	2	5	10	2	5	10	2	5	10	G	COMMENTS AUG 12: 2012-13 National Fraud Initiative exercise is due to commence with the upload of data from the DWP and other organisations at the end of 2012, the Audit team are taking a more proactive approach to Fraud in readiness for this exercise. **COMMENTS FEB 13: Data has now been uploaded and matches identified. The Audit Team are now in the process of contacting appropriate managers to identify staff to work on the matched information.**	Dominic Measures	Angie McSweeney
30	08	Ensuring the Council has a robust **Business continuity** planning strategy in place to facilitate resumption of normal business activities should a serious incident occur	2	5	10	2	5	10	2	5	10	2	5	10	G	COMMENTS AUG 12: The Council had a significant event in the form of possible fuel shortages but the use of the Business Continuity Incident Management Plan as well as the decisions by the Business Continuity Strategy Group meant that any impacts were mitigated. **COMMENTS FEB 13: Events that have the potential to cause disruption to normal business are constantly monitored. A Business Co-ordination Centre plan is now in place to ensure that an immediate impact assessment can be undertaken when the authority encounters any issues that affect the business.**	Jamie Whitford-Robson	Marie-Odette Prêleur

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			Aug-11			Feb-12			Aug-12			Feb-13						
			*P	*I		*P	*I		*P	*I		*P	*I					
31	76	Risk of not getting funding to progress development of **Gypsy Sites.**	2	4	**8**	2	4	**8**	3	4	**12**	3	3	**9**	↘ G	COMMENTS AUG 12: 3 sites agreed by Cabinet in Aug 12 and at various stages of development. **COMMENTS FEB 13: Some funding secured and planning application has been made for transit site.**	Peter Aley	Lynn Clark
32	70	Delivering the **transformation of Adult Social Care** (ASC) through Putting People First framework	2	3	**6**	3	3	**9**	3	3	**9**	3	3	**9**	— G	COMMENTS AUG 12: The roll out of the service restructure in July 2012 has been completed and sustained improvement is expected over the coming year in the level of Personal Budgets. **COMMENTS FEB 13: We have completed the roll-out of ASC transformation and continue to embed this new way of working. At Dec 2012 we were achieving 58% delivery of Personal Budgets against our performance target of 70% by 31/3/13.**	Pam Marsden / Paul Francombe	Lynn Clark
33	77	Risk of failing to achieve **Carbon Reduction** targets - resulting in civil and criminal penalties, financial and reputational loss.	3	5	**15**	3	4	**12**	3	4	**12**	2	4	**8**	↘ G	COMMENTS AUG 12: On-going work to rationalise the Corporate Estate as well as looking at initiatives for generating energy on specific sites. **COMMENTS FEB 13: A report goes to cabinet next month for £13m carbon reduction schemes, including replacing the City's street lighting with LED, installing solar panels on roofs and replacement of ageing boilers.**	Chris Trevitt	Angie McSweeney
34	55	Partnership with Devon County Council and Torbay Council to deliver **Waste PFI** Procurement for SW Devon Waste Partnership (by 2014). With the aim to secure a timely economic, reliable and proven solution to divert the Partnership's residual waste from landfill with reduced carbon impact	3	4	**12**	3	4	**12**	3	4	**12**	2	4	**8**	↘ G	COMMENTS AUG 12: Planning and permit risks decreased but risk remains at 12 as the new administration is opposing the project and currently investigating legal options available to them. **COMMENTS FEB 13: Risk reduced as decisions legally made and contract binding - construction underway and on programme for operational commencement at end of 2014.**	Mark Turner	Carol Rowe
35	74	Ensuring robustness of **Client Management IT Systems** for Social Care (both Adults and Children)	5	4	**20**	3	4	**12**	2	4	**8**	2	4	**8**	— G	COMMENTS AUG 12: The ASC restructure is reaching its final stages but some amendments are required to the technical solution to address issues that have arisen during implementation. Other work streams are beginning for the ASC implementation around Finance review, appointment scheduling and the latter stages of the re-enablement implementation. Within CSC significant amounts of work is being carried out to review the Main Care cycles and how this is facilitated within CareFirst as well as the implementation of the system to meet the needs of the Adoption service. The continuation of this programme is essential to ensure that new legislative requirements and efficiencies are being achieved. Recent audit report reflects a 'good' standard. **COMMENTS FEB 13: Amendments relating to the ASC implementation have been completed, reablement implementation has been undertaken with only the final phases to automate the link to Payroll outstanding and work has begun on the Children's Social Care System. Work will begin shortly to determine how the CareFirst team moves from a project role to a business as usual role.**	Karen Porte	Angie McSweeney
36	87	Failure to maximise opportunities from the **Council's property assets**				**New**			3	4	**12**	2	3	**6**	↘ G	COMMENTS AUG 12: Strategic Property Review will highlight opportunities to utilise estate more effectively to further increase income and capital value and promote opportunities growth. **COMMENTS FEB 13: £25k funding received from the LGA Capital and Assets Pathfinder Programme which has been used to employ Chartered Surveyors who have been instructed to work on the Strategic Property Review. Estate is currently 95% let demonstrating a pro-active approach.**	James Watt	Carol Rowe

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37	69	Contribute and support the development of the **Life Centre** at Central Park	2	3	**6**	2	3	**6**	2	3	**6**	2	3	**6**	G	COMMENTS AUG 12: Section 1 of the project is complete with only section 2 works outstanding. A number of snagging items are being resolved. Replacement barrier system now installed and working very well. Everyone Active are in occupation in the building and have been operating it since the end of May. Reporting mechanisms being finalised to provide for continued monitoring of the contract. **COMMENTS FEB 13: The construction of the Plymouth Life Centre is now complete. A number of snagging items are being resolved. Everyone Active is in occupation of the building and has been operating it since the end of May. Reporting mechanisms being finalised to provide for continued monitoring of the contract.**	Tony Hopwood	Lynn Clark
38	80	**Planning Obligations** - implications of new legal framework and current economic circumstances.	2	4	**8**	2	4	**8**	2	4	**8**	**Delete**			D	COMMENTS AUG 12: The Planning Obligations and Affordable Housing Supplementary Planning Document First Review 2012 was formally adopted by Full Council on 30/08/12. **COMMENTS FEB 13: The CIL Charging Schedule has been found sound as submitted therefore this can now be removed from the register.**	Jonathan Bell	Carol Rowe

*** P = Probability Rating (1 = Low, 5 = High)**
*** I = Impact Rating (1 = Low, 5 = High)**
Maximum Score 5 x 5 = 25

NB. Risks scored 12 or above will be the subject of priority monitoring

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devon audit partnership

Internal Audit

Internal Audit Plan 2013 - 2014

Plymouth City Council Audit Committee

March 2013

Auditing for achievement

devon audit partnership

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2013/14

1. INTRODUCTION

1.1 All principal Local Authorities, including Plymouth City Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006 and 2011, which require that the Authority should make provision for Internal Audit. From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards.

1.2 The Standards require that the Head of Internal Audit must "establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals". When completing these plans, the Head of Internal Audit should take account of the organisation's risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation's business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

2. AUDIT NEEDS ASSESSMENT

2.1 The audit plan for 2013/14 plan has been identified by:

- Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention;
- Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives;
- Taking into account results of previous internal audit reviews;
- Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans;
- Requirements to meet the "managed audit" approach with the external auditors;
- Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2013/14 is set out in Appendices 1 and 2.

3. INTERNAL AUDIT PARTNERSHIP

3.1 Since 1st April 2009 the Internal Audit Service for Plymouth City Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.

3.2 The delivery of the internal audit service will be in accordance with the Internal Audit Charter. For some reviews the opportunity for shared working across other authorities may arise. In these circumstances Devon Audit Partnership will seek to maximise the effectiveness of operations, sharing learning and guidance helping each of the authorities to develop further and ensure that risk remains suitably managed.

4. INTERNAL AUDIT RESOURCES

4.1 Based upon our detailed risk assessment process we consider that 1,686 days of internal audit input will be required for Plymouth City Council in 2013/14.

4.2 In order to provide a cost-effective service and good value for money to all of our clients it is important that emphasis is given to minimising costs, particularly overheads, and maximising the efficiency and effectiveness of the audit processes. There is regular monitoring and management review of performance within the team over the year and we participate in the annual CIPFA benchmarking comparisons with other Internal Audit functions to demonstrate that Devon Audit Partnership provides a cost-effective service.

5. PLANNED AUDIT COVERAGE 2013/14

5.1 Appendix 1 shows a summary of planned audit coverage for 2013/14 totalling 1,686 direct days. A more detailed analysis of proposed audit reviews is provided in Appendix 2. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in 6 months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the IA Plan includes a contingency to allow for unplanned work.

5.2 We have set out our plan based on the current organisational structure for the Authority. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment - in this way we can ensure that the key risks to the operation or function are considered during our review. The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-

Corporate Services

5.3 Our work for Corporate Services includes work on what are termed “key financial systems” - these are systems that process the majority of income and expenditure for the Council, and which have a significant impact on the reliability and accuracy of the annual accounts. Our work in the area will include reviews of:-

- Payroll
- Council Tax and Non Domestic Rates
- Benefits
- Main Accounting System
- Ordering & Payments
- Income Collection
- Treasury Management.

5.4 Reviews in previous years have confirmed that, generally, sound arrangements are in place for these systems, but we will seek to ensure that previous weaknesses that have been identified have been rectified.

5.5 In addition to work on key financial systems, Internal Audit review, support and advise on a number of areas judged to be of high risk to the Directorate such as:-

- New HR/Payroll system - Internal Audit will continue to support the Project Board and project teams with the implementation of the new system and as it becomes operational within the Council.
- With the forthcoming introduction of welfare reforms, Audit will look at the Council's response to their impact and work with officers in finding ways to mitigate the risks the reforms present.
- Audit will assess the impact of the proposed ICT Shared Service on the Council and help identify and resolve any potential mobilisation issues.
- Internal Audit will review the role of Central Buyers and identify the level of "deviant" spending by the Council i.e. where existing corporate contracts are not being used.

5.6 We have agreed with management the key risks that currently affect ICT for the Council. We will undertake reviews of Programme Delivery and Demand and Resource Management as part of ICT's Service Strategy, assess whether the new data centre fulfills the original business case and meets the needs of the Council and review new back-up procedures being introduced. In addition, Audit will examine Access Management processes and undertake a review of process improvements within Service Design to assess their effectiveness. Linked with a corporate review of contract management and monitoring, a review will be carried out to ensure that contracts with ICT suppliers are effectively managed and that the Council obtain value for money from existing contracts.

Cross Cutting

5.7 Internal Audit propose to carry out reviews and provide advice and support on a range of service areas and processes that are deemed to impact the Council as a whole. These include contract management, Transformation Programme, capital programme.

5.8 Internal Audit will examine the Council's strategy and policy for managing and monitoring contracts with partners, major operators and suppliers. As part of this, we will review the processes in place on existing contracts such as Highways, Leisure Management and ICT.

5.9 As the Council reviews its services, corporate approach and standards, Internal Audit will provide support and advice to the Transformation Programme Boards as well as specific projects and workstreams.

5.10 With increasing pressure on the capital programme, Internal Audit will review current governance arrangements and procedures and work with officers to ensure that they are robust whilst at the same time, allowing the process to be efficient and effective.

Place

5.11 Internal Audit will continue to monitor the progress of the Waste PFI project during the construction of the new facility. Advice will be provided on contract monitoring arrangements as they are developed in the run up to the facility's opening.

5.12 In addition Internal Audit will continue to support the Project Board set up to oversee the development of a History Centre for the City.

5.13 Internal Audit have been asked to provide support and assurance during the proposed procurement exercises that will see the replacement of the existing Material Recycling Facilty (MRF), minibus fleet and plant and equipment.

People

5.14 Our plan for People covers audit reviews from across all four departments. Within Adult Social Care we will be looking at and reporting upon at the recently introduced Pre Paid Card system linked to the direct payments / personalisation agenda reviewing the process from end to end.

5.15 We will be undertaking the necessary works in connection with the claim submissions required to be made in respect of the ‘Families with a Future’ re the Government’s Troubled Families programme. Further to responsibility for the administration and management of the DWP Social Fund transferring across to the authority from 1st April 2013, management has requested audit review later in the financial year.

5.16 As Members are aware, responsibility for Public Health also commences on 1st April 2013 and a review of Public Health Commissioning has been requested, looking at contracting and processes currently undertaken and whether possibilities exist for a joined up approach with processes and procedures currently in place within Adult Social Care.

5.17 An audit review will also be undertaken upon Disabled Facilities Grants. Plymouth is currently experiencing an upsurge in applications for DFGs which is thought partly to be due to changes in ways of working within Adult Social Care and how clients now access services.

5.18 A joint audit is detailed upon the Plymouth, Devon and Torbay plans for the 2013/14 financial year to look at the Local Integrated Service Trust: social impact bonds, where £927k has been awarded from the Big Lottery Fund.

Carry forward (completion of previous year work)

5.19 At the end of the year there will always be part of our work that is “work in progress” – this may require testing to be completed, the working papers to be reviewed by audit management, or the draft / final report to be agreed with management. Time has been allocated to ensure that all planned audits carried over from 2012/13 can be completed to the expected standard.

Fraud Prevention, Detection & Investigation

5.20 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance in the Fraud Strategy for Local Government “Fighting Fraud Locally” and the Audit Commission publication “Protecting the Public Purse”, internal audit resource will be allocated to allow a focus on identifying and preventing fraud before it happens.

5.21 The Audit Commission runs a national data matching exercise (National Fraud Initiative - NFI) every two years. The required datasets were submitted to the Audit Commission in October 2012, and data matches were received at the end of January and mid-February 2013. During 2013/14 we shall work with Council departments to ensure that the matches are reviewed and action taken as may be necessary.

Grant Claims

5.22 We will review interim and final grant claims before submission to the grant awarding body. Our work will ensure that claims are accurate, complete and that income opportunities to the council are maximised.

Other Chargeable Activities

5.23 An element of our work is classified as “other chargeable activities” – this is work that ensures effective and efficient services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include:-

- Preparing and monitoring the internal audit plan;
- Preparing and presenting monitoring reports to senior management and committee;
- Liaison with other inspection bodies (e.g. Grant Thornton);
- Assistance with the Annual governance statement;
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2013/14
- On-going development within the Partnership to realise greater efficiencies in the future.

Advice / Consultancy

5.24 Internal Audit will continue to be consulted by all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, PC/network access etc. The pro-active involvement of Internal Audit in risk and control issues, relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse.

5.25 In addition, Internal Audit will continue to support major projects throughout the Council providing advice and input into key developments and initiatives some of which have been outlined in previous paragraphs.

Schools Audits

5.26 The Schools Financial Value Standard (SFVS) is now well established within schools. The standard helps governors, in particular, in self-evaluating the quality of their financial management and to aid in improving schools financial management.

5.27 The purpose of the SFVS is to make the best use of resources in the education system, to achieve the best possible outcomes for children. DfE have made this a mandatory requirement for all schools and are changing the scheme of delegation to fit this requirement.

5.28 Audit of the control and governance arrangements within schools is carried out on a three year cyclical basis and covers all the key elements in SFVS. Our Audit Programme is tailored to fit with the SFVS in order to support schools and maintain efficiency. We have also developed support through our webpages with:

- model answers;
- key timelines guidance;

- training programme.

5.29 The Government's drive to encourage schools to become academies is firmly in place. However, there is no requirement for academy schools to have internal audit. We offer an audit service to Academy schools and have had success in the process of advertising and bidding for such work. The majority of non-academy schools (still within LA control) currently buy back Internal Audit services from DAP.

6. PARTNERSHIP WORKING WITH OTHER AUDITORS

6.1 We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work which have been covered in other authorities.

6.2 The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Council's external auditors, Grant Thornton and we continue to work with them to understand their requirements and to provide information that they will require. Regular liaison arrangements will continue to maximise the benefits of close working.

Robert Hutchins
Devon Audit Partnership
March 2013

Plymouth City Council Internal Audit Plan 2013/14 **Appendix 1**

Material Systems	**235**
Corporate Services	**344**
Cross Cutting	**132**
People	**237**
Place	**67**
Anti-Fraud (including NFI)	**239**
Other Chargeable Activities	**432**
Total Days for Plymouth City Council Internal Audit 13/14 Plan	**1686**
Other Related Bodies	**180**

Detailed analysis of proposed audit reviews 2013/14 **Appendix 2**

Please note that the areas details below are subject to change as new initiatives / and or risks emerge. The start and completion dates are indicative only and may alter in accordance with changing priorities and to meet the convenience of departments.

Material Systems

System	Start Date	Planned Completion
Payroll	Q3 – Q4	Q4
Housing Benefits	Q3 – Q4	Q4
Key Financial Systems - Access Controls	Q3 – Q4	Q4
Revenues & Benefits System Parameters	Q3 – Q4	Q4
Creditors	Q3 – Q4	Q4
Main Accounting System	Q3 – Q4	Q4
Council Tax	Q3 – Q4	Q4
Debtors	Q3 – Q4	Q4
IT Material Systems	Q3 – Q4	Q4
Loans & Investments	Q3 – Q4	Q4
Capital Accounting (Asset Register)	Q4	Q4
NNDR	Q3 – Q4	Q4

Corporate

System	Start Date	Planned Completion
Procure to Pay Project (P2P)	On-going throughout the year	
Payroll Implementation & Transfer	Q1	On completion of project
Absence Management	Q2	Q3
CRB / Disclosure and Barring Service	Q2	Q3
Revenues & Benefits - Policy Changes	Q1	On completion of project
Corporate Landlord	Q2	Q3
Welfare Reforms	Q1	Q2
Sale of Civic Centre	On-going until completion	
Central Buyers	Q2	Q3
Setting up of DELT	Q1	On completion of project
FM Joint Venture Project	On-going until completion	
Street Lighting Conversion to LED and dimmers	On-going throughout the year	
School Financial Value Standards	On-going throughout the year	
ICT Audit		
ICT Strategy	Q1	Q3
ICT Service Design	Q1	Q3
ICT Service Operation (Function)	Q2	Q3
ICT Service Operation (Process)	Q3	Q4
ICT Compliance Board, Project Boards, Programme Board	On-going throughout the year	

Cross Cutting

Contract Management	Q1	Q2
Capital Programme - Governance	Q3	Q4
Delivery Plans - Governance and monitoring	Timing to be agreed	
Corporate Information Management - includes Freedom of Information, Data Protection Act & Information Security arrangements	On-going throughout the year	
Transformation Programme	On-going throughout the year	
Business Continuity	On-going throughout the year	
CRC Energy Efficiency Scheme Annual Return	Q1	Q2

People

Public Health Commissioning - contracting and processes	Q3	Q4
Pre-Paid Cards - review process from end to end	Q1	Q2
Disabled Facilities Grants (DFGs)	Q3	Q4
Plymouth Safeguarding Adults Board (PSAB)	Q2	Q2
Plymouth Safeguarding Children's Board (PSCB)	Q4	Q4
Social Fund	Q3	Q3
Transitions (to Adults, from Primary to Secondary, from Pre-School to Primary)	Q3	Q4
PLUSS	Q1	Q2
Troubled Families (Families with a Future (FWAF))	On-going throughout the year	

Careers South West	Q1	Q2
Children's Centres	On-going throughout the year	
Youth Offending Team (YOT)	Q2	Q3
Academies Delivery Board & UTC	On-going throughout the year	
Easy Let Scheme	Q1	Q1
Training Schools Alliance	Q3	Q3
Excellence Cluster	Q2	Q2
Alternative Complimentary Education (ACE)	Q4	Q4
Local Integrated Service Trust (LIST)	Q3	Q4

Place

History Centre	On-going until completion of project	
Control of Fuel, Fuel Cards and Fuel Containers	Q2	Q3
Street Cleaners On-Call System	Q2	Q3
Waste PFI	On-going throughout the year	
Replacement of MRF	On-going until completion of project	
Replacement of minibus fleet, Plant and Equipment	Upon Procurement Commencement	Procurement Completion

Anti-Fraud

Anti-fraud and irregularities	On-going throughout the year	
National Fraud Initiative (NFI)	Q1	Q4

Other Chargeable Activities

Advice and Consultancy to Clients	On-going throughout the year	
Corporate Governance inc. Support for Audit Committee, Liaison with External Auditors	On-going throughout the year	
Grants and Statutory Accounts - Mount Edgcumbe Annual Accounts	Q1	Q2
Completion of 2012/13 Audits	Q1	Q1
Other Chargeable Activities inc Audit Planning, Internal Audit Standards, Customer Service Excellence	On-going throughout the year	

Total Days for Plymouth City Council 2013/14 Internal Audit Plan 1,686 days (excluding schools)

Robert Hutchins
Head of Devon Audit Partnership
March 2013

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Audit Update Report

Follow-Up of Audit Work

Plymouth City Council
Audit Committee

March 2013

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1. INTRODUCTION

1.1 At the June 2012 Audit Committee, Members were provided with the Annual Internal Audit report for the Council. Appendix 2 of that report provided a summary of the audits undertaken during 2011/12, along with our assurance opinion. Where a "high" or "good" standard of audit opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified. Where an opinion of "improvements required" was provided, this indicated issues had been identified during the audit process that required attention. It should be noted that we did not give an opinion of "Fundamental Weaknesses Identified" for any of the audits we undertook and reported on.

1.2 Members discussed the report and requested a report to a future meeting updating the Committee with progress on implementing action plans where the overall audit opinion was "improvements required" as shown in Appendix 2 to the report. With any audits with an opinion of "Fundamental Weaknesses Identified", progress on implementing action plans would automatically be reported to Members.

1.3 To provide the assurance that Members required, Devon Audit Partnership have undertaken follow up audit reviews, wherever possible, or discussed progress with relevant officers and the results from this process are contained in this report.

2. PROCESS

2.1 For each service area where an audit opinion of "improvements required" was provided at the end of 2011/12 we completed a follow up review where appropriate. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

3 FINDINGS

3.1 Overall we can report that managers are making good progress in responding to the issues raised, as reflected in the generally positive direction of travel demonstrated in Appendix 1.

3.2 It should be noted that in some instances the due date for the recommendation has not yet been reached; the agreed date takes into account service priorities and, in some cases, the need to make changes to processes that can take time to achieve. As a consequence not all recommendations have been completed, but this is as expected.

3.3 During our initial audit work we have made reference to areas where risk exists; however in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

3.5 Appendix 1 of this report sets out the audits at the end of 2011/12 which were identified as "improvements required". The appendix shows the current (updated) assurance opinion following our follow up work, and a "direction of travel". We have also provided a commentary on progress being made.

4 CONCLUSION

4.1 Overall we note that good progress has been made by management against the agreed recommendations although as stated above, some recommendations are likely to take time to implement.

Robert Hutchins
Head of Devon Audit Partnership
February 2013

Auditing for achievement

Table to show updated Audit Assurance Opinion after completion of follow up work to February 2013

Audit Area	Audit Assurance Opinion as at 31 May 2012	Updated Audit Assurance Opinion as at Feb 2013	Direction of Travel	Commentary

Material Systems

Audit Area	Audit Assurance Opinion as at 31 May 2012	Updated Audit Assurance Opinion as at Feb 2013	Direction of Travel	Commentary
Housing Benefits 2011/12	Improvements Required	Improvements Required	⇧	The 2012-13 Housing Benefits audit is now underway, however it has not yet been sufficiently progressed to enable the previous assurance opinion to be updated. From the limited work that has been undertaken, no significant issues have been identified, hence the direction of travel at this time, remains positive.
ICT Helpdesk Access Controls 2011/12	Improvements Required	N/A	N/A	The 2012-13 audit has recently commenced but it has not been sufficiently progressed to enable the previous assurance opinion to be updated. Some of the recommendations within the 2011-12 report have been implemented, but at this stage we have not yet confirmed whether all of the recommendations made have been implemented and whether or not they are working effectively. It is too early in the review to determine the direction of travel.
Council Tax 2011/12	Improvements Required	Improvements Required	⇧	The 2012-13 Council Tax audit has commenced but it has not yet been sufficiently progressed to enable the previous assurance opinion to be updated. From the limited work undertaken to date, no significant issues have been identified. We understand that a write-off process has been developed and the direction of travel remains positive.

ICT

Partnership Working (ICT Systems) 2010/11	Improvements Required	Improvements Required		ICT are continuing to develop the Business Relations Manager role as well as continuing project management improvements. These collectively provide business areas with the necessary expertise to help them mitigate many of the risks associated with partnership working and hosted services. Furthermore, the toolkit developed by Internal Audit is to be further developed to provide additional help and guidance to business managers. Work undertaken by Internal Audit during 2013/14 will assess the effectiveness of these changes.
Capacity and Availability 2012/13 (Component)	Improvements Required	Improvements Required		In terms of the risks associated with this area controls are generally of a good standard. However, the audit measured against key principles and processes defined within the ITILv3 best practice framework on which PCC's ICT Service's improvement programme is based. Recommendations made are mainly around improvements to service design and integration of effective monitoring tools. The resultant action plan identifies that satisfactory progression will continue to be made over the coming months as part of planned service improvements and commissioning of the new data centre.
Service Level Management	Improvements Required	Improvements Required		Progress continues to be made in aligning ICT structures and processes to the needs of the Council. Work to introduce Service Design Packages with associated SLA's is continuing, but progress has suffered due to allocate resources to the large number of ICT projects and BAU. Internal Audit are to conduct work in this area during 2013/14.
Programme Management (2011/12)	Improvements Required	Improvements Required		This strategic review made a number of recommendations that were always going take time to bring about the necessary changes. Despite the continuing challenges placed on ICT to deliver new business solutions, with limited resources, progress continues to be made in most areas. Changes to some client facing activities and roles have

				already been made and it is anticipated that the planned re-structure will deliver further improvements. A review of the area is planned during 2013/14.

Corporate Services

Payment to Consultants & Advisors	Improvements Required	Good Standard	⇧	Significant progress has been made to further embed and strengthen controls for payments to individuals as part of corporate buying procedures. The system is now considered to be of a good standard. A recent visit by HMRC found no issues.

Place

Plymouth Market	Improvements Required	Good Standard	⇧	The follow-up review has found the administrative systems to be operating to a Good Standard. A conflicts of interest policy has been developed and adopted and the service is currently working with Legal Services to review and updates market regulations.

People

CareFirst Fostering	Improvements Required	Improvements Required	⇧	Some recommendations have been actioned and work is on-going to implement those agreed. The follow up review is due to formally commence in March 2013 but the information seen to date indicates that improvements have already been made. If the evidence demonstrates this and the improvements are working effectively, the opinion will increase to Good Standard.

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Audit Update Report

Public Sector Internal Audit Standards

Plymouth City Council Audit Committee

March 2013

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Plymouth City Council Audit Committee

Update note on Public Sector Internal Audit Standards

1. Introduction

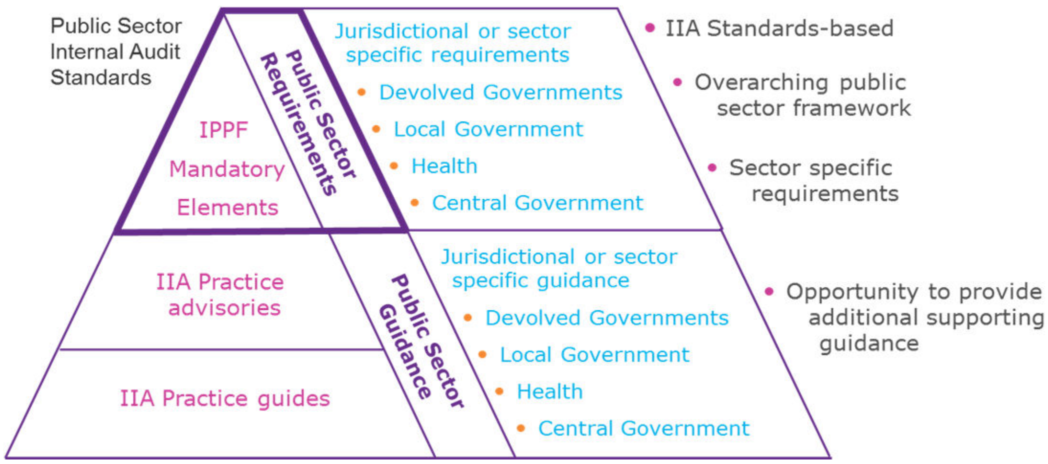
1.1 Organisations in the UK public sector are currently covered by different internal audit standards. In the central government and health (NHS) sectors, the standards are based on those issued by the Institute of Internal Auditors (IIA), whereas the local government sector uses the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for internal audit in local government in the UK (the Code).

1.2 As organisations work more closely together in formal partnerships and informal arrangements, and internal auditors work across the public sector, the following weaknesses in the current situation became apparent:

- a lack of consistency across the UK public sector and inconsistent update processes for the standards in use
- different guidance for different, but related, sectors and
- no structure to articulate public sector needs and influence best practice development.

1.3 Since May 2011 collaboration has taken place between CIPFA and the IIA, with the agreement of the Relevant Internal Audit Standard Setters (RIASS), to develop a set of internal audit standards applicable to all areas of the UK public sector based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The revised standards are referred to as ‘the Public Sector Internal Audit Standards’ (PSIAS).

1.4 CIPFA and the IIA have set out the Standards in the diagram below:-



1.5 It has been determined that the PSIAS will come into force from 1 April 2013 for all areas of the public sector. The new standards will provide:

- a coherent and consistent public sector internal audit framework
- a co-ordinated update process, and
- a public sector voice in IIA standard setting.

1.6 The RIASS have established the Internal Audit Standards Advisory Board (IASAB) to advise on the development and maintenance of PSIAS.

2. Framework overview

2.1. The PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing

3. Purpose of the PSIAS

3.1. The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

4. Scope of the PSIAS

4.1. The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

4.2. All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing. The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

4.3. The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

4.4. In common with the IIA IPPF on which they are based, PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.

5. What are the implications for Plymouth City Council?

5.1 The standards make a number of references to the 'board' which the standards define as :-

> "The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a

supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions".

5.2 It is expected that CIPFA will issue guidance to local authorities on how to interpret the term "board", however, and until further guidance is provided, the "Board" for Plymouth City Council will be considered to be the Audit Committee

5.3 The internal audit function of the Council is provided by the Devon Audit Partnership (DAP). It is important that the Council, and in particular the Audit Committee, are assured that the internal audit provider (DAP) meets the standards and accords with these standards from the 1 April 2013 onwards. As part of his/her Annual Report, the Head of Devon Audit Partnership will provide a commentary on how the Partnership has adhered to the Standards.

5.2 External assessment of how the internal audit function is undertaken by the Authority's external auditors (Grant Thornton) and they will provide their independent opinion on how well the Partnership meets the Standards

5.3 As a direct action, the Internal Audit Charter for the provision of Internal Audit should be updated to reflect the key elements of the PSIAS

6. What are the implications for Devon Audit Partnership?

6.1 Previously, service delivery of the Partnership was measured under the Code of Practice for Internal Audit as prepared by CIPFA. Early in 2011 we became aware of the proposed change in approach, and that the IIA standards were likely to be the benchmark to which we would be compared.

6.2 With this in mind, we undertook a self-assessment against the IIA standards; the results of our self-assessment were positive.

6.3 During the Autumn of 2012, we worked with other partnerships / shared service internal audit providers (South West Audit Partnership (SWAP), Hertfordshire Shared Internal Audit Service, Veritas) to undertake "peer" reviews of the self-assessment.

6.4 In October 2012, Helen Maneuf, Head of Assurance of Hertfordshire Shared Internal Audit Service undertook a peer review of DAP. Helen concluded:-

"DAP is considered to be operating in conformance with the IIA standards. The service has established a strong reputation with its clients and recent structural changes are proving beneficial. There are opportunities to further develop the business to ensure DAP is strongly placed to progress and to deliver its vision"

6.5 Helen made some further key observations:

"DAP is a credible service, with a professional reputation and is respected in the organisations it serves. The April 2012 restructure has assisted in strengthening client focus. DAP has sufficient independence to fulfil its remit and is building a stand-alone identity; DAP has appropriate access and profile within the organisations it serves".

"Those team members interviewed by the assessor spoke very credibly and coherently about the value and purpose of internal audit and without exception shared a view about internal audit existing to help the business to achieve its aims and objectives in a supportive and appropriately challenging way".

6.6 Helpfully, Helen also identified areas where we could further improve. These issues have been captured in our development plan and will be addressed over the coming months.

Robert Hutchins
Head of Devon Audit Partnership
January 2013

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PLYMOUTH CITY COUNCIL

INTERNAL AUDIT CHARTER / TERMS OF REFERENCE

This Charter describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP).

DEFINITION OF INTERNAL AUDIT

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

STATUTORY ROLE

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003 (as amended 2006), which state in respect of Internal Audit that:

> *"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices"*

AIM

Devon Audit Partnership aims to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of Plymouth City Council, adding value whenever possible.

FUNCTION

Internal Audit is an independent review function provided as a service to Members and all levels of management of the Authority. It supports the "responsible officer" (Section 151 officer under the Local Government Act 1972), in meeting their statutory responsibilities for the proper administration of financial affairs. The Head of the Devon Audit Partnership is responsible for the effective review of all aspects of risk management and control throughout the organisations' activities.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

INDEPENDENCE

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The Head of the Devon Audit Partnership fulfils the role of Chief Auditor at the Authority.

CODE OF ETHICS

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1 Principles that are relevant to the profession and practice of internal auditing;
2 Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

STANDARDS

The Public Sector Internal Audit Standards (PSIAS) come into effect from 1 April 2013. The PSIAS sets out the International Standards for the Professional Practice of Internal Auditing. The Head of Devon Audit Partnership is expected to report conformance on the PSIAS in his / her annual report.
Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing. The provision of assurance services is the primary role for internal audit in the UK public sector.

The PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.

REPORTING LINES AND RELATIONSHIPS

The Head of the Devon Audit Partnership fulfils the role of Chief Auditor for Plymouth City Council and he or she will report to the Director of Finance for Plymouth City Council and the Partnership Management Board which comprises the 3 Section 151 Officers from the founding authorities.

The Council has an Audit Committee whose terms of reference include responsibility for monitoring the performance of Internal Audit and approving its annual audit programme. The Head of Devon Audit Partnership reports to it on at least a six monthly basis and the reports include an ‘opinion’ on the standard of internal control within the authority. The Audit Committee is responsible for endorsing the Audit Plan, progress reports received during the year, and the Annual Internal Audit Report.

ROLE AND SCOPE

The role of Internal Audit is to understand the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation. As an independent appraisal function, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the risk management framework and internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge his / her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

ACCESS

Internal Audit shall have unrestricted access to all records (whether manual or computerised systems), assets, personnel, premises, property or land, including those of partner organisations, and has authority to obtain such information and explanations as it considers necessary. Such access shall be granted on demand and not subject to prior notice.

In addition, Internal Audit, through the Head of Devon Audit Partnership, where deemed necessary, will have unrestricted access to:

- the Chief Executive
- Members
- individual Chief Officers and other senior officers
- Director of Finance / Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

RESPONSIBILITIES

The Chief Executive, Chief Officers and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management.
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests.
- Advising on internal control implications of new systems

In order to discharge these responsibilities the Head of the Devon Audit Partnership will:

- develop, in consultation with Service Directors, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan;
- maintain a programme of quality assurance and a culture of continuous improvement;
- submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews or by External Audit. Ensuring compliance with the PSIA standards is an essential approach to such a review.

PROFICIENCY AND DUE PROFESSIONAL CARE

The Head of Devon Audit Partnership will ensure that internal auditors possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Head of DAP will ensure that the internal audit activity collectively possess or obtains the knowledge, skills and other competencies needed to perform its responsibilities.

The Head of DAP must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

REPORTING

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the control environment.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each recommendation. If a recommendation is not accepted by the manager, this must also be stated. The Chief Auditor is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Head of the Devon Audit Partnership in his role as Chief Auditor will submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken.

Devon Audit Partnership

January 2013

CITY OF PLYMOUTH

Subject:	2013/14 Budget (Revenue and Capital) allocated to Corporate Priorities
Committee:	Cabinet
Date:	12 February 2013
Cabinet Member:	Councillor Lowry
CMT Member:	Adam Broome (Director for Corporate Services)
Author:	David Northey, Head of Finance
Contact:	Tel: 01752 304566 email: david.northey@plymouth.gov.uk
Ref:	djn12012013
Key Decision:	No
Part:	I

Purpose of the report:
This report builds on the Indicative Budget signed off by Cabinet 11 December 2012 and the impact of the December Settlement on our revenue assumptions. At the time of publishing the December Indicative Budget report, the Council was still awaiting notification of its Government settlement for 2013/14 along with details of any significant changes anticipated to specific grants.

The Settlement was broadly in line with our predictions hence there is not a need to make major adjustments to the original budget assumptions. However, the net revenue resources have "increased" from the original report due to the government rolling specific service grants into the core funding.

Settlement figures quoted in this report are still subject to final approval by the Government. The decision is expected early February 2013.

The Treasury Management Strategy, Appendix C of this report, outlines our strategy and the inherent risks within the treasury management function. It also outlines how the management function contributes to the Council's overall policy objectives.

Corporate Plan 2012-2015:

The budget, and wider Medium Term Financial Strategy, is central to the successful delivery of the Corporate Plan 2012-15.

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

Once approved the 2013/14 budget will become the base year for the Medium Term Financial Forecast (MTFF) 2013-16. The MTFF will be revised and updated to reflect the final settlement announcement. Human resources, ICT and asset implications have been fully considered and referred to throughout the report.

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

Implications for these areas of the council's budget are referred to in the relevant sections of the report.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? Yes /~~No~~

Departmental Delivery Plans are covered by Equalities Impact Assessments. Each delivery action has considered the impact on: council priorities, legal obligations, customers and other services and partners.

Recommendations and Reasons for recommended action:

It is recommended that Cabinet:

1. Recommend that a final version of the Revenue and Capital Budget for 2013/14 is presented for sign off to Full Council on 25 February 2013.

Recommend to Full Council:

2. that additional income from the core Council tax base of £0.200m is allocated to offset the shortfall from the indicative budget;

3. that £0.268m from additional New Homes Bonus is allocated to a revenue contingency held within Corporate Items;

4. to approve an increase of 2 per cent (2%) in Council Tax for 2013/14;

5. that specific grants subsumed into formula grant for 2013/14 are passported to the relevant directorate to which the spending commitments relate;

6. that the combined additional funding and spend reduction in Early Intervention Grant of £1.9m is pass-ported into the People Directorate as a contingency for the 2013/14 financial year only;

7. that the £0.200m MTFF allocation for the impact of school transfer and the £0.300m allocation for forecasted shortfall on Council income is moved into to a revenue contingency;

8. that a new allocation of £0.250m is made to the people Directorate to reflect loss of income from the Plymouth Life Centre naming rights;

9. that the three additional delivery plans of Terms and Conditions £0.100m; Treasury Management Property Investment fund £0.250m; and Treasury Management day-to-day investment return £.0250m are approved.

10. to utilise £7m of the Housing Stock Transfer (VAT Shelter) Receipts (£4m received to date plus £3m anticipated) to fund the overall capital programme.

11. to utilise £0.5m of the Revenue Reserve for Capital Financing to support the Plan for Jobs revenue initiatives, and a further £0.475m to fund the overall Capital Programme 2012/13 – 2015/16.

12. to draw-down £0.800m against the Waste Management Reserve in 2013/14 to address the anticipated funding shortfall on waste disposal (increased landfill tax liability);

13. that £1.000m from the NNDR calculation is held as a Technical Reform contingency within Corporate Items;

14. that £0.900 of the Council Tax income calculation is held as a Technical Reform contingency within Corporate Items;

15. to approve the capital programme as detailed in Figure 5 and Appendix B.

16. To approve the proposed net revenue budget requirement for 2013/14 of £212.563m

17. Using the Council tax base for 2013/14 as 66,958 [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act")]; calculate that the **Council tax requirement** for the Council's own purposes for 2013/14 is £85,007,402;

18. that the following amounts are calculated for the year 2013/14 in accordance with Sections 31 to 36 of the Act:

    (a) £554,191,254 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act **(Gross Expenditure and Transfers to Reserves);**

    (b) £469,183,852 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act **(Gross Income and Transfers from Reserves);**

    (c) £85,007,402 being the amount by which the aggregate at 9(a) above exceeds the aggregate at 9(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its **Council tax requirement** for the year. (Item R in the formula in section 31B of the Act);

    (d) £1,269.56 being the amount at 9(c) above (Item R), all divided by Item T (7 above), calculated by the Council, in accordance with Section 31B of the Act, as the **basic amount of its Council tax** for the year;

19. to note that the Police Authority and the Fire and Rescue Authority have not at present issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area. Once confirmed these will be included in the tables below;

20. the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, will set the indicative aggregate amounts shown in the tables below as the amounts of Council Tax for 2013/14 for each part of its area and for each of the categories of dwellings -

Plymouth City Council after two per cent increase

A	B	C	D	E	F	G	H
£846.38	£987.44	£1128.50	£1269.56	£1551.69	£1833.82	£2115.94	£2539.13

Devon and Cornwall Police Authority at 2012/13 level

A	B	C	D	E	F	G	H
£106.49	£124.23	£141.98	£159.73	£195.23	£230.72	£266.22	£319.46

Devon and Somerset Fire Authority at 2012/13 level

A	B	C	D	E	F	G	H
£49.28	£57.49	£65.71	£73.92	£90.35	£106.77	£123.20	£147.84

Aggregate of Council Tax Requirements prior to Police and Fire Authority announcements

A	B	C	D	E	F	G	H
£1002.15	£1169.16	£1336.19	£1503.21	£1837.27	£2171.31	£2505.36	£3001.43

21. To approve:

(a) The Treasury Management Strategy Statement for 2013/14

(b) The Investment Strategy for 2013/14 set out in Sections 8 and 9 of the report including the use of Specified and Non-Specified Investments

(c) The Lending Organisations and Counterparty limits set out in Appendix C

(d) The Prudential Indicators set out in the report covering the revised indicators/limits for 2012/13 and the forecasts/limits for 2013/14 to 2015/16

(e) The Authorised Borrowing limits of £310m, £301m and £285m for the period 2013/14 to 2015/16

(f) The Operational Boundary of £289m, £280m and £270m for 2013/14 to 2015/16

(g) The Minimum Revenue Provision (MRP) policy for 2013/14

It is a legal requirement that Plymouth City Council has a balanced revenue and capital budget signed off by Full Council. We also have a statutory duty to set our Council Tax level for the coming financial year, ahead of the 31st March deadline.

Alternative options considered and rejected:
1] We could present the budget and Council Tax level to a Full Council meeting in March, ahead of the statutory deadline of 31st March. However, this would give the tax payers in Plymouth very little advanced notice of the tax levels, and also make it difficult for our Revenues and Benefits department to ensure the required processes are in place to start collecting revenues as they become due;

2] We could present a budget which does not balance but this would not be legal; it is a statutory requirement for our S151 Officer to sign off a robust and balanced budget.

Published work / information:

Indicative Budget Cabinet Report 11 December 2012
Medium Term Financial Strategy Cabinet 12 June 2012
Finance Settlement Papers Department of Communities and Local Government
Draft Corporate Plan 2012-15 updated Dec 2012
The Prudential Code for Capital Finance in Local Authorities (2011 edition)
Equality Impact Assessments
The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
Capital Financing Regulations (2012)
Third quarter 2012/13 Finance and Human Resource Report - (to be presented to the same meeting as this paper)

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7
Equalities Impact Assessment	x								

Sign off:

Fin	Mcl213.039	Leg	TH/0083	HR		Monitoring Officer	TH/0083	Corp Prop	n/a	IT	n/a	Strat Proc	n/a

1. Introduction and Context

1.1. This budget report, including the Treasury Management Strategy Statement and Annual Investment Strategy 2013/14, supplements and complements the Corporate Plan 2012-2015 update. The Corporate Plan sets out the Council's vision to be a brilliant co-operative council, and sets out the council's strategic direction; the budget report sets out the resources available to match our priorities and vision.

1.2. The importance of transformational change to improve services with fewer resources is a theme throughout the plan. In the first year of this administration we can see real change. In renewing our spending plans we have started to examine our services to identify areas that could be delivered through a co-operative model.

1.3. This is the first budget of the current administration. As in the previous few years, it has been set under very challenging conditions, with unprecedented cuts in government resources, both in terms of revenue grant and capital support.

1.4. This report supplements the indicative budget published in December 2012. Changes to funding assumptions and resource allocations are detailed within this report with relevant changes to departmental target budgets shown in reflection of the final settlement and adjustments.

1.5. According to Central Government the net reduction in the "Spending Power" for Plymouth between 2012/13 and 2013/14 is 1.9%. Making adjustments for the change in treatment of specific grants, our formula grant has actually reduced by £7.8m, (7.4%) in 2013/14, dropping from £105.2m to £97.4.

1.6. In summary, there are £17.8m of revenue cuts required to balance this budget to the reduced funding from central government. We cannot escape the fact that the government's deep spending cuts will have a drastic impact on our council and the services we provide to local people and our support for the economy of the city.

1.7. However, we are continuing to work towards maintaining and improving the services we provide to the people of Plymouth, in particular the most vulnerable adults and children.

1.8. Our budget enables us to deliver the values within our Corporate Plan and become a brilliant co-operative council, with greater focus on key initiatives which will improve the quality of life for our residents.

- ***A brilliant co-operative council***
    - There are clear financial pressures now and in the future but we are determined to do a better job and to exceed customer expectations.
    - We will need to be very clear about what is core and non-core business and structure ourselves accordingly.
    - We will focus on providing much better value for money and public value **and** much higher quality customer services that are accountable to local people.
    - We will be seen as a brilliant, efficient, Co-operative Council that seeks to exceed customer expectations and puts customers at the heart of everything we do.

- ***The People Directorate***:

    - Adult Social Care service will give more freedom of choice and flexibility to individuals to determine how best to meet their own care needs.
    - Greater integration with health ensuring more emphasis is put on front-end preventative services to reduce future demand for hospital admissions and/or residential care.
    - Children Services are bringing together delivery across Social Care, Education Learner and Family Support and Homes and Communities alongside partners such as schools, health, police and community and voluntary sector. This will deliver re-designed early intervention and prevention services.
    - Homes and Communities service's new citywide Housing Plan sets out clear priorities to deliver against problems of increasing homelessness, lack of engagement within communities, poor and limited quality housing stock, and reduced public funding.
    - Programme Office – the volume of people using the city's leisure facilities, including the Plymouth Life Centre, continues to expand, linked to our healthy living agenda. We continue to work with partners to develop new exciting initiatives to enhance our city. An example is the plan to redevelop the pavilions site.

- ***The Place Directorate:***

    - The priorities for the Directorate during the next 12 months are the development of the City Deal, the development of the Plymouth Plan, to maintain the support provided to the business premises and housing market, and provide focused support to drive forward key opportunities in the city centre and Derriford; work with the private sector on schemes such as Plymstock Quarry and Bickleigh Down development and set out priorities for funding support of major infrastructure.
    - a number of key initiatives will be pivotal in ensuring that the Council's economic growth agenda is delivered including the Plan for Jobs, Tamar Science Park , City of Culture, a new economic development trust for the North of the City, and the 1000 club employment initiative.

- ***The Corporate Services Directorate***:

    - Reducing costs and driving efficiencies through joining up support services and working in partnership remains crucial to achieve challenging financial cuts. Our drive to create a shared ICT service with three other Devon District Councils could be a catalyst to future successful operating models.
    - Preparing for significant changes in the government's Welfare Reform is a key priority in the coming year. The introduction of a new local Council Tax Support Scheme will place additional demand on our services as we strive to administer an equitable scheme to the most vulnerable with less money.

- ***The Capital Programme:***

    - Our Capital Programme for the next four years is now £166.255m

    - We remain committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the City, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry). Significant schemes include:

- Building for Jobs – Plymouth Investment Fund
- Improving transportation Plymouth (Local Transport Plan)
- Theatre Royal Improvements
- Tor Bridge High School
- A University Technical College (UTC)
- Investment in Carbon Reduction Initiatives such as street lighting and solar panels
- History Centre

1.9. Consultation on the proposed budget has been undertaken over the past few months. The Council continues to improve how it communicates with partners and the public in relation to its budget setting and spending plans.

1.10. This year we launched a postal consultation, sending out over 8,000 questionnaires. For the three days of public scrutiny, we invited senior staff from our partners in the police, fire and health to be scrutinised on their plans for the city. We were also the first Council to webcast all of the meetings.

1.11. The December 2012 indicative budget advised that, at that stage, we had not produced a balanced budget, showing a resource gap of £0.8m. Within the detail of this report, we will show that from a mixture of new funding and additional delivery plans we now have a balanced budget.

1.12. The biggest grant change is the Early Intervention Grant (EIG) which has been un-ring fenced and subsumed into the general formula grant. Also subsumed into the formula grant is the lead local flood authorities funding £0.120m; Homelessness Prevention Grant £0.554m; and Learning Disability and Public Health Reform Grant £2.488m.

1.13. This report looks at the overall resources for the 2013/14 revenue budget and also covers changes to the way that business rates are funded; the impact of the new Council Tax Support Scheme; capital investment; our reserves; and our treatment of fees and charges.

1.14. The Treasury Management Strategy for 2013/14 was subject to scrutiny by an Audit Sub-Committee on 26 January 2013. Following the revisions to the capital programme there is a requirement for Full Council to approve the revised prudential indicators.

1.15. The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. Officers have worked closely with the Council's treasury management advisers to review the options available to produce a borrowing and investment strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising financial risk to the Council.

2. Resource review

Revenue funding comparisons between 2012/13 and 2013/14

2.1 One significant change to our resources is the calculation surrounding our Council Tax base (the number of properties that we are able to levy charges against). On a like for like basis, Plymouth have more chargeable properties for 2013/14 which would generate additional income of £0.200m each year compared with 2012/13.

It is recommended that additional income from the core Council tax base of £0.200m is allocated to offset the shortfall from the indicative budget.

2.2 Our core funding for the net revenue budget comprises of three major strands;

- grant funding based on the allocation from central government funded from the revenue that government derives from business rates;
- the council tax freeze grant for 2011/12 which is available for four years only until 2014/15; and
- locally collected and administered council tax revenue.

2.3 Making adjustments for the change in treatment of specific grants, our formula grant has actually reduced by £7.8m, (7.4%) in 2013/14, dropping from £105.2m to £97.4m.

2.4 Overall, our resource assumptions in the December 2012 indicative budget accurately reflected the actual settlement. One specific increase in funding which was not previously reported was additional New Homes Bonus for 2013/14 which has been confirmed as £2.406m. This is £0.268m more than anticipated.

It is recommended that £0.268m from additional New Homes Bonus is allocated to a revenue contingency held within corporate items.

Business Rates

2.5 Local government funding will fundamentally change from April 2013.

2.6 We will retain 50 per cent of the business rates generated in our area and receive Revenue Support Grant and a "top up" allowance to fund our remaining spending needs:

• Plymouth City Council business rates retained	£42.1m
• government top-up funding	£ 8.8m
• Government element of business rates	£46.5m
• **TOTAL**	**£97.4m**

2.7 Business rate collection is crucial to the stability of our future revenue resources and, as such, we will incorporate variations to projections within regular monitoring throughout 2013/14.

Council Tax

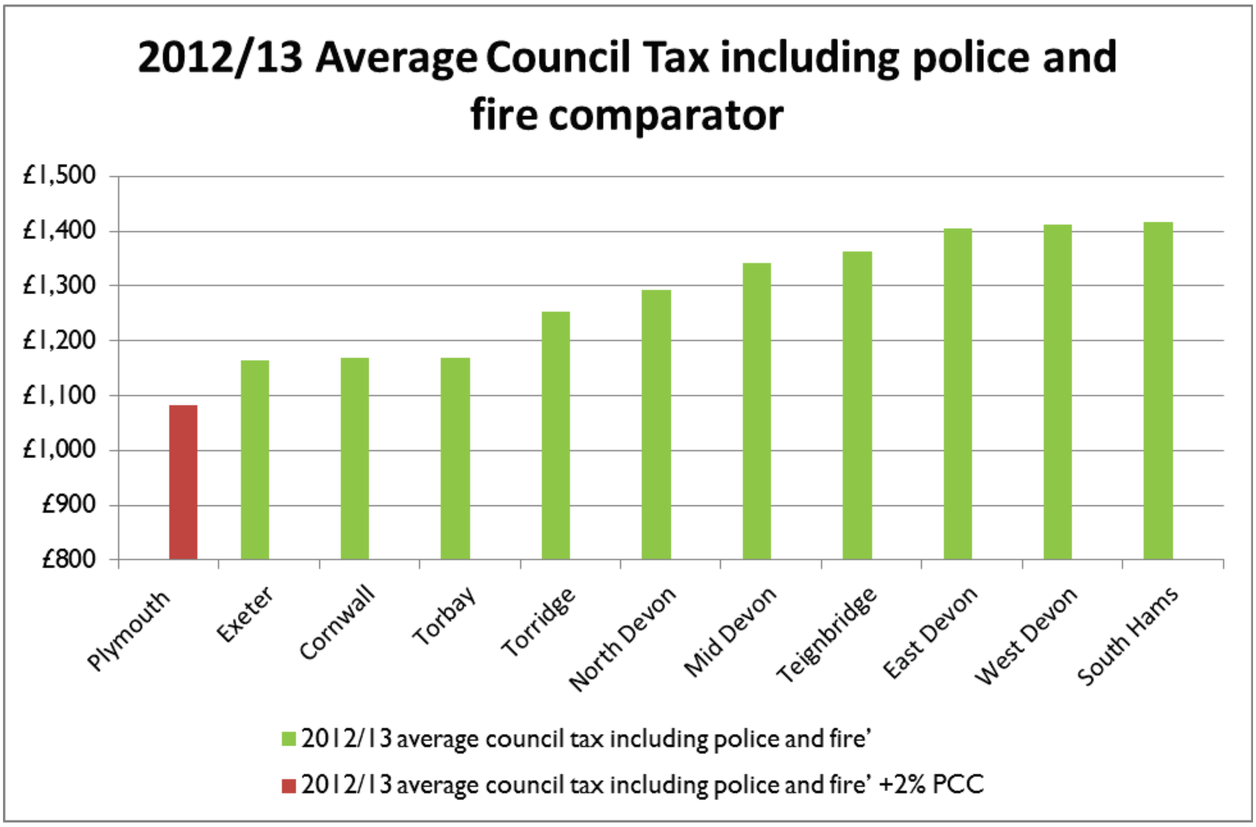
2.8 The final element of our core funding is the Council tax which we as a local authority charge to the residents of Plymouth.

2.9 We are committed to providing the best possible services to the people of Plymouth. In order to ensure we have the required funding, and working within the government's guidelines.

It is recommended that Full Council approve an increase of 2 per cent in Council tax for 2013/14.

This increase will still leave Plymouth with the lowest average Council tax charge across Devon and Cornwall as shown in ***Figure 1***.

<u>Figure 1 2012/13 Average Council tax (adjusted for a proposed 2per cent PCC increase)</u>



2.10 For residents living in a Band A property, a 2 per cent rise in Council tax equates to an extra 38p per week. This assumes that the Police Commissioner and Fire Authority also increase their precept by 2per cent (yet to be confirmed).
The Police and Crime Commissioner will propose a budget and precept to the Police and Crime Panel on 8 February 2013. If the panel vetos his recommendation they will meet on 22 February 2013 and refer the matter back to the commissioner with recommendations. The comissioner will then have until 1 March 2013 to respond and issue the precept. The panel does not have the power to veto for a second time.

2.11 Council tax income for 2013/14 has to be adjusted to reflect the new Council Tax Support Scheme (CTSS), and changes made through Council Tax technical reforms. Funding for our local Council Tax Support Scheme (CTSS) scheme will be through a specific financial grant and no longer reflect actual demand in need funded through the existing, national Council Tax Benefit Scheme.

2.12 The impact on our revenue resources for 2013/14 is that we receive a Council Tax support grant of £16.2m which is absorbed within our formula grant with a corresponding reduction of the same amount from the Council Tax base calculation.

2.13 Accounting for all of the technical changes in Council Tax legislation, the proposed 2 per cent increase in Council Tax, changes in tax base and treatment of funding changes, our actual Council Tax income for 2013/14 is estimated to drop to £85m. With the receipt of a £16.2m Council Tax Support Grant and integration of previous specific grants, such as the Early Years

Intervention Grant, our core grant increases to £125.2m next year. This gives Plymouth a combined revenue core funding allocation of £212.6m for 2013/14:

Figure 2 Funding Analysis – 2013/14 Revised Settlement £m

Core Grant	125.2
Council Tax	85.0
C/T Freeze Grant	2.4
TOTAL	**212.6**

2.14 Specific departmental grants that are now incorporated into our core formula grant amount to £27.8m as shown in ***Figure 3***. These grants are un-ringfenced and therefore, in theory, could be treated as general revenue resources. However, there are existing spending commitments within departments to which this funding relates.

It is recommended that specific grants subsumed into formula grant for 2013/14 are passported to the relevant directorate to which the spending commitments relate.

Figure 3 Analysis of Grants absorbed into Core Grant

Grant	**2013/14 £m**	**Comments**
Council Tax Support Grant	16.148	Offsets reduction in Council tax base
Lead Local Flood Authorities	0.120	Incorporated into the Place Directorate budget
Early Intervention Grant (EIG)	8.482	Incorporated into the People Directorate budget
Homelessness Prevention Grant	0.554	
Learning Disability and Public Health Reform Grant	2.488	
TOTAL	**27.792**	

2.15 The impact is to increase our formula grant funding, although it must be emphasised that this is not new funding, but rather reclassification of existing funding. The exception is the Council Tax Support Grant which increases our grant funding, but is offset by a reduction to our Council Tax base income.

2.16 For the 2013/14 budget year we are introducing efficiency in the way we communicate with the recipients of Council Tax information. We will not be producing a hard copy Council Tax leaflet to be distributed to every household in the city. In its place, we will be posting our leaflet on our web site. We will only send out a hard copy to those who specifically request it. We anticipate that this simple efficiency will save us fifteen thousand pounds in distribution costs.

2.17 We will also be encouraging the use of our web portal to allow rate payers to request electronic bills, and to make electronic payments.

3. Changes to funding allocations post December 2012 indicative budget

Funding Pressure on Adult Social Care

3.1 Adult Health and Social Care Services continue to manage service transformation and drive integration with health partners in order to mitigate future costs of social care against a challenging climate and changes to resourcing.

3.2 In the indicative budget presented to Cabinet in December 2012, we reflected the current pressures within the ASC service and applied additional funding totalling £4.9m to cover inflation, demographics and to manage the transition as the service fully adopts the new ways of working

3.3 Given the budget pressures identified in the 2012/13 budget monitoring, in particular around the Adult Social Care Service, the Chief Executive instigated a full review of the impact of rising costs and rising demand from demographic pressures in all areas across the council. The impact of demographic changes will now be closely monitored on a monthly basis, against clearly defined indicators, with the financial impacts incorporated into our MTFF.

3.4 Following challenge at budget Scrutiny and a detailed analysis commissioned by the Chief Executive, we need to further review our funding allocation to ASC for the difficult transition year 2013/14.

3.5 Upon reviewing the treatment of the Early Intervention Grant, (EIG), incorporating changes to the Dedicated Schools Grant, (DSG), and a new, specific, ‘Education Services Grant’ of £3.633m, there is a combined funding surplus of £1.333m in early year’s services against existing expenditure commitments.

3.6 In addition, for some time the Council has been planning for a reduction in EIG and, as such, has reduced 2012/13 spend commitments by circa £600k.

It is recommended that the combined additional funding and spend reduction in Early Intervention Grant of £1.9m is passported into the People Directorate for the 2013/14 financial year only. This additional funding allocation will be kept under close review and scrutiny by Corporate Management Team and Cabinet.

Medium Term Financial Forecast – revision to additional funding pressures

3.7 In the December 2012 indicative budget we incorporated a range of spending pressures that amounted to £8.9m. Upon further review and challenge, (including demographic trend analysis), we are now proposing a few minor changes to these allocations.

It is recommended that the £0.200m MTFF allocation for the impact of school transfer and the £0.300m allocation for forecasted shortfall on Council income is moved into to a revenue contingency.

It is recommended that a new allocation of £0.250m is made to the People Directorate to reflect loss of income from the Life Centre naming rights.

3.7 As part of the funding changes announced by the government, with effect from 1st April 2013 Plymouth City Council takes responsibility for Public Health in the city. With this responsibility we have been allocated specific grant funding from the Department of Health. For the first year 2013/14 this amounts to £11.160m. However, although this is new money for PCC, this funding is required to cover the cost of the provision of the service. We are undertaking a due diligence to ensure the liabilities we inherit are correct, and at this stage believe the funding to be adequate to meet those commitments.

4. Further actions to deliver a balanced 2013/14 revenue budget

4.1 The indicative budget presented to Cabinet in December 2012 showed a funding gap of £0.800m. Having allocated £0.200m from additional Council tax base income we have a residue shortfall of £0.600m to close.

4.2 We have developed three new delivery plans and are now presenting a balanced revenue budget for 2013/14 having closed the previously reported gap as detailed in ***Figure 4***

It is recommended that the three additional delivery plans of Terms and Conditions £0.100m; Treasury Management Property Investment fund £0.250m; and Treasury Management day-to-day investment return £.0250m are approved.

Figure 4: Actions to deliver a balanced revenue budget for 2013/14

Item	£m	£m	
Indicative Budget Funding Gap		**0.800**	**Per Indicative Budget Report Dec '12**
Council Tax Income	0.200		Additional income from C/Tax base
Terms and Conditions	0.100		Additional Delivery Plan
Treasury Management	0.250		Property Investment Fund return
Treasury Management	0.250		Day-2-Day investment return
Additional Income / Plans	**0.800**		

5. Review of Reserves and Risk Management

5.1 In terms of reserves, the Council retains a prudent approach to risk management. Our forecast core working balance, as at 31 March 2013, at £11.3m is 5.3 per cent of our net 2013/14 revenue budget. Our plans are to retain this working balance level throughout 2013/14 (compliant with the objectives set within our MTFF).

5.2 In addition to the working balance, specific earmarked reserves are forecasted at £20.1m at the end of March 2013 reducing to £18.1m by 31 March 2014. The balances now have to include, under International Financial Reporting Standards, the Schools Balance (currently £4.4m) and unused year end grants carry forwards (currently £1.2m).

5.3 A full analysis of reserves and balances was produced as part of the indicative budget. We are now proposing the following changes;

Within the Capital Receipts Reserve, we hold the receipts generated from the VAT shelter arrangements as part of the Housing Stock Transfer. These are currently earmarked to offset future potential liabilities that remain with the council, some of which are reducing over time and therefore it is appropriate to release up to 50% of the reserve for other purposes. At this stage we are recommending to release £7m to help fund the overall capital programme for the next three years.

It is recommended to utilise £7m of the Housing Stock Transfer (VAT Shelter) Receipts (£4m received to date plus £3m anticipated) to fund the overall capital programme.

It is recommended to utilise £0.5m of the Revenue Reserve for Capital Financing to support the Plan for Jobs revenue initiatives, and a further £0.475m to fund the overall Capital Programme 2012/13 – 2015/16.

It is recommended to draw-down £0.800m against the Waste Management Reserve in 2013/14 to address the anticipated funding shortfall on waste disposal (increased landfill tax liability)

It is recommended that £1.000m from the NNDR calculation is set aside into a Technical Reform contingency held within corporate items.

It is recommended that £0.900 of the Council tax income calculation is held back into a Technical Reform contingency held within corporate items.

5.4 The fixed Council Tax Support Scheme grant has taken no account of our proposed 2 per cent increase in Council tax levels, or the challenges of collecting this additional levy. To reflect this, the PCC scheme allows for a contingency of £0.400m to meet with extra demand and £0.100m to create an Exceptional Hardship Fund to be targeted to vulnerable clients who are struggling most to pay their Council tax. This scheme was approved by Full Council on 28 January 2013.

5.5 Adding the three elements together, the overall contingency that we will monitor against in 2013/14 for business rate generation, Council tax technical reforms and the Council Tax Support Scheme, amounts to £2.400m.

5.6 Given the budget pressures identified during 2012/13, in particular around the Adult Social Care Service, and following the demographic review undertaken as part of this budget setting process, we will track both pressures and opportunities for demographics, growth, new statutory initiatives etc. We will monitor on a monthly basis as part of our financial routine, and feed relevant changes into a quarterly review of our MTFF.

6. Review of Fees and Charges

6.1 Councils have powers to charge for a wide range of services. Any revisions to the 2013/14 fees and charges will be approved in line with the Council's constitution with due regard to the current economic climate.

7. Capital Resources

7.1 The proposed 2012/13 – 2015/16 Capital Programme totals £166.255m, profiled as shown in figure 5 and shown in further detail in Appendix B.

Figure 5 – Capital programme by Directorate 2012/13 – 2015/16.

Directorate	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
Corporate Services	7.738	6.041	1.427	0.485	15.691
Place	10.980	22.840	25.955	14.945	74.720
People	33.628	33.135	7.777	1.304	75.844
Total	**52.346**	**62.016**	**35.159**	**16.734**	**166.255**

7.2 The Capital Programme includes investment of £13.25m for the street lighting, solar pv and boiler replacement initiatives which are described in more detail in a separate report. The Investment Fund has also been fully incorporated within the Council's capital programme, as has the revenue implication of any additional borrowing required to source this investment. In total, the Investment Fund is being derived from the following sources:

Figure 6 – Investment Fund £m

Capital receipts	9.52	(including stock transfer reserve contribution)
Grants and Contributions	5.74	
Revenue Reserves	0.50	
Funds	0.50	includes Plymouth Investment Partnership contribution
Unsupported Borrowing	3.75	

7.3 The overall funding breakdown that sources the capital spend is shown in ***Figure 7***

Figure 7 - Four year funding of capital programme

	Capital Receipts £m	Unsupported Borrowing £m	Supported Borrowing £m	Grants and Contributions £m	S106 etc £m	Revenue and Funds £m	**Total £m**
2012/13	6.748	6.384	0.107	35.633	0.831	2.643	**52.346**
2013/14	2.981	10.123	0.000	45.289	0.750	2.873	**62.016**
2014/15	8.118	11.209	0.000	14.873	0.750	0.209	**35.159**
2015/16	3.500	6.201	0.000	7.033	0.000	0.000	**16.734**
Total	**21.347**	**33.917**	**0 .107**	**102.828**	**2.331**	**5.725**	**166.255**

7.4 The Council remains committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the city, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area.

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Appendix A Departmental Net Budgets 2013/14

Directorate / Service	13/14 Budget £000s
Chief Executive's Office	1,259
Departmental Management	732
Executive Office Budget Saving	0
Executive Office	**1,991**
Capital Financing	9,458
Other Corporate Items	(426)
Corporate Items	**9,032**
Finance, Effic, Tech & Assets	16,822
Democracy & Governance	5,030
Customer Services	4,822
Human Resources & OD	2,942
Departmental Management	267
Corporate Serv budget savings	0
Corporate Services	**29,883**
Childrens Social Care	26,922
Jt Comm & Adult Social Care	71,447
Education, Learning & Family S	18,203
Homes & Communities	10,306
Programmes Director projects	2,518
Management and Support	353
People Directorate	**129,749**
Economic Development	1,749
Transport & Infrastructure	14,034
Planning	1,593
Environmental Services	24,961
Strategic Waste Programme	305
Business Support	(1,031)
Management and Support	297
Place Budget Savings	0
Place Directorate	**41,908**
Total	**212,563**

Funding Sources

Report approved Full Council 25 Jan - PCC rates retained per NNDR1	**42,134**
From DCLG Settlement - Central Government "top-up"	**8,819**
From DCLG Settlement - Revenue Support grant (RSG)	**74,204**
From DCLG Settlement - Freeze Grant 2011/12	**2,398**
Council Tax after 2% increase	**85,008**
	212,563

Footnote: The funding for 2013/14 is now showing £212.563m compared to the 2012/13 figure of £203.765m
This reflects the net movement due to 1] funding reductions within core RSG and 2] grants which were previously specific grants being subsumed into the 2013/14 Formula Grant

APPENDIX B CAPITAL PROGRAMME

Details	2012-13 Latest Forecast	2013-14 Latest Forecast	2014-15 Latest Forecast	2015-16 Latest Forecast	TOTAL PROGRAMME 2012-16
	£000	£000	£000	£000	£000
CORPORATE SERVICES					
LIBRARIES:					
North Prospect Library	0	75	0	0	**75**
INFORMATION SYSTEMS:					
ICT- Compliance	0	107	0	0	**107**
Enterprise Applications	328	0	0	0	**328**
Data Centre Fit Out - Windsor House	1,497	0	0	0	**1,497**
Corporate Support Transformation (HR & OD)	354	1,200	0	0	**1,554**
Investment in Customer Transformation and ICT core infrastructure	0	2,501	1,427	485	**4,413**
Other	75	0	0	0	**75**
CORPORATE PROPERTY CAPITAL (INC. ACCOM STRATEGY):					
Accommodation strategy Phase 1 Offices:	5,235	0	0	0	**5,235**
Accommodation strategy Phase 2 Corporate Estate:	14	303	0	0	**317**
Stonehouse Town Wall	17	236	0	0	**253**
CORPORATE PROPERTY - SUSTAINABLE ENERGY					
PV Solar Panels - Pilot Project	168	0	0	0	**168**
PV Solar Panels - Council Properties	50	834	0	0	**884**
Boiler Replacement Programme for Council Properties	0	785	0	0	**785**
TOTAL CORPORATE SERVICES DIRECTORATE	**7,738**	**6,041**	**1,427**	**485**	**15,691**
PLACE					
ENVIRONMENTAL SERVICES CAPITAL PROGRAMME:					
Vehicle Replacement Ph. 1 Refuse Vehicle	558	0	0	0	**558**
Plant Repl Ph 3 Plant/Eqmt - Street/Park	200	1,507	0	0	**1,707**
Phase 2 Minibus replacement	0	810	170	0	**980**
Mercury abatement equipment in Crematoria	0	1,093	0	0	**1,093**
Refurbishment of Armada Way Toilets	100	0	0	0	**100**
West Hoe Pier	546	442	0	0	**988**
Bond Street Playing fields (Southway Community Football Hub)	2	335	0	0	**337**
Other	26	11	0	0	**37**
Retained waste Chelson Meadow restoration:					
Chelson Meadow Capping phase 2	435	0	0	0	**435**
Leachate treatment & storage upgrade	791	0	0	0	**791**
MRF Upgrade	0	3,000	1,000	0	**4,000**
SECTION 106 Environmental Services Projects:	146	91	0	0	**237**
LOCAL TRANSPORT PLAN:					
Balance of LTP programme SCP funding Allocation	40	217	3,574	4,114	**7,945**
Integrated transport system (ITS)	50	100	0	0	**150**
Plymouth Station Phase 3	107	323	0	0	**430**
LSTF2 Access to stations	118	47	280	0	**445**
Bus Punctuality improvement plan (BPIP)	264	264	0	0	**528**
Strategic Cycle Network (SCN) & safer routes to school	945	0	0	0	**945**
SCN - Central Park to Crownhill Road	5	729	0	0	**734**
Digital speed cameras	0	261	0	0	**261**
Safer sustainable neighbourhoods	318	576	0	0	**894**
Mayflower East Car park	110	0	0	0	**110**
Visitor plan - wayfinding & pedestrian access	324	0	0	0	**324**
Other	78	122	30	0	**230**
CAPITALISED MAINTENANCE:					
Annual Structural Maintenance:	715	265	0	0	**980**
Highway maintenance & essential engineering:	2,055	2,053	0	0	**4,108**
OTHER TRANSPORT PROJECTS NON LTP:					
Access to the Life Centre	200	0	0	0	**200**
Strategic Road Network Public Transport initiatives	364	0	0	0	**364**
East End Community Transport Improvement Scheme	632	0	0	0	**632**
Street Lighting Bulb Replacement	0	0	7,065	4,515	**11,580**
Other	52	27	0	0	**79**
SECTION 106 Transport Projects:	184	552	0	0	**736**
Delivery of rights of way improvement plan					
Plymouth Connect LSTF scheme:					
- Laira Rail Bridge	92	1,157	1,893	0	**3,142**
- Friary Park Path	0	161	0	0	**161**
- Finnigan Road Junction	355	0	0	0	**355**
- Exeter St - University Cycle Path	72	129	0	0	**201**
- Way finding signage	4	140	0	0	**144**
Northern Corridor Major Public Transport (George Junction)	107	0	0	0	**107**
Flood defence:	66	0	0	0	**66**
ECONOMIC DEVELOPMENT PROJECTS:					
City Market electrical refurbishment	218	0	0	0	**218**
Theatre Royal regeneration	0	1,995	0	0	**1,995**
The History Centre	2	100	1,806	0	**1,908**
Investment Fund	0	4,630	9,404	5,966	**20,000**
Coastal communities	121	872	333	0	**1,326**
Other	29	6	0	0	**35**
JOINT COMMITTEE'S WITH CORNWALL COUNCIL:					
- Purchase of Marquee	60	0	0	0	**60**
PLANNING:					
Saltram Countryside Park	65	494	0	0	**559**
Chelson Meadow landscaping	0	92	300	0	**392**
Plymouth Natural Networks	5	0	100	350	**455**
Royal William Yard Steps	237	0	0	0	**237**
Home Energy	34	129	0	0	**163**
Other	148	110	0	0	**258**
TOTAL PLACE DIRECTORATE	**10,980**	**22,840**	**25,955**	**14,945**	**74,720**

Details	2012-13 Latest Forecast	2013-14 Latest Forecast	2014-15 Latest Forecast	2015-16 Latest Forecast	TOTAL PROGRAMME 2012-16
PEOPLE					
Children's Social Care					
Autistic Spectrum Disorder (ASD) and Complex Need	513	0	0	0	**513**
Other	122	0	0	0	**122**
Joint commisioning and Adult Social Care					
ASC Grant - Major Adaptations	5	66	50	0	**121**
Adults' Personal Social Services Capital Grant (DoH) 11-12, 12-13	0	141	553	0	**694**
CareFirst	445	170	353	0	**968**
Extra Care Housing Support (Gap Funding)	200	500	0	0	**700**
Improving Care Home Environments	0	305	0	0	**305**
Homes and Communities					
Disabled Facilities (incl Care & Repair works)	1,837	1,530	893	0	**4,260**
Home improvement assistance	303	280	0	0	**583**
Gypsy and Traveller Site - Broadley Park	20	161	609	0	**790**
Programmes Director Projects					
Plymouth Life Centre - Ice Provision	1,200	800	0	0	**2,000**
Plymouth Life Centre - Build - Constructions	1,669	0	0	0	**1,669**
Plymouth Life Centre - FF&E	218	0	0	0	**218**
BSF					
Estover CC - Campus/Replacement College	3,512	0	0	0	**3,512**
Downham School Demolition	75	0	0	0	**75**
BASIC NEED- Nursery Places					
2 Year Olds Nursery Places	100	1,400	250	0	**1,750**
BASIC NEED- Wave 1					
Increasing Capacity in Primary Schools	0	0	2,062	0	**2,062**
Weston Mill- Basic Need	49	120	0	0	**169**
Riverside - Basic Need	1,072	1,081	0	0	**2,153**
Mount Wise - Basic Need	998	0	0	0	**998**
Ernesettle - Basic Need	614	0	0	0	**614**
Prince Rock - Basic Need	1,165	0	0	0	**1,165**
BASIC NEED- Wave 2					
Salisbury Road - Basic Need	850	983	0	0	**1,833**
St Peters CE - Basic Need	170	0	0	0	**170**
St Josephs - Basic Need	1,079	728	0	0	**1,807**
Stoke Damerel Primary - Basic Need	505	0	0	854	**1,359**
Other	97	0	0	0	**97**
BASIC NEED- Wave 3					
Pilgrim - Basic Need	55	1,429	966	0	**2,450**
Lipson Vale - Basic Need	0	72	0	0	**72**
BASIC NEED- Wave 4	0	23	0	0	**23**
ACADEMIES					
MAP	4,862	4,640	0	0	**9,502**
ASAP	3,948	7,470	158	0	**11,576**
MAP - Free School Places	307	3,559	0	0	**3,866**
UTC	3,771	4,129	0	0	**7,900**
DEVELOPMENT WORKS					
Boringdon - Replacement of temporary classrooms	1,354	0	0	0	**1,354**
Other	67	40	0	0	**107**
CONDITION WORKS					
Knowle Primary - Boiler and Condition Works	100	1,524	900	0	**2,524**
Condition bid programme	0	450	450	450	**1,350**
Woodfield - Replacement	50	260	0	0	**310**
Holy Cross RC (VA)- MUGA in Beaumont Park	0	177	0	0	**177**
Other	389	92	0	0	**481**
S106 PROJECTS					
Lipson CC - S106 project	123	0	0	0	**123**
Other	155	0	0	0	**155**
ACCESS	5	17	0	0	**22**
SCHOOL MEALS					
St Boniface - Exceptional TCF for practical cooking spaces	264	0	0	0	**264**
Other	57	0	0	0	**57**
SEN AND INCLUSION	176	0	0	0	**176**
HARNESSING TECHNOLOGY	8	0	0	0	**8**
DEVOLVED CAPITAL FORMULA					
Formula Devolved Capital	0	624	533	0	**1,157**
Other	677	289	0	0	**966**
DEVOLVED CAPITAL PROJECTS	442	75	0	0	**517**
TOTAL PEOPLE DIRECTORATE	**33,628**	**33,135**	**7,777**	**1,304**	**75,844**
TOTAL CAPITAL PROGRAMME	**52,346**	**62,016**	**35,159**	**16,734**	**166,255**

Appendix C

Treasury Management Strategy Statement and Annual Investment Strategy 2013/14

1. Introduction/Background

1.1 The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. Officers have worked closely with the Council's treasury management advisers, Arlingclose Ltd, to review the options available to produce a borrowing and investment strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising financial risk to the Council.

1.2 This report outlines how the treasury management function contributes to the Council's overall policy objectives. It also outlines the risks inherent within the treasury management function and how officers will seek to minimise those risks.

1.3 The borrowing and investment policies proposed in this report therefore offer flexibility for the Director for Corporate Services, acting under delegated powers in accordance with the Constitution, to respond quickly to market circumstances without the need to seek prior Cabinet approval. Any amendments to the Treasury Management Strategy will require the approval of Cabinet with the exception of changes to the Prudential Indicators which can only be approved by Full Council.

1.4 The strategy over the medium term will be to align borrowing with the Capital Financing Requirement and investments with available balances and reserves.

1.5 The Council will continue to regard Risk, Security and Liquidity as the key factors in all its investments with the interest rate achieved only considered after these prime objectives. Following discussions with Arlingclose it is proposed that investments be limited to a maximum of two years in fixed term deposits with organisations meeting the appropriate credit quality, with consideration to longer-term investments in Certificate of Deposits (CD's), Registered Providers (RP's), Pooled Funds and Government/Corporate Bonds. Further details are outlined in the report.

1.6 This report also outlines the Council's Prudential Indicators for the next three years as required by the Local Government Act 2003, together with the MRP policy for 2013/14 required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. These require approval by Full Council. The CIPFA Code of Practice on Treasury Management requires a formal mid year report and an end of year report, as a minimum, to be produced and presented to Full Council.

1.7 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to set a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.8 CIPFA has defined Treasury Management as:

"the management of the organisation's investments, 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."

1.9 The Council's current Treasury Management Policy Statement is set out in Appendix A. This was approved by Council on 27th February 2012. This policy remains unchanged for 2013-14 and is provided for information only. Treasury Management activity is a key factor for the Council achieving its objectives. The strategy takes into account the impact of the Council's revenue budget and capital programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

1.10 Each year, Officers work with the Council's Treasury Management advisers, currently Arlingclose, to develop a strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising, as far as possible, the risks associated with treasury management activity. The Council's detailed Treasury Management Strategy and Annual Investment Strategy is presented to an Audit Committee for scrutiny, prior to submission to Cabinet and Full Council for final approval.

1.11 The purpose of this Treasury Management Strategy Statement is to approve:

- Revisions to Treasury Management Strategy and Prudential Indicators for 2012/13;
- Treasury Management Strategy for 2013/14;
- Annual Investment Strategy for 2013/14 including the use of Specified and Non-Specified investments;
- Prudential Indicators for 2013/14, 2014/15 and 2015/16;
- MRP Statement for 2013/14; and
- Counterparty List applicable from 1 April 2013

1.12 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at its meeting of Full Council in April 2002. The council has incorporated the changes from the revision to the CIPFA Code of Practice in 2009 and 2011 into its treasury policies, procedures and practices.

1.13 The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risk including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's Treasury Management Strategy.

2. Treasury Management Risk

2.1 No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of the Council's treasury management activities. The CIPFA code lists risks to treasury activity as:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

2.2 The Council will continue to minimise risks contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balances certainty and security with liquidity and yield. The Council will continue to make use of internal borrowing and short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments. Further details of specific risks in the current borrowing and investment portfolios are outlined in the relevant sections.

2.3 Risk is managed by way of the limits set within the Prudential and Treasury Indicators which are required to be approved by Full Council before the start of each financial year.

3. Policy on the Use of Financial Instruments for the Management of Risks

3.1 Financial Instruments called derivatives are generally used to hedge risk, but can also be used for speculative purposes. Derivatives are instruments that can be bought to offset the risk of investments or debt held by the Council. They can be used to provide a hedge against interest rate risks. An example would be an interest rate swap used to exchange variable interest rates for fixed interest rates or vice versa reducing the risk of exposure to large levels of variable or fixed debt and balancing this against the mixture of variable and fixed rate investments.

3.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

3.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

3.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

3.5 The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

4. The Council's Forecast Treasury Position

4.1 This report including Prudential Indicators is based on the latest available information on the Capital Programme and financing for 2012/13 to 2015/16. This is subject to approval by Cabinet on 12th February 2013. Any amendments to Prudential Indicators as a result of updates to the Capital Programme will be reported as a supplement to this report to be approved by Full Council on 25th February 2013.

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with the Cash Backed Internal Balances, are the core drivers of the Authority's Treasury Management activities. The movement in actual external debt and balances combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. The forecast CFR, borrowing, balances and the resulting net borrowing requirement is set out in table 1 below.

Table 1

	2012/13 Estimate £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2105/16 Estimate £m**
Total CFR	274.214	278.983	269.763	260.414
Less: Existing profile of borrowing	231.403	191.403	191.403	191.403
Other Long Term Liabilities	41.485	39.981	38.456	36.923
Cumulative Maximum External Borrowing Requirement	**1.326**	**47.599**	**39.904**	**32.088**
Internal Balances	**58.232**	**52.296**	**48.520**	**43.030**
Cumulative Net Borrowing Requirement/(Investments)	**(56.906)**	**(4.697)**	**(8.616)**	**(10.942)**

4.3 The actual and estimated treasury position for 31/3/2013 and 31/3/2014 is as follows:
Table 2

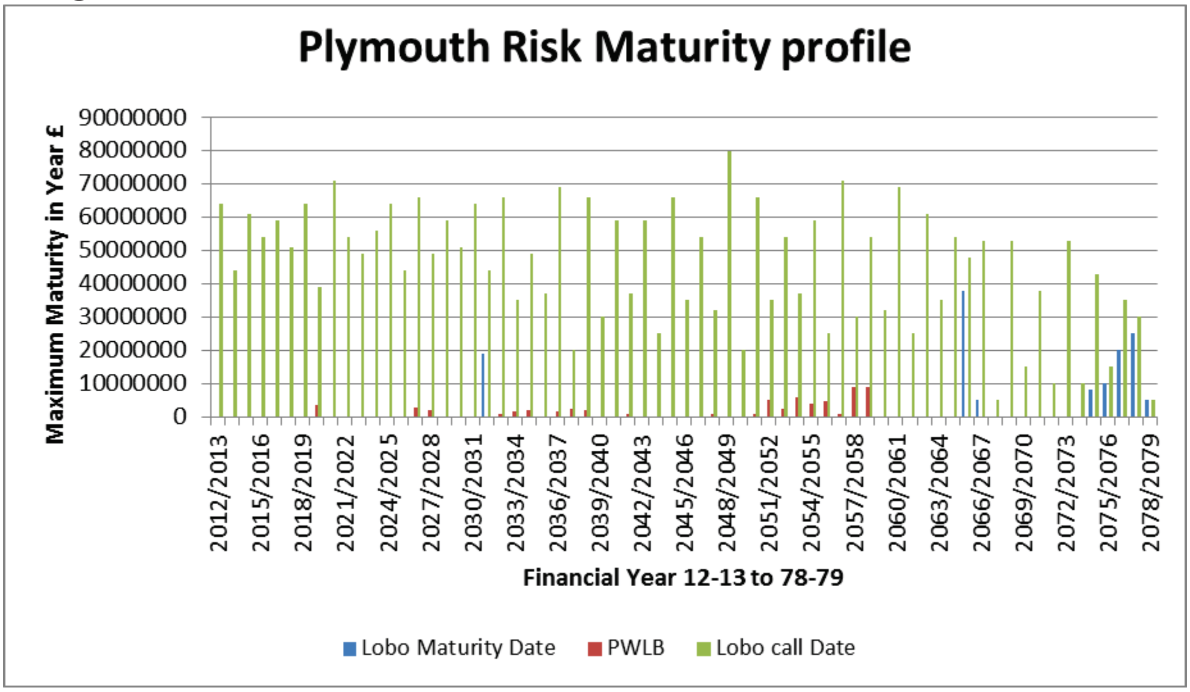
	08/01/2013 Actual £m	Ave %	31/3/2013 Estimate £m	Ave %	31/3/2014 Estimate £m
External Borrowing					
Fixed Rate PWLB	61.315	5.40	61.315	5.40	61.315
Fixed Rate – Lobo	48.000	4.24	86.000	4.38	69.000
Variable Rate – Lobo	82.000	4.53	44.000	4.50	61.000
Temporary Borrowing	43.500	0.27	40.000	0.27	47.000
Fixed Rate Bonds	0.088	1.08	0.088	1.08	0.088
Sub Total External Borrowing	234.903	3.91	231.403	3.96	239.403
PFI	31.017	8.73	30.246	8.73	29.440
Finance Leases	2.584		2.190		1.954
Tamar Bridge & Torpoint Ferry	9.510		9.049		8.588
Total External Debt	**278.014**		**272.888**		**278.384**
Total Investments	**117.708**	**0.90**	**82.292**	**0.90**	**80.000**

4.4 Lobo loans are lender option borrower option loans, where the lender has the option to vary the rate at pre-agreed dates and the borrower then has the option to accept this rate or repay the loan. The option dates are set for periods ranging from 2 to 5 years. Where the period to the option date is one year or greater the loan is treated as a fixed rate. Where the period to the option date falls below one year the loan then becomes potentially subject to a change in rate in that year and therefore the loan is treated as a variable rate loan.

4.5 The Portfolio above allows for an increase in short-term borrowing and a reduction in internal borrowing due to the improvement in credit conditions. This is subject to variation based on changes in forecast cashflow, the availability of appropriate loans and variations to the borrowing requirement for the Capital Programme. Any borrowing will be maintained within the Council's Capital Financing Requirement (CFR). If credit conditions worsen the Council will revert to the use of internal funds reducing the level of both external debt and investments at 31st March 2013 and 31st March 2014.

4.6 <u>Debt Maturity</u>
The following graph shows the maturity profile of the Council's long-term external debt.

Figure 1



*The debt portfolio continues to include £130m of LOBO (market) loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in green) to enable officers to risk manage the Council's cashflows.

4.7 The debt portfolio continues to have a higher weighting of market (LOBO) loans to PWLB. LOBO loans inherently carry a higher risk than PWLB loans as the Council cannot effectively control the repayment of such loans and is unable to take advantage of rescheduling opportunities when interest rates change. This will be addressed over time with any new long term borrowing taken in PWLB loans.

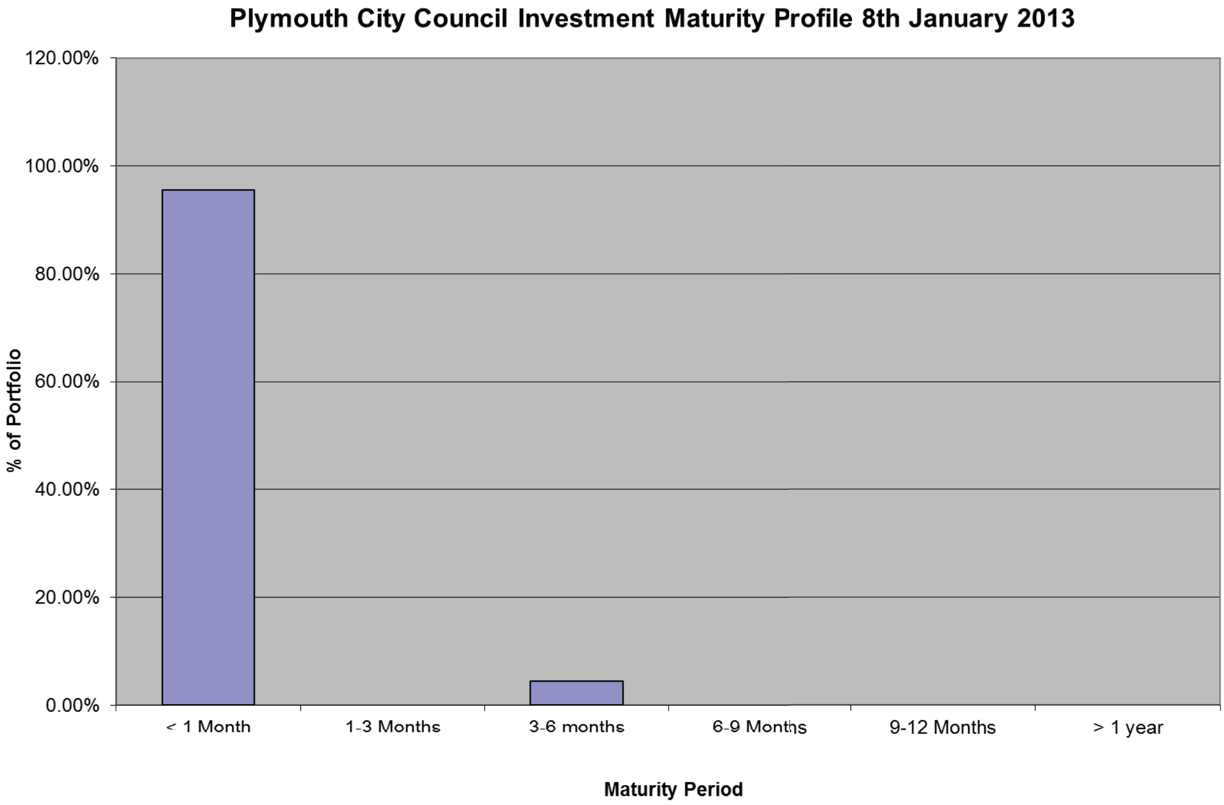
4.8 The estimate for interest payable during 2013/14, as included in the revenue budget, is £9.060m.

4.9 **Investments**

The Council's investments at 8th January 2013 are £117.708m, estimated to reduce to £82.292m at the end of the year based on forecast cashflow requirements and the continued strategy of taking short-term borrowing to meet the Council's capital expenditure financing requirement. The actual position at year end will depend on the continuation of this strategy subject to the credit conditions for the rest of the financial year and any variations in cashflow.

The graph below shows the current maturity profile of the Council's investments.

Figure 2



4.10 The Council's investments at 8th January 2013 were as follows:

Table 3

Counterparty	**Total**
	£m
Iceland	4.133
Banco Santander	
Santander UK	29.500
Lloyds Banking Group	
Bank of Scotland	24.350
Barclays	29.900
Royal Bank of Scotland (RBS)	29.825
Total	**117.708**

4.11 In terms of risk management, with the exception of the £4.133m still held in Iceland, the investment portfolio is now held either in UK banks or building societies, or UK subsidiaries of foreign banks. These banks are viewed as systemically important to the UK economy and as such in the short to medium term would have the support of the UK government. Whilst these institutions continue to have this support, there is a risk, albeit a small risk, should the UK Government, i.e. our sovereign state, collapse.

4.12 The estimate for interest receipts for 2013/14 as included in the revenue budget proposals is £0.583m.

5. Interest Rate Forecasts

5.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

5.2 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix B. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

6. The Council's Borrowing Requirement and Prudential Indicators

6.1 The underlying need to borrow for capital

6.1.1 The underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR). The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the revenue budget each year. The estimated MRP included in the 2013/14 budget is £8.101m.

6.2 Table 4 below shows the estimated CFR over the medium term.

Table 4 Prudential Indicator- CFR

Capital Financing Requirement	31/3/2013 Approved £m	31/3/2013 Revised £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m	31/3/2016 Estimate £m
Total CFR	**260.698**	**274.214**	**278.983**	**269.763**	**260.414**

6.2.1 Capital expenditure not financed from internal resources, i.e. not from capital receipts, capital grants and contributions, revenue or reserves, will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP to the Revenue Account.

6.3 Prudential Indicator - Gross Debt and the Capital Financing Requirement

6.3.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt 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 capital financing requirement for the current and next two financial years.

6.3.2 If in any of these years there is a reduction in the Capital Financing Requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

6.3.3 The Director for Corporate Services reports that the Authority had no difficulty meeting this requirement 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.

6.4 The funding of the capital programme is kept under constant review. Due to the removal of supported borrowing previously included within the settlement for capital programmes, replaced by grant, the majority of borrowing taken to cover capital expenditure is unsupported funding with the full cost of this borrowing being met from the Council's revenue budget. The estimated borrowing requirement forecast to cover the capital programme over the next 3 years based on the current monitoring positions is:

	£m
2013/14	14.518
2014/15	1.598
2015/16	1.686

6.5 Actual borrowing may be greater or less than the CFR but, in accordance with the Prudential Code, the Council will ensure that borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimated additional CFR for the current and next two financial years. It is currently forecast that the Council will have no borrowing in advance at 1 April 2013.

6.6 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

6.7 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments). The limits include any PFI or Finance Lease repayments. The limits proposed for the medium term period are shown in table 5.

Table 5 Prudential Indicator – Authorised Limit for External Debt

Authorised Limit for External Debt	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Limit £m**	**2014/15 Limit £m**	**2015/16 Limit £m**
Borrowing	275	259	**270**	262	248
Other Long-term Liabilities	34	42	**40**	39	37
Total	**309**	**301**	**310**	**301**	**285**

6.8 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario, but without the additional headroom included within the Authorised Limit. Table 6 shows the Operational Boundary proposed for the medium term period.

Table 6 Prudential Indicator – Operational Boundary for External Debt

Operational Boundary for External Debt	2012/13 Approved £m	2012/13 Revised £m	2013/14 Limit £m	2014/15 Limit £m	2015/16 Limit £m
Borrowing	245	237	**249**	241	233
Other Long-term Liabilities	34	42	**40**	39	37
Total	**279**	**279**	**289**	**280**	**270**

6.9 The borrowing limits are required to be formally approved by Full Council and, whilst these can be amended during the year, any amendment also requires Full Council approval. The limits will reduce in 2014/15 and 2015/16 with MRP greater than current forecast borrowing to cover the capital programme.

6.10 The Director for Corporate Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Full Council. The revised limit for 2012-13 reflects an increase in other long-term liabilities as a result of 50% of the debt of the Tamar Bridge and Torpoint Ferry Joint Committee being brought on to the Council's balance sheet in accordance with accounting requirements.

6.11 The Prudential Code requires that capital expenditure remains within sustainable limits and, in particular, requires authorities to consider the impact on Council Tax. The tables below show the anticipated capital expenditure over the period to 2015/16, as outlined in the latest approved capital programme, and how this expenditure will be financed.

Table 7 Prudential Indicator – Estimates for Capital Expenditure

Capital Expenditure *	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total	**52.121**	**53.691**	**68.922**	**23.037**	**8.719**

The capital expenditure is expected to be financed as follows:

Table 8

Capital Financing *	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital Receipts	9.955	**6.775**	6.454	5.606	-
Grants and Contributions	33.578	**36.655**	44.264	14.873	7.033
Section 106/Tariff	956	**0.801**	0.750	0.750	-
Revenue/Fund	1.390	**3.188**	2.936	0.210	-
Total Financing	**45.879**	**47.419**	**54.404**	**21.438**	**7.033**
Borrowing:					
Supported Borrowing	0.047	**0.107**	-	-	-
Unsupported Borrowing	6.195	**6.165**	14.518	1.598	1.686
Total Funding	**6.242**	**6.273**	**14.518**	**1.598**	**1.686**
Total Financing and Funding	**52.121**	**53.691**	**68.922**	**23.037**	**8.719**

*The 2012/13 approved figures are as per the 2012/13 budget book with the 2012/13 revised and 2013/14 to 2015/16 estimates based on the latest forecast in the Quarter 3 capital monitoring report.

6.12 Incremental Impact of Capital Investment Decisions

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

Table 9 Prudential Indicator – Incremental Impact of Capital Investment Decisions

Incremental Impact of Capital Investment Decisions	**2012/13 Approved £**	**2012/13 Revised £**	**2013/14 Estimate £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Increase in Band D Council Tax	0.92	0.71	**1.17**	11.68	12.89

6.13 The impact on the Council Tax in 2013/14 and future years reflect the cumulative cost of financing the approved capital programme in 2013/14 to 2015/16.

6.14 Ratio of Financing Costs to Net Revenue Stream

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

Table 10 Prudential Indicator – Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
	8.56	7.91	**7.78**	8.78	9.15

7 The Borrowing Strategy for 2013/14

7.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Appendix B indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the gap between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue until 2016 and beyond. As borrowing is often for longer dated periods (anything up to 50 years), the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

7.2 The Authority's current level of debt and investments is set out at Table 1 and Table 2 in section 4 of this report.

7.3 As indicated in Table 1 in Section 4 of this report, the Authority has a forecast gross borrowing requirement of £47.599m in 2013/14 but has sufficient balances to avoid the need for external borrowing. However the recent strategy has been to borrow short-term funding from other Local Authorities up to the Capital Financing Requirement (CFR) allowing internal balances to be externally invested. Subject to credit conditions this strategy will be continued in 2013/14. Should credit conditions adversely change, internal borrowing will be used to reduce counterparty and credit risk. By essentially lending its own surplus funds to itself, the Authority is able to reduce overall treasury risk by reducing the level of its external investment balances. The Council will adopt a flexible approach to borrowing in consultation with its treasury management advisers, Arlingclose. The following issues will be considered prior to undertaking any external borrowing.

- Affordability
- Credit and Counterparty risk of increased investments
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing Source

7.4 Borrowing options available to the Council are:

- Internal
- Public Works Loan Board (PWLB)
- Local authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria)
- Commercial banks
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

7.5 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

7.6 The Authority has £130m exposure to LOBO loans (Lender's Option Borrower's Option) of which £86m of these can be "called" within 2013/14. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

7.7 **Debt rescheduling**

The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Reduce investment balance and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs

- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

As opportunities arise, they will be discussed with the Council's treasury advisers.

7.8 Any rescheduling activity will be reported to the Cabinet in monitoring reports and formal treasury management mid-year and annual reports will be presented to Audit Committee and Full Council.

7.9 The following Treasury 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 has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Table 11 Treasury Indicator – Upper Limits for Interest Rate Exposure

	2012/13 Approved %	**2012/13 Revised** %	**2013/14 Limit** %	**2014/15 Limit** %	**2015/16 Limit** %
Upper Limit for Fixed Interest Rate Exposure	200	200	**200**	200	200
Upper Limit for Variable Interest Rate Exposure	85	50	**50**	50	50

7.10 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Table 12 Treasury Indicator – Maturity Structure of Fixed Rate Borrowing

Maturity structure of fixed rate borrowing	**Approved Upper limit for 2012/13** %	**Upper Limit for 2013/14** %	**Lower Limit for 2013/14** %
under 12 months	50	**40**	**0**
12 months and within 24 months	60	**60**	**0**
24 months and within 5 years	40	**40**	**0**
5 years and within 10 years	25	**25**	**0**
10 years and within 20 years	30	**25**	**0**
20 years and within 30 years	30	**25**	**0**
30 years and within 40 years	25	**30**	**0**
40 years and within 50 years	30	**35**	**0**
50 years and above	25	**25**	**0**

These limits are based on the risk of Lobo loans being called and repaid at the next option date and not at the final maturity date.

ANNUAL INVESTMENT STRATEGY 2013-14

8 Investment Policy

8.1 In accordance with investment guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

8.2 The Authority and its advisers remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

8.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under statute. Non-specified investments are, effectively, everything else.

8.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 13 Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies (CD's)	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×

8.5 Some changes have been implemented to the investment strategy for 2013/14 in response to changes in the CLG Guidance and improving conditions in financial markets. Registered Providers of Social Housing (RPs) have been included in specified and non-specified investments. The background behind the inclusion of this investment possibility is as follows:-

Over recent years RPs have met their commitments to provide social houses by financing their cashflow and capital requirements through bank loans and credit lines. Recently the drop in this lending has increased pressure on RP's to maintain early development cashflow and maintain the flow of affordable homes. They are looking for cash in the 1-3 year horizon, particularly to manage cashflow, as well as longer term funding secured on property. Approximately 20 RPs have published credit ratings, principally from Moody's. 19 are in the Aa category and 1 in the A category. Rated RP's are typically the larger bodies who seek funding from the capital markets. Non-rated RP's operate within the strong regulatory framework as rated bodies, but they may use slightly different funding structures.

A high proportion of RP's revenue is derived from government subsidies which aids revenue stability. The steady rise in social housing letting will also continue to drive revenue. There is a perceived high likelihood of government support. Moody's view is a "very high likelihood that the UK government would act to prevent a default". Moody's also states the following: "The very high level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with an enforced merger or a transfer of engagements being possible. Recent history has shown that the UK government is willing to support the sector and it has, in the past, provided a guarantee for the housing association's overdraft facility.

In assessing a RP's suitability for investment a number of indicators will need to be considered. Debt/revenue ratios and business plan forecasts will be reviewed. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to any investments being made.

The principal amendments incorporated in the Investment Strategy for 2013-14 are in relation to the individual institutions with which the Authority is prepared to invest, an increase to the maturity limits for institutions on the Council's lending list and the maximum investments with Non-UK institutions. The Director for Corporate Services has delegated authority to manage counterparty limits within the maximum maturity limits set out within the 2013-14 investment strategy.

8.6 The financial institution credit rating limits in place and proposed for 13-14 is a minimum long-term rating of A- or equivalent with a minimum long-term sovereign rating for non UK countries of AA+ or equivalent. The minimum credit rating required to be met from all three credit rating agencies are:

Fitch Long-Term (LT) A-
Moody's Long-Term (LT) A3
Standard & Poor's Long-Term (LT) A-

8.7 In response to the improvement in credit conditions it is proposed to increase the maturity limits for fixed term deposits with approved banks and building societies from 1 to 2 years and deposits in negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds be limited to 5 years. It is proposed to increase the counterparty limit for Non-UK banks from £5m to £10m while keeping the limits for approved UK banks and Building Societies at £30m. It is also proposed to increase the limits for investments with other Local Authorities from £5m to £10m.

To enable the Council to take advantage of alternative investment options the limit on the use of Collective Investment Schemes is proposed to be increased from £10m to £20m and Registered Providers have been added with a limit of 10% of the total investment portfolio.

8.8 The following banks have been added to the list of available Counterparties for 13-14 on the advice of the authority's treasury management advisers to increase options and flexibility:

- Pohjola Bank – Finland. Long-term ratings: Fitch A+, Moody's Aa3, S&P AA-
- DBS Bank Ltd – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-
- United Overseas Bank – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-
- Oversea-Chinese Banking Corp – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-

8.9 Within the criteria set out above new specified and non-specified investments will be made/considered within the following limits:

Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term Deposit UK Government	DMADF (DMO)	Government Backed	No limit	12 Months
Term Deposits/Bills	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£10m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3	£30m	12 Months

		S&P LT A-		
Term Deposits / CD's / Call Accounts (including callable deposits)	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£10m	12 Months
Gilts	UK Government	Government Backed	20% of total investments	12 Months
T-Bills	UK Government	Government Backed	No limit	12 Months
Bonds issued by multilateral development banks	Non-UK	AAA or Government Guaranteed	20% of total investments	12 Months
Investments with Register Providers	UK Social Housing providers	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-Regulated by	10% of total investments	12 Months
Corporate Bonds	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investment	12 Months
Commercial Paper *	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investments	9 Months
Money Market Funds	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	AAA	20% of total investments Max £5m per fund limited to 0.5% of net asset value of MMF 2% of net asset value for Government MMF's	Call
Other MMF's and Collective Investment Schemes	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£20m	No set maturity date

* Commercial Paper (CP) is a short-term unsecured promissory note with a fixed maturity of 1 to 270 days. It is a money-market security issued (sold) by large banks and corporations to raise funds to meet short term debt obligations (for example, payroll), and is backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Although originally a paper instrument (hence the name), CP is now issued electronically and the notes are held in accounts on a central electronic register.

The following sets out limits for investments that fall within the category of non-specified Investments. These investments are required to be identified separately to ensure the Council understands these are higher risk, either due to counterparty risk, liquidity risk and/or interest rate risk. The Council has traditionally invested in term deposits or call accounts, although the annual strategy statements have outlined a number of other specified and non-specified instruments. Non-specified investments available to be used in 2013/14 are detailed below.

Non-Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term deposits with banks [1] which meet the specific investment criteria	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	£10m	2 Years
Term deposits with banks [1] which meet the specific investment criteria.	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£5m	2 Years
Term Deposits	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£10m	2 Years
CD's and other negotiable [2] instruments with banks and building societies which meet the specified investment criteria	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	£10m	5 Years
CD's and other negotiable [2] instruments with banks which meet the specified investment criteria	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£5m	5 Years
Investments with banks and building societies which do not meet the specified investment criteria (on advice from Treasury Management Advisers and authority from Section 151 Officer)	UK Banks / Building Societies		£5m	3 months

Investments with Registered Providers	UK Social Housing providers	Regulated by Homes and Communities Agency	10% of total investments	10 Years
Gilts *	UK Government	Government Backed	20% of overall investments	10 Years
Bonds issued by multilateral development banks *	Non-UK	AAA or Government Guaranteed	20% of overall investments	10 Years
Other MMF's and Collective Investment Schemes *	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£20m	No set maturity date

* Investments in Gilts, Bonds and Collective Investment Schemes will be considered following the advice of the authority's treasury management advisers, Arlingclose.

[1] 2 years is the maximum proposed duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the Authority's treasury management advisers.

[2] 5 years is the maximum proposed duration for negotiable instruments, with approved banks and building societies, such as certificate of deposits, although in practice the Authority may be investing for shorter periods depending on the operational advice of the authority's treasury management advisers.

The Authority will have a maximum of 30% of its investment portfolio in non-specified investments.

8.10 **Credit risk Prudential Indicator**

8.11 The Council considers security, liquidity and yield, in that order, when making investment decisions.

8.12 Credit ratings remain an important element of assessing risk but they are not a sole feature in the Council's assessment of credit risk.

8.13 The Council also considers alternative assessments of credit strength and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings for financial institution (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms/potential support from well resourced parent institutions;
- Credit Default Swaps (where quoted);
- Share prices (where available);
- Economic fundamentals (for example Net Debt as a percentage of GDP);
- Macro-economic indicators;
- Corporate developments, news, articles, market sentiment and momentum;
- Subjective overlay.

8.14 The only indicators with prescriptive values remain credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

8.15 With this is in mind Arlingclose have developed the following matrix to score the credit risk of an authority's investment portfolio:

- Value weighted average credit risk score
- Value weighted average credit rating score
- Time weighted average credit risk score
- Time weighted average credit rating score

Scoring methodology:

- 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
- Credit quality is calculated as:
  -AAA = highest credit quality = 1
  - D = lowest credit quality = 15

The Council will aim for A- or higher credit rating, with a score of 7 or lower, to reflect an investment approach with its main focus on security within the proposed use of counterparties and investment limits set in this report.

8.16 Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits up to 2 years and Certificates of Deposit (CDs) up to 5 years are included in Appendix C together with the limits in place at 8th January 2013.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

8.17 **Authority's Banker** – The Authority banks with the Co-operative Bank. At the current time it *does not* meet the minimum credit criteria of A- (or equivalent) long term and F1 or equivalent short-term. *Despite the credit rating being* below the Authority's minimum criteria the Co-operative Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

9 Investment Strategy

9.1 With short-term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

9.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

9.3 Money Market Funds (MMFs) will be considered but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each fund does not exceed 2% of the net asset value of the fund.

9.4 In order to diversify the portfolio from pure cash investments the use of Collective Investment Schemes will be considered as an alternative. Investment Funds such as Property, Equity and Bonds will be considered to add value and spread the risk of the Council's investments over a variety of asset classes.

9.5 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates. The current counterparty list and investment strategy permits the Council to invest in:

- 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, on the advice of Arlingclose
- Certificate of deposits with banks and building societies
- Bonds issued by multilateral development banks

- Gilts (Bonds issued by the UK government)
- UK Government Treasury Bills (T-Bills)
- Commercial Paper
- Corporate Bonds
- AAA-rated Money Market Funds (MMF) with a Constant Net Asset Value (Constant NAV investing predominantly in government securities)
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- 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

In addition to these available investments, new investment types proposed for 2013-14 to give greater flexibility within the risks identified in this report are:

- Registered Providers.

9.6 The Council needs to maintain flexibility in its investment options if it is to be able to respond quickly to changing circumstances, and the above list continues to outline a number of investment instruments available for use in the coming year. The inclusion of such instruments on the list will afford the Director for Corporate Services, acting under delegated authority in accordance with the Constitution and in consultation with the Treasury Management Board, the flexibility required to manage the investment portfolio on a day to day basis responding to market conditions without the need to seek prior Council approval for changes. Inclusion of an instrument on the list does not mean that the Council will necessarily make use of these during the year. New organisations and instruments would not be used without careful monitoring of the credit risk and liaison with our treasury advisers.

9.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office (DMADF) and UK Treasury Bills. The rates of interest from the DMADF/T-Bills are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

9.8 The Council and its treasury advisers, Arlingclose, will continue to analyse and monitor the indicators set out in 8.13 and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

9.9 The Council will keep a minimum of £15m in liquid call accounts at all times to ensure cash is available to meet its liabilities.

9.10 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2013/14. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

9.11 To protect against a lower for longer prolonged period of low interest rates and/or to provide certainty of income some longer-term investment options, set out below, may be considered during 2013/14 following the advice of our treasury advisers, Arlingclose.

- Longer-term deposits/CD's with Banks and Building Societies. Any deposits will be based on credit conditions and the rates available, with priority given to the security of funds.
- UK Government Gilts. Rates on offer have fallen sharply over the past year but these investments provide the highest level of security and may be considered if credit conditions worsen.
- Deposits with Local Authorities. These rates are lower than those available from Banks and Building Societies but provide additional security and may be used to secure investment returns.
- Supranational Bonds (bonds issued by multilateral development banks):- even at the lower yields likely to be in force, the return on these bonds would provide certainty of income against an outlook of low official interest rates.
- Pooled Funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments. These are investment products where the Council would purchase units and receive a dividend payment. The capital growth of these investments varies over time and would only be considered as long-term investments. Such funds include Property, Bonds and Equities. Due to fluctuations in the capital value with these type of investments there is a risk on disinvestment that the Council may not receive the full value of the original investment at the time the investment is withdrawn.
- Registered providers – These investments are likely to attract very competitive interest rates, with the Council in effect replacing banks as providers of short-term and long-term funding. Further investigation would be required to assess the security of this sector before any investment is made.

9.12 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No more than 30% of the Council's investment portfolio will be in investments exceeding 364 days at any one time.

Table 13 Prudential (Treasury) Indicator – upper limit for sums invested more than 364days

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2013/14 Estimate £m
	20	20	30	30	30

9.13 The Council's updated lending list for 2013/14 is included at Appendix D. These are the maximum limits proposed for 2013/14. Limits in place for each investment type and counterparty will depend on the economic circumstances and the credit risk. The list will continue to be reviewed and updated by the Director for Corporate Services during the year.

9.14 The target rate of return on new investment in 2013/14 is 0.80%. The investment interest included in the 2013/14 budget is £0.503m.

9.15 The benchmark to be used for the Council's investment returns will be the daily average 7- day London Interbank Bid rate (LIBID).

10. Investments defined as Capital Expenditure

10.1 The acquisition of share capital or loan capital in any body corporate, a loan or grant or financial assistance by the Council to another body for capital expenditure, and certain other types of investment are defined as capital expenditure under the relevant regulations.

10.2 The Council's policy is to not use any investment which will be deemed capital expenditure.

11. Balanced Budget Requirement

11.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget. The proposed budget for 2013/14 is set out in the 2013/14 budget report.

12. Annual MRP Statement

12.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

12.2 The four MRP options available are:

Option 1: Regulatory Method – this method replicates the position that would have existed under the previous regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes; the Capital Financing Requirement (CFR). The formula includes an item known as "Adjustment A" which was intended to achieve neutrality between the CFR and the former Credit Ceiling which was used to calculate the MRP prior to the introduction of the Prudential System on 1st April 2004.

Option 2: CFR Method – This method simplifies the calculation of MRP by basing the charge solely on the Authority's CFR but excludes the technical adjustments in Option 1, resulting in a higher charge using this method. The annual MRP is set at 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method – Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated as follows:

1. MRP commences in the financial year following that in which the expenditure is incurred or in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

2. The estimated life of the asset will be determined in the year that MRP commences and will not be subsequently revised. However additional repayments can be made in any year which will reduce the level of payments in subsequent years.
3. If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life on the land will be treated as equal to the structure, where this would exceed 50 years.

Option 4: Depreciation Method – The depreciation method is similar to that under option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practice to be charged to the Income and Expenditure account.

12.3 MRP in 2013/14: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

12.4 Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP in respect of that financial year and submit it to the Full Council. The proposed policy for 2013/14 is as follows:

Supported Borrowing
For borrowing supported by Revenue Support Grant the Council will continue to use the regulatory method (Option 1).

Unsupported Borrowing
For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual instalments over the life of the asset (Option 3).

Capitalisation Directions
For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual instalments over 20 years in line with DCLG guidance (Option 3).

PFI/Leases
MRP in respect of PFI and leases brought on the Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

MRP will be charged on the Tamar Bridge and Torpoint Ferries Joint Committee's outstanding unfinanced assets included in the Council's Capital Financing requirement. This will be offset by an equivalent receipt from the Joint Committee. This will also be the case in 2012-13 and.

MRP will commence in the financial year following the one in which the expenditure is incurred, except for expenditure funded by unsupported borrowing where the project is not complete at 31st March 2014 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

13. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

13.1 In accordance with the recommendations of the Treasury Management Code, the Council's Audit Committee will be responsible for the scrutiny of treasury management activities and practices.

13.2 The Director for Corporate Services will report to the Audit Committee and Full Council on treasury management activity and performance at least twice a year against the strategy approved for the year (being a mid year review and an end of year review).

13.3 The Council is required to produce an outturn report on its treasury activity no later than 30th September after the financial year end.

13.4 In addition treasury management activity will continue to be reported as part of the quarterly budget and performance reports to Cabinet and as part of the budget outturn report.

14. Other Items

14.1 <u>Business Rate Pooling</u>

Following the provisional Local Government Finance settlement, Plymouth along with each of the local authorities in Devon has confirmed their membership of a Devon wide Business Rates Pool. Pooling effectively combines the tariffs/top ups of individual authorities within the pooling area and treats the area as a single authority. Plymouth is the lead authority for the pool and as such will receive the payments that are due to each of the Devon authorities. The amounts that will flow through Plymouth as lead authority are currently being worked through but initial estimates are that they will be in the region of £20m pa spread over 24 payments per year. If this is the case, it is not thought that this will pose an issue for the Treasury Management strategy; however this will be kept under review over the next few months as the cash flow implications of pooling for 2013/14 become clearer. For the purposes of this strategy any additional cash receipts resulting from payments received on behalf of other Local Authorities will not count against the limits in place for investments with counterparties included in section 8.9 and Appendix D to this report. Where these funds can be invested will be at the discretion of members of the Governing Board for the Devon Business Rates Pool.

14.2 <u>Training</u>

CIPFA's Code of Practice requires the Director for Corporate Services to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Members of the Audit Committee received training in Treasury Management in October 2012. Council Officers will organise additional training for members and staff with Arlingclose and any other suitable organisation to ensure relevant needs are met.

14.3 Investment Consultants

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investments and
- How the quality of service is controlled

The Authority uses Arlingclose as treasury management advisers and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events

The authority maintains the quality of service through quarterly review meetings and periodically tendering for the provision of Treasury Management consultancy services.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and the Audit Committee and for the execution and administration of treasury management decisions to the Director for Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Economic & Interest Rate Forecast (Sections 5.1 & 7.1)

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
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	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
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
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
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
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
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
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-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
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
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.00
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
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
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

Underlying Assumptions:

- Consumer Price Inflation has fallen to 2.7% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and

subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, slow progress towards banking union) which has placated markets and curtailed some of the immediate risks although peripheral countries continue to struggle. Full-fledged banking and fiscal union is still some years away.

Recommended Sovereign and Counterparty List (Section 8)

Country/ Domicile	**Counterparty**	**Maximum Counterparty Limit £m**	**Limits in Place at 08-01-2013**	
			Maximum Counterparty limit £m	**Maximum period**
UK	Co-operative Bank (for banking & Liquidity purposes only)			
UK	Santander UK Plc (Banco Santander Group)	30	30	100 Days
UK	Bank of Scotland (Lloyds Banking Group) *	30	30	6 Months
UK	Lloyds TSB (Lloyds Banking Group) *	30	30	6 Months
UK	Barclays Bank Plc	30	30	12 Months
UK	HSBC Bank Plc	30	30	12 Months
UK	Nationwide Building Society	30	30	12 Months
UK	NatWest (RBS Group) *	30	30	6 Months
UK	Royal Bank of Scotland (RBS Group) *	30	30	6 Months
UK	Standard Chartered Bank	30	30	12 Months
Australia	Australia and NZ Banking Group	10	5	12 Months
Australia	Commonwealth Bank of Australia	10	5	12 Months
Australia	National Australia Bank Ltd (National Australia Bank Group)	10	5	12 Months
Australia	Westpac Banking Corp	10	5	12 Months
Canada	Bank of Montreal	10	5	12 Months
Canada	Bank of Nova Scotia	10	5	12 Months
Canada	Canadian Imperial Bank of Commerce	10	5	12 Months
Canada	Royal Bank of Canada	10	5	12 Months
Canada	Toronto-Dominion Bank	10	5	12 Months
Finland	Nordea Bank Finland	10	5	12 Months
Finland	Pohjola Bank	10	New counterparty for 2013/14	
France	BNP Paribas	10	5	100 Days
France	Credit Agricole CIB (Credit Agricole Group)	10	5	100 Days
France	Credit Agricole SA (Credit Agricole Group)	10	5	100 Days
France	Société Générale	10	5	100 Days
Germany	Deutsche Bank AG	10	5	12 Months
Netherlands	ING Bank NV	10	5	100 Days

Netherlands	Cooperative Centrale Raiffe (Rabobank)	10	5	12 Months
Netherlands	Bank Nederlandse Gemeenten	10	5	12 Months
Singapore	DBS Bank Ltd	10	New counterparty for 2013/14	
Singapore	Oversea-Chinese Banking Corporation (OCBC)	10	New counterparty for 2013/14	
Singapore	United Overseas Bbank (UOB)	10	New counterparty for 2013/14	
Sweden	Svenska Handelsbanken	10	5	12 Months
Switzerland	Credit Suisse	10	5	100 Days
US	JP Morgan Chase Bank NA	10	5	12 Months

- £30m total limit for UK bank/group to include money market call accounts
- Lloyds Banking Group limit to include deposits with:
  - Lloyds TSB
  - Bank of Scotland
- RBS Banking Group limit to include deposits with:
  - RBS
  - NatWest
- £10m total limit for Non-UK bank/group to include money market call accounts
- Credit Agricole Group limit to include deposits with:
  - Credit Agrcole CIB
  - Credit Agricole SA
- Limit of 10% of total investments in any Non-UK Country

This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty/country is downgraded, this list may be shortened.

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		Up to 12 months			2 Years
MAX AMOUNT		**Unlimited**	**£30M****	**£10M^^**	**£10m**
Investment Criteria	**Country**	**UK Government**	Minimum rating (Rating required for all 3 agencies): Fitch A-, Moody's A3, S&P A- **Long Term**	Minimum rating (Rating required for all 3 agencies): Fitch A-, Moody's A3, S&P A- **Long Term**	**Local Authorities**
UK Banks	**UK**		Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank		
UK Building Societies	**UK**		Nationwide Building Society		
Central Government	**UK**	UK Government Debt Management Office (DMO) - DMADF Treasury Bills (T-Bills)			
Local Authorities	**UK**				Unitaary Councils County Councils Metropolitan Councils London Borough Councils
Foreign Banks	**Australia**			Australia and NZ Banking Group Commenwealth Bank of Austalia National Austalia Bank Ltd Westpac Banking Corp	
	Canada			Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion Bank	
	Finland			Nordea Bank Finland Pohola Bank	
	France			BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale	
	Germany			Deutsche Bank AG	
	Netherlands			ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese Gemeeten	
	Singapore			DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank (UOB)	
	Sweden			Svenska Handelbanken	
	Switzerland			Credit Suisse	
	USA			JP Morgan Chase Bank NA	
Money Market Funds	**UK/Ireland/ Luxembourg**				
Bonds Issues by Multilateral Development banks	**Various**		****£30m total limit for Bank/group to include money market call accounts and certificates of deposits.** **deposits with:** **Lloyds TSB** **Bank of Scotland** **Royal Bank of Scotland Group to include deposits with:** **RBS** **NatWest**	**Limit of 10% of total investments in any non UK country** **^^Total Deposit limit in all periods with a non-UK bank/group £10m**	

Approved by Adam Broome, Director for Corporate Services

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		Up to 2 years		Up to 5 years (CD's and other megotiable instruments)	
MAX AMOUNT		£10M**	£5M^^	£10M**	£5M^^
Investment Criteria	Country	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-
UK Banks	UK	Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank		Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank	
UK Building Societies	UK	Nationwide Building Society		Nationwide Building Society	
Central Government	UK				
Local Authorities	UK				
Foreign Banks	Australia		Australia and NZ Commenwealth Bank National Austalia Bank Westpac Banking		Australia and NZ Banking Group Commenwealth Bank of Austalia National Austalia Bank Ltd Westpac Banking Corp
	Canada		Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion		Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion Bank
	Finland		Nordea Bank Finland Pohola Bank		Nordea Bank Finland Pohola Bank
	France		BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale		BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale
	Germany		Deutsche Bank AG		Deutsche Bank AG
	Netherlands		ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese		ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese Gemeeten
	Singapore		DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank		DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank (UOB)
	Sweden		Svenska Handelbanken		Svenska Handelbanken
	Switzerland		Credit Suisse		Credit Suisse
	USA		JP Morgan Chase Bank		JP Morgan Chase Bank NA
Money Market Funds	UK/Ireland/ Luxembourg				
Bonds Issues by Multilateral Development banks	Various	****£30m total limit for Bank/group to include money market call accounts and certificates of deposits. deposits with: Lloyds TSB Bank of Scotland Royal Bank of Scotland Group to include deposits with: RBS NatWest**	**Limit of 10% of total investments in any non UK country ^^Total Deposit limit in all periods with a non-UK bank/group £10m**	****£30m total limit for Bank/group to include money market call accounts and certificates of deposits. deposits with: Lloyds TSB Bank of Scotland Royal Bank of Scotland Group to include deposits with: RBS NatWest**	**Limit of 10% of total investments in any non UK country ^^Total Deposit limit in all periods with a non-UK bank/group £10m**

Approved by Adam Broome, Director for Corporate Services

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		10 Years		Pooled Funds	Money Market Funds
MAX AMOUNT		£20m	£20m	£20m~~	£5m *
Investment Criteria	Country	UK Government	Multilateral Development Banks	Pooled funds meeting the definition of a Collective Investment Scheme per SI 2004 No. 534 and subsequent amendments.	Minimum rating (Rating rquired from at leat 1 agency) Fitch / Moody's / S&P A Constant/Variable Net Asset value investing predominantly in Government securities. AAAm mf / Aaa/MR+ / AAAm A Constant/Variable Net Asset value investing in instruments issued primarily by financial institutions.
UK Banks	UK				
UK Building Societies	UK				
Central Government	UK	Gilts			
Money Market Funds	UK				
Money Market Funds	UK/Ireland/ Luxembourg				Aviva Investors Sterling Liqidity Fund Blackrock Sterling Liquidity Fund BNY Mellon Asset management Sterling Liquidity Fund CCLA Public Sector Deposit Fund Deutsche Managed Sterling Fund Fidelity International Institutional Goldman Sachs Liquid Reseve Fund HSBC Sterling Liquidity Fund Ignis Asset management Sterling liquidity Fund Insight Investments Sterling Liquidity Fund Invesco aim STIC Sterling Liquiditty Portfolio J.P. Morgan Sterling Liquidity Fund Legal & General Investment Management Sterling Liquidity Fund Morgan Stanley Investment Management Sterling Liquidity Fund Northern Trust Global Cash Fund Prime Rate Capital Management Sterling liquidity fund RBS Sterling Fund State Street Global Advisors GBP Liquidity Fund SWIV Global Liquidity Fund - Sterling Fund
Pooled Funds	Various			CCLA Lamit property Fund Elite Chartis Premium Income Fund Payden & Rygel Sterling Reserve Fund	
Bonds Issues by Multilateral Development banks	Various		Council of Europe Development Bank (CEDB)* European Bank for Reconstruction and Development (EBRD)* Eurpoean Investment Bank (EIB)* Inter-AmericanDevelopment Bank (IADB)* International Bank for Reconnstruction and Development (the World Bank)* Kreitanstalt fuer Wiederaufbrau (KFW) Nordic Investment Bank (NIB)*		
Footnotes:		Total Investment in Gilts not to Exceed 20% of investment portfolio	* Maximum total Investments in Bonds£20m. Not to exceed 20% of total investment portfolio.	~~ Total Investments in pooled funds which meet the definition of a collective sheme as per SI 2004 No. 534 and subsequent amendments not to exceed £20m.	* Total MMF investments not to exceed 20% of investment portfolio. Maximum £5m per fund limited to 0.5% of net asset value or 2% of net asset value for Government MMF's

Approved by Adam Broome, Director for Corporate Services

CITY OF PLYMOUTH

Subject:	Treasury Management Practices, Principles and Schedules 2013/14
Committee:	Audit Committee
Date:	14 March 2013
Cabinet Member:	Councilor Lowry
CMT Member:	Director for Corporate Services
Author:	Andrew Liddicott (Senior Accountant)
Contact:	Tel: (01752) (30)7873 e-mail: andrew.liddicott@plymouth.gov.uk
Ref:	Acct/AL
Key Decision	No
Part:	I

Purpose of the report:

The Local Government Act 2003 requires the Council to set out its Treasury Management Policy, Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's Treasury Management Policy was approved by Council on 27th February 2012 and the Council's strategy for 2013/14 was approved by Council at its budget meeting on 25 February 2013. It is a requirement of the adopted Cipfa Code of Practices on Treasury Management that practices, principles and schedules are in place to ensure the Council's policy is adhered to and that working practices and controls are in place to meet the approved strategy and to fully report activities to the Audit Committee and Council. This report provides an update of the Practices, Principles and Schedules proposed for 2013-14 with changes from the 2012-13 document highlighted in yellow.

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 in accordance with the principles and procedures set out in the Council's Treasury Management Practices, Principles and Schedules.

Recommendations & Reasons for recommended action:

1. To approve the Treasury Management Practices, Principles and Schedules for 2013-14 as set out in this report.

Alternative options considered and reasons for recommended action:

The Council has adopted the Cipfa Code of Practice for Treasury Management which requires the Treasury Management Practices, Principles and Schedules to be scrutinised and approved by the Audit Committee.

Background papers:

- Treasury Management Strategy Report 2013/14 to Council 25 February 2013
- Treasury Management Practices update for 2012-13 approved by Audit committee 21 June 2012

Sign off:

Finance	djn1213.044	Legal		HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member Malcolm Coe											
Has the Cabinet Member(s) agreed the content of the report? Yes											

Plymouth City Council

TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES

2013-14

1st April 2013

TREASURY MANAGEMENT PRACTICES, PRINCIPLES AND SCHEDULES

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

TMP1 RISK MANAGEMENT

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

General Statement

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

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

Principle:

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

Schedule:

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

1. The Director for Corporate Services is responsible for setting a prudent criteria and the Council's treasury advisers will provide guidance and assistance in setting this criteria for assessing and monitoring the credit risk of investment counterparties.

2. The Council's treasury management advisers will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 agencies and other alternative assessment of credit strength including statements of potential government support, Credit Default Swap information for Countries and individual banks. The Council will also take account of information on corporate developments of and market sentiment towards investment counterparties.

3. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

   Fitch Ratings

   Moody's Investors Services

   Stander & Poors

4. The approved investment counterparty list is determined by the following criteria: -

ORGANISATION	**INVESTMENT CRITERIA**	**MAX AMOUNT**	**MAX PERIOD**
Government Debt Office	Central Government Office: • DMADF • Treasury Bills (T-Bills) • Gilts	 No Limit No Limit 20% of overall investment portfolio	 12 Months 12 Months 10 Years
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£10m	2 Years
UK Banks/building Societies	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	Term Deposits: £30m £10m Negotiable Instruments: £30m £5m	 12 Months 2 Years 12 Months 5 Years
Non-UK Banks	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A- In Selected countries with a minimum Sovereign rating of AA+	Term Deposits: £10m £5m Negotiable Instruments: £10m £5m	 12 Months 2 Years 12 Months 5 Years

UK Banks/building Societies	Where rating below A-/A3/A- or not rated on advice from Treasury Management Advisers and authority of Section 151 Officer.	£5m	3 Months
Money Market Funds	AAA with Constant Net Asset Value (CNAV). AAA with a Variable Net Asset Value (VNAV) where there is greater than 12 month history of a consistent £1 Net Asset Value.	20% of overall investment portfolio. Maximum £5m per fund.	Call
Bonds Issued by Multilateral Development Banks	AAA or Government Guaranteed	20% of overall investment portfolio	10 years
UK Companies Corporate Bonds	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	12 Months
UK Companies Commercial Paper	Minimum credit rating: Fitch – Long-Term A- Moody's – Long-Term A3 S&P – Long-Term A-	10% of overall investment portfolio	9 Months
Other Money Market Funds and Collective Investment Schemes	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£20m	No set maturity date
Register Providers	UK Social Housing providers regulated by the Homes and Communities Agency	10% of total investments	10 Years

5. The maximum period of lending is 2 years for deposits and 5 years for negotiable instruments other than in Gilts/Multilateral Development Bank bonds and Register Providers where the limit will be 10 years.

6. The maximum value for any one investment transaction will be unlimited with the DMO (DMADF/T-Bills) or £30m for any other investment.

7. The maximum investment limit for bank/group/building society to include money market deposits and negotiable instruments will be £30m.

8. The maximum investment limit for non UK bank/group to include money market deposits and negotiable instruments will be £10m.

9. The limit on investments with non-UK banks will be 10% per country of total investments.
10. The maximum limit for investments in Money Market Funds will be 20% of the total investment portfolio with a limit in each fund of £5m subject to a maximum of 0.5% of the Net Asset Value of the fund or 2% of the Net Asset Value for Government invested funds.
11. The maximum investment in Multilateral Development Bank Bonds will be 20% of the total investment portfolio.
12. The maximum investment in UK Government Gilts will be 20% of the total investment portfolio.
13. The maximum investment in Corporate Bonds will be 10% of the overall investment portfolio.
14. The maximum investment in Commercial Paper will be 10% of the overall investment portfolio.
15. The maximum investment in pooled funds, which meet the definition of a Collective Investment scheme per SI 2004 No 534 and subsequent amendments, will be limited to £20m.
16. The maximum investment with Register Providers will be 10% of the overall investment portfolio.
17. **Authority' Bankers** – The Authority banks with the Co-operative Bank Plc. Where the rating is below the minimum credit criteria set by the Council for investment purposes the Co-operative Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

1.1.2 APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING/ REMOVING COUNTERPARTIES

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

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

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

1.1.3 COUNTERPARTY LIST AND LIMITS

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

1.1.4 COUNTRY, SECTOR AND GROUP LISTINGS OF COUNTERPARTIES AND LIMITS

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

1.1.5 DETAILS OF CREDIT RATING AGENCIES' SERVICES AND THEIR APPLICATIONS

The Council considers the ratings of all 3 rating agencies (Standard & Poor's, Moody's and Fitch), as supplied by its Treasury Management advisers Arlingclose, when making investment decisions. Credit rating information is just one of a range of instruments used to assess creditworthiness of institutions. The Council applies a minimum rating criteria based on the lowest denominator of the 3 rating agencies and where one of the ratings falls below the minimum the counterparty will be removed from the Council's approved list of investment counterparties for new investments. Where investments are already in place advice is sought from the Councils advisers as to what action should be taken including the possibility of requesting the termination of the investment subject to the agreement of the counterparty.

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

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

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

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

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

1.2 LIQUIDITY RISK MANAGEMENT

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

Principle

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

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

Schedule:

1.2.1 AMOUNTS OF APPROVED MINIMUM CASH BALANCES AND SHORT TERM INVESTMENTS

CASH FLOW AND CASH BALANCES

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

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

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

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

SHORT-TERM INVESTMENTS

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

1.2.2 Details of:

- **Standby facilities**

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

- **Bank overdraft arrangements**

A £100,000 overdraft has been agreed as part of the bank tender. The overdraft is assessed on a group basis for the Council's accounts. The overdraft rate agreed in the contract with the bank is 2% above base up to £100,000. Any balance in excess of this overdraft incurs a charge of 5% above base.

- **Short-term borrowing facilities**

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

- **Insurance/guarantee facilities**

No liquidity insurance/guarantee facilities have been made.

1.2.3 POLICY IN TERMS OF BORROWING IN AVANCE OF NEED

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

1.3 INTEREST RATE RISK MANAGEMENT

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

Principle:

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

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

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

Schedule:

1.3.1 Minimum/maximum proportion of fixed/variable rate debt interest

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

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

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

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

1.3.2 Details of approved interest rate exposure limits

The Council appointed Arlingclose Ltd. as a treasury management adviser to the council and part of their services is to assist the Council to formulate a view on interest rates. The Council may have exposure to fixed as well as variable borrowing interest rates. The Council's net exposure to variable interest rates is determined by the difference between money borrowed, and money lent out at any point in time which is at variable rates. However, the Council is also mindful that at any time its exposure depends also on fixed rate borrowings and lending which are due to mature within 12 months. In managing overall debt the Council may consider restructuring long-term debt into short-term debt to produce savings during periods in which short-term borrowing rates are lower and long-term borrowing rates are not expected to rise in the near future. The interest rate exposure limits are stated in the Annual Treasury Management Strategy and adjustments will be made during the year when necessary subject to approval by full Council.

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

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

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

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

a. forward dealing

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

b. callable deposits

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

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

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

d. Derivatives to hedge against interest rate risk.

Financial Instruments called derivatives are generally used to hedge risk, but can also be used for speculative purposes. Derivatives are instruments that can be bought to offset the risk of investments or debt held by the Council. They can be used to provide a hedge against interest rate risks. An example would be an interest rate swap used to exchange variable interest rates for fixed interest rates or vice versa reducing the risk of exposure to large levels of variable or fixed debt and balancing this against the mixture of variable and fixed rate investments.

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Any use of standalone financial derivatives will be subject to the prior approval of Cabinet and will be reported to the Audit Committee and Full Council in the Treasury Management Mid-year and Annual Report.

1.4 EXCHANGE RATE

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

Principle:

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

Schedule:

1.4.1 Exchange rate risk management

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

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

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

1.5 REFINANCING RISK MANAGEMENT

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

Principle:

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

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

Schedule:

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

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

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

a) To fulfill the borrowing strategy stated in the Council's Treasury Management Strategy report
b) Reduce investment balances and credit exposure via debt repayments
c) Align long-term cash flow projections and debt levels
d) Savings in risk adjustment interest costs
e) Rebalancing the interest rate structure of the debt portfolio
f) Changing the maturity profile of the debt portfolio

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

1.5.2 PROJECTED CAPITAL INVESTMENT REQUIREMENTS

As part of the Local Government Act 2003 "The Prudential Code" for Capital Finance in local authorities has introduced new requirements for the manner in which capital spending plans are to be considered and approved. The Prudential Code gives local authorities the power to determine their own borrowing levels within a framework based around affordability, prudence and sustainability and takes account of the next three financial years. The Director for Corporate Services prepares the five-year plan for capital expenditure for the Council in accordance with the statutory guidelines. The capital plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes. Financing of capital expenditure will be met from capital receipts, any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.

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

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

1.5.3 POLICY CONCERNING LIMITS ON REVENUE CONSEQUENCES OF CAPITAL FINANCING.

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

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

1.6 LEGAL AND REGULATORY

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

Principle:

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

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

Schedule:

1.6.1 REFERENCES TO RELEVANT STATUTES AND REGULATIONS

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

- CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
- CIPFA Standard of Professional Practice on Treasury Management
- The Local Government Act 2003

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

1.6.2 PROCEDURES FOR EVIDENCING THE ORGANISATION'S POWERS/AUTHORITIES TO COUNTERPARTIES

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

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

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

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

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

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

1.6.3 REQUIRED INFORMATION FROM COUNTERPARTIES CONCERNING THEIR POWERS/AUTHORITIES

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

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

The approved sources of borrowing are contained in TMP 4.

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

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

1.6.4.1 Monitoring Officer

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

1.6.4.2 Chief Financial Officer

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

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

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

Principle:

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

The Council will therefore:-

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

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

Schedules:

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

Authority:

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

Occurrence:

A detailed register of loans and investments is maintained in the Logotech (Treasury Management) system. An authorised member of the Treasury management team independently checks the register to the ledger balance. Adequate and effective cash flow forecasting records are maintained on a spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Cashflow\2013-14\Cash Flow Forecast 13-14 - Updated for actuals.xls) for the following year and updated on a daily balance with actual income and payments supporting the decision to lend or borrow. A manual diary is also kept and updated with all due principal and interest payments. A written confirmation is received promptly from the Council's brokers as well as the lending or borrowing institution. All transactions placed through the brokers are confirmed by a broker note showing details of the loan arranged.

Completeness:

The loan register, which is also maintained as back-up on an Excel spreadsheet (S:\Corporate Resources\New Finance\Treasury Management\Dealing\2013-14\dealing record 13-14.xls) is updated to record all lending and borrowing. This includes the date and the amount of the transaction, the name of the lender/borrower, maturity date, interest rates, brokerage fees etc.

Measurement:

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

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

Timeliness:

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

Regularity:

All lending is only made to approved institutions.

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

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

Internet Banking:

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

Security:

The Logotech system can only be accessed by a password.

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

Input:
Senior Accountant (Technical)
Accountants (Technical)
Assistant Accountant (Technical)

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

Substantiation:

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

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

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

Internal Audit:

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

1.7.2 EMERGENCY AND CONTINGENCY PLANNING ARRANGEMENTS

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

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

1.7.2.1 Treasury Management files

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

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

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

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

1.7.2.2 Logotech Loans/Investment register

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

This is an essential system for the control and upkeep of the council's loans and deposits. Loss of this data would cause major disruption to the work of the TM team and risk inaccurate records in the accounts along with delaying the production of these accounts. This system is held on the C drive of a PC. To safeguard this data daily backups are made to the S drive. Records of loans and deposits are also held on the S drive in the Treasury Management folder. Work is currently in process to network Logotech. If successful this will give greater freedom of use in the hot desk environment within the inbuilt security controls to access Logotech.

1.7.2.3 Internet Banking

In the event of complete failure of Financial Director due to system or internet problems it will be necessary to telephone the FD helpline on 0845 6032921 for status update and if necessary to provide balance information to ensure that investment/borrowing decisions can be based on adequate information.

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

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

1.7.2.4 Contact with Brokers and Counterparties

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

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

The telephone numbers required are:

Broker	Contact	Tel. No.
Martin Brokers	Shusmita Chaudury	0207 4699580
Sterling Brokers	Matt Sexton	0207 8947742
Tullet Prebon	Jon Hurley	0207 2007042
London Currency Brokers	Roger Lane	0207 7394375
Tradition	Alex Cicopalus	0207 4223566
King & Shaxson	Alan Simkins	0207 4265966

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

Barclays	- Withdrawals by fax – 0845 9645511 – by 3.00 pm - Phone contact 0117 9483326
Lloyds Banking Group	- Withdrawals by fax – 0845 6011445 – by 2.30 pm - To confirm receipt of fax – 0845 6017764 - Phone Contact 0141 2284856
Santander UK	- Withdrawal by phone (password required) – 0845 6066358 by 11.30 am - Withdrawal by fax – 0845 6066351 by 11.30 am - Investment /withdrawal notification by e-mail – RMT@santander.com over £5m - Phone Contact 0845 6066358
RBS	- Withdrawal by fax – 0845 3003349 – by 3.10 pm - Phone contact – 01392 357935

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

1.7.2.5 Office Cover

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

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

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

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

1.7.3 INSURANCE COVER DETAILS.

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

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

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

1.8. MARKET VALUE OF INVESTMENTS RISK MANAGEMENT

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

Principle:

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

Schedule:

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

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

1.8.2 ACCOUNTING FOR UNREALISED GAINS/LOSSES

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

TMP 2 PERFORMANCE MEASUREMENTS

Principle:

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

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

Schedule:

2.1 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY

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

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

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

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

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

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

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

The Council also completes returns for the Cipfa Treasury Management Risk Management Study whereby the council's loans and investments are analytically reviewed and compared to other Local Authorities comparing the risk within the Council's Investment and loan portfolio.

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

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

2.2.1. Periodic reviews during the financial year

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

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

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

2.2.2 Reviews with management consultants

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

2.2.3 Annual review after the end of the financial year

An Annual treasury Report is submitted to Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. The report contains the following:-

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

2.2.4 Comparative reviews

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

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

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

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

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

The report will include:

- Total debt including average rate and maturity profile
- The effect of new borrowing and/or maturities on the above
- The effect of any debt restructuring on the debt portfolio
- An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period)
- Total investments including average rate, credit and maturity profile
- The effect of new investments/redemptions/maturities on the above

- The rate of return on investments against their indices for internally managed funds
- An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)
- A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.

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

2.4.1 Debt management

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

2.4.2 Investment.

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

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

2.5.1 Frequency and processes for tendering

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

2.5.2 Banking services

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

2.5.3 Money-broking services

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

2.5.4 Consultants'/advisers' services

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

2.5.5 Policy on External Managers

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

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS /TECHNIQUES:

Principle:

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

Schedules:

3.1.1 Records to be kept

The Treasury section has a computerised treasury management system called Logotech. All loan and deposit transactions are recorded on the system as well as on an Excel spreadsheet. Full details of the system are covered in the user manual.
The following records will be used relative to each loan or investment:

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

3.1.2 Processes to be pursued

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

3.1.3 Issues to be addressed.

3.1.3.1 In respect of every decision made the Council will:

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

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

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

3.1.3.3 In respect of investment decisions, the Council will:

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

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

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

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle:

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 Risk Management.**

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

Schedules:

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

The Council is permitted to undertake the following activities:

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

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

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

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

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

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities.
- Term deposits with banks and building societies.
- Certificates of deposit and other negotiable instruments with banks and building societies.
- Callable deposits with banks and building societies.
- Investments in Money Market Funds, i.e. 'AAA' liquidity funds.
- Gilts and T-Bills.
- Bonds issued by multilateral development banks.
- Bonds issued by financial institutions guaranteed by the UK government.
- Sterling denominated bonds by non-UK sovereign governments.
- Deposits with Registered Providers.
- Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 and subsequent amendments.
- Bonds and debt instruments issued by corporate bodies e.g.
    - Corporate Bonds
    - Commercial Paper

4.3 APPROVED TECHNIQUES

- Forward dealing.
- LOBOs – lenders option, borrower's option borrowing instrument.
- The use of structured products such as callable deposits.

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

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

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

- Finance Leases
- Deferred Purchase

Internal Resources

- Capital receipts
- Revenue balances
- Use of Reserves

Other Methods of Financing

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

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

4.5 INVESTMENT LIMITS

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

4.6 BORROWING LIMITS

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

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

Principle:

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

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

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

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

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

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

Schedules:

5.1.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE / EXECUTIVE LEVELS

Full Council

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

Cabinet

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

Audit Committee

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

<u>Delegated to Director for Corporate Services</u>

- The Director for Corporate Services will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- Approval of the segregation of responsibilities.
- Receiving and reviewing of the external audit reports and putting recommendations to the Audit Committee.
- Approving the selection of external service providers and agreeing terms of appointment in accordance with Financial Regulations.
- To take all loans and make all investments for the Council within the limits set and criteria to be used as set out in the approved Treasury Management Strategy and Annual Investment Strategy.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

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

Dealing	Group Accountant/ Senior Accountant/ Accountants	Negotiation and approval of deal. Receipt and checking of broker's confirmation note Receipts and checking of confirmation from deposit/loan counterparty Reconciliation of cash control account. Bank reconciliation

Accounting Entry	Senior Accountant / Accountants/ Assistant Accountant	Production of Direct debit form Processing of accounting entry
Authorisation / Payment of Deal	Senior Accountant/ Accountants/ /Assistant Accountant	Entry onto Financial Director (FD)
Authorisation / Payment of Deal	Authorised DoCS, ADFETA, HOF, Strategic Finance Managers and Group Accountants	Approval: Authorisation on FD/sign off direct debit and Chaps request

5.3 TREASURY MANAGEMENT ORGANISATION CHART

Director for Corporate Services

I

Assistant Director of Finance , Efficiencies, Technology & Assets

I

Head of Finance

I

Strategic Finance Manager

I

Group Accountant (Corporate Accountancy – Technical)

I

Assistant Accountant (Corporate Accountancy - Technical) —— Senior Accountant (Corporate Accountancy - Technical) —— Accountants (Corporate Accountancy -Technical)

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES

5.4.1 Treasury Management Board

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

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

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

The Portfolio Holder for Finance and Shadow Portfolio Holder will attend the first meeting of each month to review the strategic direction of the Board.

Its duties and responsibilities will include:

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

5.4.2 Director for Corporate Services

1. The Director for Corporate Services will:

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance
- Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy.
- In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
- Establish a measurement and reporting process that highlights significant variations from expectations.
- Submit regular treasury management reports as required to the council/cabinet/audit committee.
- Receiving and reviewing management information reports.
- Review the performance of the treasury management function and promote best value reviews.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit, and liaising with external audit.
- Recommend on appointment of external service providers in accordance with council standing orders.
- Provide regular updates to relevant Cabinet Members.

2 The Director for Corporate Services has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

3 The Director for Corporate Services may delegate his power to borrow and invest to Group Accountants (Corporate Accountancy -Technical), Senior Accountant (Corporate Accountancy - Technical) and Accountants (Corporate Accountancy – Technical.

4 The Director for Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director for Corporate Services to be satisfied, by reference to the Council's legal department and external advisers as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial

Regulations

6 It is also the responsibility of the Director for Corporate Services to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.3 Assistant Director of Finance, Efficiencies, Technology & Assets

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

5.4.4 Head of Finance

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

5.4.5 Group Accountant (Corporate Accountancy – Technical)

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

5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include: -

- Carrying out or delegating the execution of transactions to the treasury management team
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Treasury Management Board, Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets and Head of Finance.
- Identifying and recommending opportunities for improved practices.
- Prepare and update, making recommendations for including counterparties on the Council's lending list following the advice of the Council's Treasury Management advisers.

- Authority to borrow for periods up to 1 year and lending up to 1 month. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Director for Corporate Services or Assistant Director of Finance, Efficiencies, Technology & Assets.
- Make recommendations on all lending up to 10 years and borrowing over 1 year maturity.
- Following approval by the Director for Corporate Services or Assistant Director of Finance, Assets & Efficiencies undertake all borrowing over 1 year and deposits/investments up to 10 year maturity.
- Recommend early repayment of debt over one year and subject to the approval of the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or the Head of Finance arrange the repayment of these loans.
- Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments.
- Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, Annual Treasury Management report and Treasury Management Practices.
- Prepare budget for capital financing including all treasury management loan and investment activities including MTFF.
- Monitoring of Capital Financing Budget.
- Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits.

5.4.7 The Head of the Paid Service – the Chief Executive

The responsibilities of the post will be:-

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

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

The responsibilities of this post include: -

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

5.4.9 Internal Audit

The responsibilities of Internal Audit include: -

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

5.5 ABSENCE COVER ARRANGEMENTS

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

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

There are currently:
5 members of staff that can undertake dealing
9 members of staff that can authorise Chaps payments on Financial Director

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

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

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

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

5.6 DEALING LIMITS

The following posts are authorsed to deal:-

Senior Accountant (Corporate Accountancy – Technical)
No dealing limits for loans up to 1 year.

Deposits up to 1 month with unlimited value with the Debt Management Office or £10m with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.
Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance. Investment up to 10 years in accordance with approved annual investment strategy subject to the approval of the Director of Corporate Services.

Accountant (Corporate Accountancy – Technical)
Overnight/Call Account deposits with unlimited value with the Debt Management Office or £10m with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.
Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Services, Assistant Director of Finance, Efficiencies, Technology & Assets or Head of Finance.
Loans overnight only (includes weekend) with maximum value of £15m.

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

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

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

5.9 POLICY ON TAPING OF CONVERSATIONS
It is not Council Policy to tape broker conversations

5.10 DIRECT DEALING PRACTICES
The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present all deposits are direct and most loans are arranged through brokers. The following transactions are

undertaken directly with Bank and Building Societies on the Council's approved lending list.

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

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

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All dealing transactions are made via CHAPS transfer by the Financial Director system, which is connected, online to the local authority's bankers' network. The payment is entered onto this system and afterwards approved by an authorised signatory. The electronic transfer should be sent by 3.30 p.m. on the same day. Where the system breaks down, a letter signed by a bank signatory setting out each transaction would be faxed to the local authority's bankers where preliminary instructions would have been given by telephone.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker and type of deal. Additional requirements are:

Investments:
- confirmation from the broker
- confirmation from the counterparty
- Chaps payment transmission document

Loans:
- confirmation from the broker
- confirmation from PWLB/market counterparty
- Chaps payments transmission document for repayment of loan

5.12.1 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principle:

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council/Cabinet/Audit Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Cabinet will receive regular monitoring reports on treasury management activities and risks.

The Audit committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

6.1 FREQUENCY OF EXECUTIVE REPORTING REQUIREMENTS

The Director for Corporate Services will annually submit budgets and will report on budget variations as appropriate.

The Director for Corporate Services will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Audit Committee/Cabinet and Full Council before the start of the year.

The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.

A Mid-Year Treasury Report will be prepared by the Director for Corporate Services which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Audit Committee and Full Council during the year. All of the above reports will also be submitted to Audit Committee who will be responsible for the scrutiny of treasury management policies and practices.

6.2 CONTENT OF REPORTING

6.2.1 PRUDENTIAL INDICATORS

6.2.1.1 The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish □actual (where appropriate) in respect of:

- Financing costs as a proportion of net revenue stream (estimate; actual)
- Capital expenditure (estimate; actual)
- Incremental impact of capital financing decisions (estimate)
- Capital Financing Requirement (estimates; actual)
- Authorised limit for external debt
- Operational boundary for external debt
- Actual external debt
- Upper limits on fixed and variable rate interest exposures
- Upper and lower limits to maturity structure of fixed rate borrowing
- Upper limit to total of principal sums invested longer than 364 days.

6.2.1.2 The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.

6.2.2 TREASURY MANAGEMENT STRATEGY STATEMENT INCLUDING ANNUAL INVESTMENT STRATEGY

6.2.2.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Audit Committee for scrutiny and Cabinet/Full Council for approval before the commencement of each financial year.

6.2.2.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.2.3 The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:

- Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
- Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
- the extent to which surplus funds are earmarked for short term requirements
- the investment strategy for the forthcoming year
- the minimum to be held in short term/specified investment during the coming year
- the interest rate outlook against which the treasury activities are likely to be undertaken.

6.2.2.4 Investment Strategy

Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out

- the objectives, policies and strategy for managing its investments;
- the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and interest outlook and the expected level of investment balances;
- the limits for the use of Non-Specified Investments.

The AIS will be integrated into the Treasury Strategy Statement.

6.2.2.5 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 POLICY ON INTEREST RATE EXPOSURE

6.3.1 The Council approves before the beginning of each financial year a number of treasury limits which are set through prudential indicators.

6.3.2 The Director for Corporate Services is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director for Corporate Services shall submit the changes for approval to the full Council. The latest limits are as set out in the treasury management strategy.

6.4 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

6.4.1 An annual report will be presented to the Audit Committee/Cabinet and then the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- transactions executed and their revenue (current) effects;
- report on risk implications of decisions taken and transactions executed;
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- monitoring of compliance with powers delegated to officers;
- degree of compliance with the original strategy and explanation of deviations;
- explanation of future impact of decisions taken on the organisation;
- measurements of performance;
- report on compliance with CIPFA Code recommendations and Prudential Indicators.

6.5 MID YEAR REPORT ON TREASURY MANAGEMENT ACTIVITY

6.5.1 The Director for Corporate Services will produce a mid-year report for the Audit committee/Council on the borrowing and investment activities of the treasury management function for the first six months of the year. The main contents of the report will comprise:

- Economic background.
- Economic forecast (including interest rate forecast).
- Treasury Management Strategy Statement update.
- Performance versus benchmarks.
- Borrowing information including premature repayment and new loans.
- Information on investments, including current lending list.
- Government framework and scrutiny arrangements.

6.6 CONTENT AND FREQUENCY OF MANAGEMENT INFORMATION REPORTS

6.6.1 <u>Treasury Management Board</u>

Monitoring information will be prepared monthly for the Treasury Management board. This will include:

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

- Comparison of actual balances against prudential limits or other treasury management limits

6.7 PERIODIC MONITORING COMMITTEE REPORTS

6.7.1 The Cabinet will receive and consider a periodical review of treasury management activities during the financial year including details of any debt rescheduling undertaken.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle:

The Director for Corporate Services will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.** The form which the Council's budget will take is set out in the schedule below.

The Director for Corporate Services will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements.**

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:**-**

7.1 STATUTORY/REGULATORY REQUIREMENTS

7.1.1 Balanced Budget Requirement:

7.1.1.1 The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:
(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and
(b) revenue costs which flow from capital financing decisions.

S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.

7.1.1.2 The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice" (the 'CIPFA TM Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 ACCOUNTING PRACTICES AND STANDARDS

7.2.1 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (the local authority Code) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

7.2.2 Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3 FINANCIAL STATEMENTS

The Financial Statements comprise:

- An explanatory foreword
- Statement of Responsibilities
- Movement in reserves statement
- Comprehensive income and expenditure statement
- Balance sheet
- Cash flow statement
- Notes to the financial statements
- Collection Fund

7.4 SAMPLE BUDGETS/ACCOUNTS/PRUDENTIAL INDICATORS

7.4.1 The Director for Corporate Services will prepare a three year medium term financial plan with Prudential Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Director for Corporate Services will exercise effective controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4.2 The current form of the Council's accounts is available within the Finance department.

7.5 TREASURY MANAGEMENT RELATED INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

7.5.1 The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.

7.5.1.1 Information is this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

- Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
- Prudential Indicators.
- Treasury Management Strategy including Annual Investment Strategy.

7.5.1.2 External borrowing:

- New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
- Loan maturities.
- Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
- Analysis of loans outstanding at year end including maturity analysis.
- Analysis of borrowing between long- and short-term
- Debt management and financing costs
- Calculation of (i) interest paid (ii) accrued interest
- MRP calculation and analysis of movement in the CFR.
- Bank overdraft position.
- Brokerage/commissions/transaction related costs.

7.5.1.3 Investments:

- Investment transactions during the year including any transaction-related costs
- cash and bank balances at year end
- Short-term investments at year end

- Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
- calculation of (i) interest received (ii) accrued interest
- actual interest received
- External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
- Basis of valuation of investments
- Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
- Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.

7.5.1.4 Cash Flow

- Reconciliation of the movement in cash to the movement in net debt
- Cash inflows and outflows (in respect of long-term financing)
- Cash inflows and outflows (in respect of purchase/sale of long-term investments)
- Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

7.5.1.5 Other

- Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes
- Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.
- External advisers'/consultants' charges

7.6 INTERNAL AUDIT

7.6.1 Internal Audit generally conducts an annual review of the treasury management function and probity testing. The Internal Auditors will be given access to treasury management information/documentation as required by them.

7.7 COSTS FOR TREASURY MANAGEMENT

The budget for treasury management forms part of the capital financing budget. This budget forms part of the Council's annual budget setting strategy.

TMP 8 CASH AND CASH FLOW MANAGEMENT

Principle:

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director for Corporate Services and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director for Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

<u>Schedule:-</u>

8.1 CASH FLOW FORECASTING

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. The cash flow forecast for the year is updated on a daily basis with actual figures from the Council's bank transactions available from Financial Director. The cash flow forecast is a key document used for calculating any borrowing needed to cover short-term cash flow requirements or the availability of cash for any short-term or longer-term investments.

The detailed annual cash flow model includes the following:

Revenue activities:

<u>Inflows</u>:

- Revenue Support Grant
- Non domestic rates receipts
- NNDR receipts from national pool
- Council tax receipts
- Housing benefit subsidy
- DSS / other government grants
- Cash for goods and services
- Other operating cash receipts

<u>Outflows</u>:

- Salaries and payments on behalf of employees
- Operating cash payments

- Housing Benefit paid
- Precepts paid
- NNDR payments to national pool
- Payments to the capital receipts pool

Capital activities including financing

Inflows:

- Capital grants received
- Sale of fixed assets
- Other capital cash receipts

Outflows:

- Purchase of fixed assets
- Purchase of long-term investments
- Other capital cash payments

Financing, Servicing of Finance/Returns on Investments

Inflows:

- New long-term loans raised
- New short-term loans raised
- Interest received
- Discount on premature repayment of loan

Outflows:

- Loan repayments
- Premia on premature repayment of loan
- Short-term investments
- Capital element of finance lease rental payments
- Interest paid
- Interest element of finance lease rental payments

8.2 BANK STATEMENTS PROCEDURES

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to transaction records from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Bank Reconciliation Team.

8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:

- Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice.
- All other creditors to be paid within 30 days of receipt of invoice.

8.4 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

The information on levels of debtors and creditors are monitored. Debtors payment information is recorded from the daily bank transactions and creditors payments passed to the treasury team following each pay run to assist in updating the cash flow forecast.

8.5 PROCEDURES FOR BANKING OF FUNDS

Instructions for banking of receipts are set out in the Financial Regulations.

All money received by an officer on behalf of the Council will without unreasonable delay be either passed to Transaction Centre staff to deposit or banked directly, under arrangements put in place by the Strategic Manager (Transaction Centre), into the Council's bank accounts. Cash & cheques received by Transaction Centre staff are banked weekly due to the reduction in the value of receipts and the cost of transporting the deposits. These bankings are then included in the figures available on Financial Director used to calculate the Council's available funds/funding requirement requirements and to update the Cash flow forecast for the year.

8.6 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

All prepayments must be authorised by the approved signatory in the respective department.

TMP 9 MONEY LAUNDERING

9.1 Background:

9.1.1 The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

9.1.2 Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

9.1.3 In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

9.1.4 CIPFA believes that public sector organisations should "embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities".

9.2 Principle :

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below

Schedule:-

9.3 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000: (The FSA register can be accessed through their website on www.fsa.gov.uk).

When repaying loans, the procedures in 9.4 will be followed to check the bank details of the recipient.

9.4 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. This will be authorised deposit takers under the Financial Services and Markets Act 2000: (The FSA register can be accessed through their website on www.fsa.gov.uk).

Where counterparty is contracted via a broker, the broker confirms bank details. Where Plymouth City Council has previously used the counterparty, details are checked against those currently held. Any changes are confirmed by the broker and by the counterpart on headed paper. When a broker introduces a new counterparty, Standard Settlement Instructions on headed paper are requested. Confirmation of bank details on headed paper is required before any principal or interest payments are made.

All transactions are carried out by CHAPS for making deposits or repaying loans.

9.5 PROCEEDS OF CRIME ACT 2002 (POCA)

Please find below an explanation of the current responsibilities of local authorities: -

The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.

The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a

number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer to whom suspicions must be reported and who is responsible for deciding whether to pass the report to the NCIS.
Their contact address is as follows:

NCIS
PO BOX 8000
LONDON SE11 5EN
www.ncis.co.uk

The Council has appointed the Head of Finance to be the responsible officer to who any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

The treasury management team is conversant with the requirements of the Proceeds of Crime Act 2002. The Council will only lend money to or invest with those counterparties who are authorised under the Financial Services and Markets Act 2000 and each organisation will be asked to formally provide adequate settlement instructions.

TMP 10 TRAINING AND QUALIFICATIONS

Principle:

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director for Corporate Services will recommend and implement the necessary arrangements.

The Director for Corporate Services will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule:-

10.1 QUALIFICATIONS/EXPERIENCE OF TREASURY MANAGEMENT STAFF

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The courses/events the Council would expect its treasury management personnel to consider are:

- Appropriate qualifications in Treasury Management. This was previously a Certificate in International Treasury Management – Public Finance which has been obtained by the Senior Accountant on the Treasury Management team. This qualification is no longer available and Cipfa are working on a new qualification for treasury managers.
- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, and Financial Management run by CIPFA and IPF.
- Any courses/seminars run by Treasury Management Consultants.
- Attending Cipfa Conference
- Training attended by those responsible for scrutiny of the treasury function.

10.2 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff is appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.3 RECORDS OF TRAINING

Records of training received by treasury management staff and those charged with governance are maintained on the appropriate personnel file or as part of councilor/committee records.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

Principle:

The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director for Corporate Services and details of the current arrangements are set out in the schedule below.

Schedule:-

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS AND REGULATORY STATUS

11.1.1 Banking services

Name of supplier of the service: Co-operative Bank PLC.
The branch address is:
160 Armada Way, Plymouth PL1 1LF
Tel No. 01752 661482
Commencement Date 1st April 2008
Expiry Date 31st March 2012

The contract ran for 4 years from the 1st April 2008. The contract allowed for the possibility of two additional annual extensions to be agreed by both parties before October 2011 and 2012 respectively. The final extension has been agreed and runs until 31st March 2014. During 2013 the Council will be required to go out to tender in order to have a contract in place for commencement to provide banking services on 1st April 2014.

Other Banks used for access deposit account facilities:

Name of Bank	Account Type	Address
Bank of Scotland PLC	Call and 7 Day Notice	110 St Vincent Street

		Glasgow G2 5ER
Santander UK Plc	Call	Santander Business 301 St Vincent Street Glasgow G2 5NT
Royal Bank of Scotland	Call, 30 Day Notice And 95 day notice	RBS Corporate Banking 2nd Floor Vantage Point Woodwater Park Pynes Hill Exeter EX2 5FD
Barclays	Call	Park House Newbrick Road Stoke Gifford Bristol BS34 8YU

11.1.2 Money-broking services

The council will use money brokers for temporary borrowing and investments up to 1 year and long term borrowing. Brokers currently used are:

Name of Broker	Address	Tel. no.
Martin Brokers (UK) PLC	Cannon Bridge House, 25 Dowgate Hill, London EC4R 2BB	0207 4699580
Tullet Prebon Europe Ltd	155 Bishopsgate London EC2M 3TQ	0207 2007042
Sterling International Brokers Ltd	1 Churchill Place Canary Wharf London E14 5RD	0207 8947742
London Currency Brokers	ICB House, 3 Scrutton Street London EC2A 4HF	0207 7394375
Tradition (UK) Ltd	Beaufort House 15 St Botolph Street London EC3A 7QX	0207 4223566
King & Shaxson	Chaddlewick House 120 Cannon street London EC4N 6AS	0207 4265966

11.1.3 Consultants'/advisers' services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments.

Treasury Consultancy Services

Name of supplier of service is Arlingclose Ltd.
Their address is:
60 Moorgate
London
EC2R 6EL
Tel: 08448 808200
Contract Expiry Date is 31st December 2013
Cost of service is £23,000 + Vat in 2013.
The Council has the option to extend the contract for a further one year period subject to an annual review with cost in 2014 increasing to £24,000 + Vat.

External Fund Managers

The council does not currently hold funds with an external fund manager.

11.1.4 Regulatory Status of Services Provided

All financial services providers are regulated by the Financial Services authority (FSA)

TMP 12 CORPORATE GOVERNANCE

Principle:

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2011). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Director for Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

The following documents are available for public inspection:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement (Including Prudential Indicators and investment Strategy)
- Annual Treasury Report
- Annual Statement of Accounts
- Annual budget
- 5 year Capital Plan
- Minutes of the Council/Cabinet/committee meetings

Financial information is additionally available on the Council's website www.plymouth.gov.uk

12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS

Members and senior officers are consulted via reports to the Audit Committee, Cabinet and Full Council.

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Grant Thornton

Plymouth City Council

Certification work report 2011/12

February 2013

Contents

1 Executive Summary

Introduction

1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

1.2 We certified 3 claims and returns for the financial year 2011/12 with expenditure totalling £207 million. The certified claims and returns related to Housing and Council Tax Benefit; National Non Domestic Rates (NNDR); and Teachers Pensions. The Council also submitted a return for capital receipts but as this was below the £125,000 threshold it did not require audit certification.

1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

1.6 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and are set out, in more detail, in the next section of this report.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor	The Council is performing well and there was only one significant matter arising from our certification of claims and returns. This related to errors that were made by a particular member of staff who was supplied by an agency to process Housing Benefit claims. Our testing identified that the agency worker had incorrectly calculated benefit entitlement in some instances. The Council's policy is to undertake 100% checks on new employees. This level of checking reduces to 10%when the Council is satisfied that processing is of a required standard. Our work identified that this policy for checks was not adhered to in 2011/12, which may have contributed to the level of errors identified through our audit work. . We have recommended that improvements should be made to the level of checks performed on new processing staff within the Benefits section.
Amendments and qualifications	Only one of the grants examined in 2011-12 required amendment and qualification - this was the Housing Benefit Subsidy grant as a result of the issue described above.
Supporting working papers	Supporting working papers for claims and returns were of a good standard. This enabled us to meet the certification timescales and the relevant department deadlines.

The way forward

1.8 We have made a recommendation to address the issue of quality checks undertaken on cases processed by new Benefit staff. Management have agreed to implement improvements and details are included in the Action Plan in Appendix C.

Acknowledgements

1.10 We would like to take this opportunity to thank the grant claim subsidy officer and Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

February 2013

2 Results of our certification work

Key messages

2.1 We certified 3 claims and returns for the financial year 2011/12 relating to total expenditure of £207 million.

2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		3		6		
Number of claims submitted on time	100%	3	100	3	50	↑
Number of claims certified on time	100%	3	100	6	100	→
Number of claims certified with amendment	0%	1	33	2	33	↔
Number of claims certified with qualification	0%	1	33	1	17	↔

2.3 This analysis of performance shows that:

- the Council's overall performance in preparing claims and returns has improved since 2010/11, with one less claim requiring amendment. The number of claims requiring qualification has remained the same (although the proportion of the total has increased due to a smaller number of claims and returns requiring certification).

2.4 Details on the certification of all claims and returns are included at Appendix B.

2.5 We identified one significant matter and an opportunity for improvement in the compilation of the Housing and Council Tax Benefit claim. Our recommendation is detailed below and in the action plan at Appendix C.

2.6 We charged a total fee of £53,319 against an indicative budget of £50,000 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

2.7 The following issue was identified in relation to the management arrangements and certification of individual grant claims and returns.

Certification of Housing Benefit and Council Tax Benefits Grant

2.8 For this scheme, we are required to test a random sample of 20 claims for each of the four benefit types, Rent Allowances, Council Tax Benefit, Rent Rebates and Non HRA Benefits. The Audit Commission certification instruction requires that if we identify any errors in the initial sample, we are required to undertaken additional work.

2.9 Our initial testing identified an error within the amount claimed in respect of Council Tax Benefit. This was due to erroneous processing by an agency worker employed within the Benefits section in 2011/12. As a result of the errors identified all claims processed by agency worker were extracted from the Benefits system. We performed additional testing on a further 20 cases. The results of our testing concluded that this agency worker had made multiple errors in both Council Tax and Rent Allowances cases.

2.10 The Council has a policy in place that requires a 100% check on the claims processed by a new member of staff until officers are satisfied that the required levels of accuracy are met. This check is then reduced to a standard 10% sample for all staff. The results of our audit testing and the level of errors identified indicate that this policy was not adhered to and that the work of this particular member of agency staff was not reviewed effectively during the year.

2.11 Our enquiries indicated that the checking process was not undertaken in this instance due to staff sickness and the restructuring of the benefits section. We have therefore recommend that the Council complies with its policy and ensure that all new members of staff, including those employed through an agency, with a check on a sample of 100% of claims processed which is then reduced to 10% when required accuracy levels have been achieved.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

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

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

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table overpage.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	116,392,135	Yes	Nil – one adjustment was made - this did not have an impact on overall subsidy	Yes	32,883	43,318	Additional testing was required this year for Rent Rebates, Council Tax and HRA rent rebates. We also had to perform drill down testing on claims processed by a specific member of agency staff due to errors being identified in the initial sample.
National non-domestic rates return	80,428,264	No	0	No	4,535	8,064	Additional testing required as a result of a number of complex NNDR cases relating to prior year adjustments.
Teachers' pensions return	10,385,544	No	0	No	2,410	967	Only Part A testing required in 2011/12.
Cost of reporting to those charged with governance	**n/a**	**n/a**	**n/a**	**n/a**	**978**	**970**	
Other grants					**11,160**	**0**	
Total	**207,205,943**		**1**	**1**	**51,966**	**53,319**	

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing Benefit and Council Tax Benefit Claim.	Robust Quality Assurance arrangements, in line with the Council's current policy, should adhered to and the benefit assessments of all new staff, including those employed though an agency, should be checked to minimise the risk of errors in the benefit awarded and subsequent qualification of the grant claim	H	A problem arose with the last audit around the checking of an agency workers work. The problem arose in that with all new staff, agency etc. are given 100% checks until such time as the checker is satisfied with the quality – we then revert to random sampling. In this case the 100% checks were being carried out but due to a change in team leader the checks were not then picked up. All team leaders were reminded of their responsibilities and we now have a small team set up who would be responsible for ensuring that these checks are undertaken by the relevant team leader.

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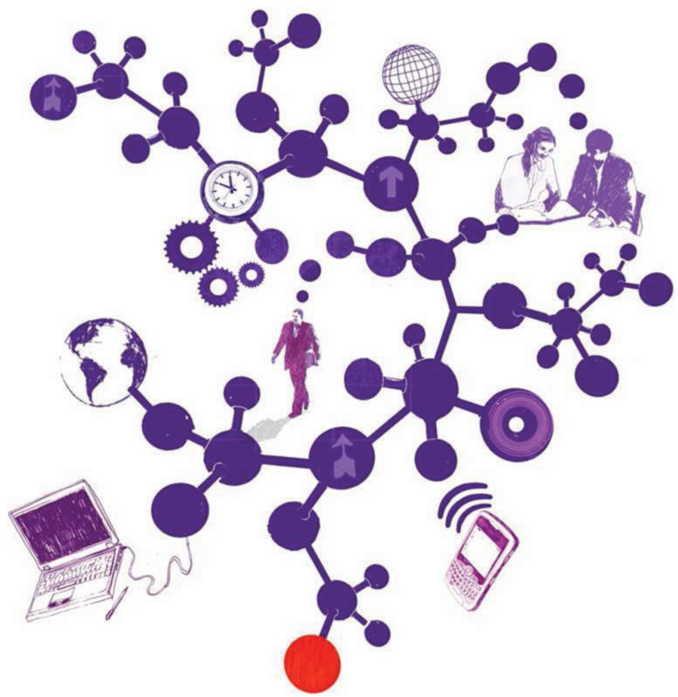
Grant Thornton

Audit Committee Update for Plymouth City Council

Year ended 31 March 2013

14 March 2013



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Contents

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Local Authority
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications - 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', and 'Surviving the storm: how resilient are local authorities?'

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

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Progress at 14 March 2013

Work	Planned date	Complete?	Comments
2012-13 Accounts Audit Plan We are required to issue a detailed audit plan which sets out our proposed approach in order to give an opinion on the council's 2012-13 financial statements.	To officers – March 2013	In progress	We are currently undertaking a review of all key risks that the Council face. These risks need to be considered as they may have an impact on the Audit Plan and our audit response. Our planning process is well underway and we are incorporating key messages that arise as a result of our regular meetings with Internal Audit, the Corporate Director and members of the Finance team. Our draft Plan will be sent to officers in March and will be presented at the next Audit Committee.
Interim accounts audit Our interim fieldwork visit will include the following: • an updated review of the Council's control environment • updated understanding of financial systems • a review of the Internal Audit function and reports presented to Audit Committee • early work on emerging accounting issues • early substantive testing • review of group accounting arrangements and • an IT risk assessment	February 2013 – April 2013	In progress	We are currently on site and undertaking our interim audit visit. The findings from this review will inform the approach that we will take to testing at the final accounts stage of our audit. We will present these findings and any impact that they may have on our audit strategy to Audit Committee members when the work has been completed.
2012-13 final accounts audit Including: • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • Value for Money conclusion.	July 2013 – September 2013		Due to commence in early July once the draft financial statements have been provided to audit.

Progress at 11 March 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VFM conclusion comprises: • a detailed review of financial resilience • an overview of management arrangements for Adult Social Care and • A follow up of recommendations made last year.	March – July 2013		Our initial risk assessment has been completed. This risk assessment will be continually reviewed throughout the course of the audit. All of our work will be used to inform the value for money conclusion for 2012/13.
Grant Certification Work 2012/13.	June – November 2013		We will audit those grants that require audit certification in accordance with Audit Commission guidance and department deadlines.

Emerging issues and developments

Accounting and audit issues

Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

- Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.
- 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

In December 2012, CIPFA issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

The Council should consider:

- Do you know your key risks?
- Have officers ensured the financial impact is fed into medium term financial plans?
- Have officers undertaken modelling of future business rates growth?
- Have officers given due consideration to pooling?
- Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?
- Has your Head of Finance & Section 151 officer reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

CIPFA consultation on Service Reporting Code of Practice 2014/15: Adult Social Care Service Expenditure Analysis (England only)

In January, CIPFA issued a consultation on the proposed changes to the Adult Social Care Service Expenditure Analysis. The proposed changes are for a complete revision to the mandatory lines and these have been based on work done by the Health and Social Care Information Centre.

The closing date for responses is 28 February 2013.

Challenge questions:

- Has your Head of Finance & Section 151 officer reviewed the proposed amendments and assessed the potential impact?
- Has the Council responded to the consultation?

Accounting for joint arrangements

IAS 31 classified joint ventures into jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11 both jointly controlled operations and jointly controlled assets are classified as joint operations.

Under IAS 31 members of jointly controlled entities were permitted to use proportionate consolidation or equity accounting to account for their interests in the jointly controlled entity's assets, liabilities, revenue and expenses. Under IFRS 11 the ability to use proportional consolidation for interests in joint ventures is no longer permitted. Equity accounting is required.

Last year, Grant Thornton published a flyer 'Accounting for joint arrangements by local authorities under IFRS 11' to highlight the changes being introduced by IFRS 11 'Joint arrangements' compared to IAS 31 'Interests in joint ventures' for 2013/14.

The Council should consider:

- Have officers considered the impact of these new arrangements?
- Are you clear on the issues arising for the Council?

Emerging issues and developments

Accounting and audit issues

Assets transferring to academy schools

There is ongoing debate as to whether assets relating to schools that have been granted academy status should be:

- impaired to nil at the date of the granting of a transfer order on the basis that the assets will be disposed of for nil value or
- not impaired as the assets are still being used and so should be shown at the balance sheet date at full existing use value.

Our view is that this is a matter for judgement and the financial statements should set out clearly:

- the policy followed by the authority
- details of material assets that are to be transferred out of local authority control.

We continue to discuss such emerging issues with key officers of the finance team through our regular update meetings.

Where an academy school's assets are subject to a PFI arrangement, the authority may have a potential onerous contract where there is a shortfall in funding ie. where an authority has a PFI contractual agreement to pay out more than it expects to receive back in PFI credits and reimbursement from an academy. If an authority is facing a shortfall between its contractual obligations and the amounts it expects to receive to fund these obligations, the authority should consider whether the contract is onerous. In considering whether or not there is an onerous contract, the authority would need to consider the service it receives.

The Council should consider:

- Has your Head of Finance and Section 151 officer considered how to account for assets relating to schools that have been granted academy status?
- Has your Head of Finance and Section 151 officer considered whether or not there is an onerous contract for PFI contracts relating to academy schools?
- Has your Head of Finance & Section 151 officer discussed these issues with external audit?

Emerging issues and developments

Accounting and audit issues

Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:
- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.

- Land restoration costs – where a local authority owns a closed landfill site and is responsible for aftercare costs, we would expect the authority to recognise a provision for total future costs. These landfill aftercare costs should also be capitalised and depreciated under IAS 16 'Property, Plant and Equipment' so there is no immediate impact on the General Fund.

- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.

The Council should consider:
- Has your Head of Finance & Section 151 officer considered the need for additional provisions for the above matters?

Emerging issues and developments

Grant Thornton
'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities ' In December 2012, Grant Thornton published 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'. This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review. We have provided key officers with copies of this report. The Council should consider: • Have you considered the findings of the report? • Are there any issues that relate to your authority and what action are you going to take? .

Emerging issues and developments

Local government guidance

'Auditing the Accounts 2011/12' report

In December, the Audit Commission published 'Auditing the Accounts 2011/12'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:

- Has your Head of Finance & Section 151 officer identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Head of Finance & Section 151 officer produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

'Striking a balance: improving councils' decision making on reserves'

In December, the Audit Commission published 'Striking a balance: improving councils' decision making on reserves.' The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

The Council should consider:

- Are your officers providing you with the right information about reserves?
- Have you considered the findings of the report and identified where actions are required?

Emerging issues and developments

Local government guidance

'Tough Times: Councils' financial health in challenging times'
In November, the Audit Commission published 'Tough times 2012: Councils' financial health in challenging times.' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:

- Have you considered the findings of the report and any actions required?

'Protecting the public purse 2012'
In November, the Audit Commission published 'Protecting the public purse 2012: Fighting fraud against local government'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

The Council should consider:

- Have you considered the findings of the report?
- Are there any issues that could relate to your authority and how are these being dealt with?
- Have you reviewed your existing arrangements for tackling fraud?

If you have any fraud queries, talk to your audit manager to see how Grant Thornton could help.

Grant Thornton

grant-thornton.co.uk

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
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				27									
Actions from previous meeting (21.06.12) – • Audit Commission consultation; • Recruitment of Independent Member; • Report on red risks – why they have moved to red • Training for members	Lead Officer/DSO				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			√

AUDIT COMMITTEE
AX PAYROLL PROJECT UPDATE

14 March 2013

PLYMOUTH
CITY COUNCIL

Author: Mark Grimley

Job Title: Assistant Director

Department: Human Resources and Organisational Development

Date: 14 March 2013

1.0 SUMMARY

1.1 The Council is in the process of implementing a replacement to the current platform for Payroll and human resource information (HR MIS). Our current platform is SAP which is intended to run until March 2013.

1.2 The initial business case identified the need for £2million of capital allocation for the replacement system and services. This was approved by the City Council.

1.3 A procurement exercise was undertaken to acquire licences for a replacement system, requiring suppliers to provide licences under the Microsoft Enterprise Agreement for the replacement system (Microsoft AX) or like systems. A secondary procurement exercise was undertaken for services to support to implementation of the replacement system and associate payroll software.

1.4 Following the contract award, the project began in November 2011 with the first 'go live' of key modules by July 2012. This was following the standard implementation methodology of Analysis, Design, Develop, Deploy and Operate. (See section 5.0 Delivery Methodology)

1.5 In undertaking the analysis and design phase, it was identified that, despite the initial assessment against detailed specification criteria, there were a few fundamental developments required to support the implementation of the Microsoft AX that are essential for complex local government terms and conditions. (See section 6.0 Product Issues and Gaps)

1.6 This requirement for more technical and functional specifications has delayed the full implementation of the integrated architecture to deliver the business benefits as set out in the initial business case. The development time has added a further 9 months of design, development and testing to the overall programme.

1.7 The contract for services was awarded to KPMG LLP, with 2e2 being the technical partner of their contract and MidlandHR providing payroll technical support and products.

1.8 Following this delay, the Project Board agreed to implement the contingency plan in December 2012 to protect the payroll elements of the project delivery plan and divert resource and testing to this delivery, returning to a second phase of delivery for the product enhancements following payroll 'go live' in April 2013. This would mean, realistically, parallel testing for the enhanced products would not start until May 2013 at the earliest.

1.9 Additionally, the main technical supplier to the project (2e2) entered administration in January 2013, close to the completion of key technical milestone delivery for the developed product. A new technical supplier is currently being sourced, although this development in the project has not added any further risk to the project as the contingency plan had already accounted for supplier difficulties.

1.10 At the request of the project sponsor, a full Project Quality Review is being undertaken between Microsoft Corporation, KPMG and Plymouth City Council. Additionally, a second commercial partner (for technical resource) is undertaking due diligence before submitting their proposal.

1.11 At 3 March 2013, this report is due within the next week (a verbal report will be provided to the Audit Committee). Following this report, the Council will consider whether to continue with the Microsoft element of the proposal and contractual status with KPMG LLP. (Commercial elements are set out in Part Two of this report).

1.12 The current project plan, incorporating the reprioritisation of the contingency resource, is focussed on the 'go-live' with payroll and key human resource elements within the MidlandHR product in April 2013, to coincide with the financial year-end being run on SAP and the new payroll system to go live from April 2013. The roll-out and integration with the Microsoft AX elements of the project, if it is concluded to proceed, will start in June 2013 for go-live in September 2013 (following a minimum of 3-months parallel running).

DETAIL

2.0 Outline Business Case (Summary)

2.1 Plymouth City Council's current e-HR and payroll platform was introduced in 2005 with the intention of transforming the delivery of services provided through Human Resources & Organisational Development.

2.2 The transfer from the Mainframe to the current platform was a major step forward for the Council. The project delivered a stable platform for the delivery of payroll services and the service has continually developed incremental improvements in the quality, accuracy, control and cost reductions that formed the basis of the initial business case.

2.3 The current platform, SAP, is part of an enterprise suite of products. In Plymouth City Council, SAP functionality has been developed primarily for payroll functionality. Developments for HR and wider self-service have been incremental and fragmented, resulting in data quality management issues and poor management information.

2.4 Following a review of the system functionality, the platform and system configuration was found to be in good order and well maintained. Support for the application is provided through a small in-house systems team, ICT for server maintenance and back-up with external consultancy support for development programming and incident fixes.

2.5 However, the review identified that the business rationale for the SAP had not fully utilitised the system capability and, to implement this at this stage would require significant investment including hardware replacement and a significant version upgrade. Additionally, the existing corporate architecture to maximise the use of the enterprise agreement with Microsoft and associated products was found to be in breach of licensing agreement and notice was served on the Council to cease the Microsoft-SAP interfaces that were being used for bulk-uploads. On-costs for the system and maintenance continue to increase.

2.6 It is clear that, unless the council adopts the SAP suite, the introduction of the new licensing arrangements for compliance would be cost prohibitive and prevent the maximisation of the functionality and system and cultural transformation that the Council requires.

2.7 This business rationale set out the consideration in the decommissioning of SAP and migration to a platform that is both cost-effective and consistent with the Council's corporate ICT architecture (Microsoft Enterprise) plan designed to reduce overheads, simplify support arrangements and maximise self-service capabilities and single-sign on for multiple systems.

2.8 The position of the current need for a costly upgrade, hardware replacement and on-going investment in the development of SAP to full functionality by the end of the current financial year provides an opportunity to ensure a clear rationale is established for the future of people management and the supporting system.

2.9 There is also no back-up to the Council's existing payroll systems which, in effect, provides one of the most significant system-associated risks for the Council with no business continuity ability or off-site recovery. Even without this current business need, the business continuity remains a priority for resolution.

2.10 The recommendation is that a hybrid option is considered with people-management related activities undertaken within the Microsoft Enterprise Agreement and a residual 'best of breed' payroll platform purchased that can easily interface with the Microsoft suite of products.

2.11 Other options have been considered although either due to time or resources constraints are unlikely to progress within the timeframe required.

2.12 Finally, HR & OD services use around 4 different systems – not integrated – to manage their operations. Recent developments around establishment control and reporting have provided basic static workforce intelligence. Modern, large organisations are complex and require workforce intelligence and human capital modelling to demonstrate value versus investment in the workforce and predict future capacity and skills to ensure the correct allocation of resources to improve performance, succession and talent planning and reduce transactional unit costs that are measureable.

2.13 The original business case for the implementation of SAP did not fully deliver the benefits due to a number of factors, including problems within the strategic partnership (initially Picasso and latterly Accenture). A clear roadmap to deliver single process, automated transactions and consistent management reporting was not concluded and therefore not delivered.

2.14 Further development of SAP would likely be more costly than replacement and integration with the Council's common infrastructure due to the high-cost technical expertise and reliance on external programmers.

2.15 This business rationale presents the Council with the opportunity to complete the desired transformation of people management and demonstrate value for our communities through our people, performance and costs.

3.0 Project Governance

3.1 A standard project governance structure was put in place. Key roles include (current individuals):

Project Sponsor:	Mark Grimley, Assistant Director (PCC)
Senior Supplier:	Anthony Curmi, Project Director (KPMG)
	Malcolm Coe (PCC – ICT Delivery)
Senior User:	Alison Mills, Head of Human Resources (PCC)
Project Managers:	Karen Porte (PCC)
	Matt Cole (KPMG)
Quality Assurance:	Brenda Davis (Devon Audit Partnership)

3.2 The Board is also attended by Neville Cannon (Programme Director, Shared Services – advising chair); Matt Payne, Partner KPMG; Project managers (technical, functional, payroll, ICT delivery, security and system design).

3.3 The Board meet monthly, and hold a progress telephone conference each Wednesday.

4.0 Procurement

4.1 Two procurement exercises were undertaken. The first was to secure the licences for the system(s) required against the specification; the second was to secure services (management, technical and functional) to support the implementation of the system.

4.2 Plymouth City Council secured the licences for the Microsoft AX (HR) through procurement, awarded to 2e2. Licences could only be secured through partners of Microsoft.

4.3 The contract for the implementation (management, technical and functional) was awarded to KPMG LLP who sub-contracted to 2e2 (technical and functional) and MidlandHR (payroll services). The contract is solely with KPMG. The commercial arrangements of this contract are set out in Part Two.

4.4 For both tenders, a detailed specification was provided of our requirements. All tendering parties provided similar responses as to the nature of the fit of our requirement specification against the Microsoft product. This included the

4.5 Plymouth City Council's stated aim was to implement an 'out of the box' solution with as little customisation or development as possible to aid the speed of implementation and minimise costs of the implementation and on-going support costs.

5.0 Delivery Methodology

5.1 The standard methodology for the deployment of Microsoft products has been used. This methodology is facilitated by the technical lead (2e2) who are accredited Gold Certified Partners and development partners of Microsoft Corporation, ITIL (IT implementation standards) compliant and numerous ISO standards including ISO9001, ISO20000 and ISO27001.

5.2 The methodology requires customers to undertake the following stages:

	STAGE	MILESTONES
5.2a	Analysis	Solution design document Gaps identified Scope confirmed Go forward Project Plan
5.2b	Design	AX environment established Design sessions Configuration and testing Data migration Functional Requirement Documentation (FRD) Functional Specification Documentation (FSD) Estimates
5.2c	Develop	Custom Development Integration Development Data migration simulation Solution testing Security Outstanding Change Requests Absence and Attendance* Outstanding issues
5.2d	Deploy	AX Production Environment ready User Acceptance Testing (UAT) End user training Data migration (cut over) Parallel run Final cut over Go Live
5.2e	Operate	Stabilisation Future development roadmap*

(*) items with an asterisk are specific to Plymouth's requirements

5.3 The Council, with our partners, conducts the gap analysis against specification. A principle of the project is to take the product 'out of the box' functionality wherever possible with the product requiring the majority of the implementation to focus on the configuration aspects of the implementation.

5.4 As the design stage proceeded, the gaps identified in the analysis identified a significantly greater requirement for customisation of the product than the product specification suggested. Furthermore, the design stage between the Microsoft AX (HR) and payroll solution (MidlandHR) was more complex given the interface requirements for a significant amount of data flow. Whilst not a show-stopper, it is significantly complex given the multiple legal entities and the order in which data flows and calculations are undertaken.

5.5 Following further design specification a number of areas of essential functionality identified work for development, above and beyond customisations that would require significant resource. 5.6 The suppliers undertook to complete this work without additional cost to Plymouth City Council. Had this not happened the project would not have proceeded beyond this stage. (See section X.X Product Issues and Gaps)

5.7 The development time and resource required further time to spend on specification documentation and delayed the overall architecture design of the system. It would not be possible to complete the interface design between the core Microsoft AX system without the full design as data flow would need to be re-designed requiring double effort.

5.8 As a result of this, the project rephrased into two parts: firstly to deliver core HR functionality and payroll (by July 2012) and secondly to deliver the remaining functionality (by September 2012).

5.9 Following further development and testing it was clear that two key elements from the core product (absence and attendance, and date effective functions) impacted on the ability to take payroll live without significant manual interventions for the operational running of the overall solution. This was not acceptable and the suppliers were required to rephrase the project to deliver this functionality.

5.10 Following this, the Project Board instigated the full development of the contingency plan to protect payroll services against the final available date for go-live (April 2013). The full plan was approved in December 2013 and parallel running of the payroll and core-HR system contingency has begun to meet the go-live date. Indications are that the contingency will deliver these elements on time. The total cost of the cut-over to contingency is £85,000 additional pressure to the project.

6.0 Product Issues and Gaps

6.1 The implementation of the system, simply put, requires three types of approach:

Configuration	Setting the parameters of the system according to the needs of Plymouth City Council's ways of working (e.g. background calculations, tables and how the system should hold and process data). This is essentially 'out of the box' implementation and our preferred method.
Customisation	Making minor changes to the product to handle Plymouth-specific requirements, this might mean minor development and changes to the configurable aspects of the product. This might mean changing how data is viewed on the screen in line with our way of processing. It is not a change to the product, but an adaptation.
Development	Creating entirely new 'code' to operate in a way that the product does not currently support. This can be minor development (code additions) or significant (where full pieces of functionality are required to be created to add-on to the product).

6.2 The key (major or significant) issues and product gaps, from the point of view of Plymouth City Council are as follows (please note, the suppliers or Microsoft Corporation may not agree that these are 'product' gaps or deficiencies):

GAP / ISSUE	REQUIREMENT AND IMPACT	CURRENT STATUS
Payroll module	Ideally, any ERP solution for organisations should contain an integrated payroll solution. As there is no payroll module, a third party solution was specified. This has complicated the implementation given	A third party 'stand-alone' payroll solution was sourced and integration design proceeding – complexities between how the two systems operate require complex interface design. As

	the need for interface design.	contingency a separate payroll module was preferable to untested integrated payroll module at this stage. We have no specific concerns about the operation of the third party payroll solution.
Organisational hierarchies and structures	This relates to how the Council's establishment and post /people relationships occur. The Council requires multiple-employments and contract types to be assigned to individuals based on the work that they undertake. The complexity of local government terms and conditions (multiple contract types, national bodies etc.) as well as the large number of variable hours and part-time roles makes this an essential aspect of the design.	A design is in place on how to treat these. The impact is a more complex interface design between the core HR product (Microsoft AX) and the payroll module where calculations against employment contract rules take place. This requires a more complex data transfer to take place between systems increasing the short-term risks (requiring more control resource until the final solution is fully tested).
Organisational charts	The Council had access to organisational charting previously. This is not available in Microsoft AX.	Microsoft has sourced a third-party organisational charting solution for Plymouth City Council.
Effective date (and retrospection)	The requirement to set changes to organisational structures, pay and grading etc. to be effective either in the future, or to apply retrospective changes (for example, cost-of-living pay awards, often nationally agreed and back dated) requires significant development of the product to allow retrospective calculations (re-calculation of pay and entitlements) and application to multiple-employments of employees, or complex organisational unit structures.	Microsoft has advised on how this works within the product, however, this is resource intensive for an organisation with the high volume of organisational changes, flexible workforce and regular requirement to retrospectively apply pay awards. This would be cost-prohibitive to the delivery of the business benefits expected. Microsoft is currently evaluating a design change request to address this. This is essential for integration in to payroll and contractual calculations.
Absence and Attendance (including work patterns)	Terms and conditions require complex calculation and capture of absence and attendance. This is the back bone of the organisations' ability to effectively manage capacity and productivity, as well as the compensation and benefits elements for absence (e.g. holiday, sickness, maternity) and attendance (e.g. training, secondments, benefit accruals, holidays etc). The lack of an integrated calendar also compounds this deficiency.	The Council's contractors (KPMG-led) undertook to develop a separate module. This development is about to enter testing-phase. This is the most significant deficiency within the system for local government (and most public sector) users. Plymouth City Council has the development to compensate for this. This has been the majoritative reason for the delay in the system implementation.

Interface and data handling	Requiring a third-party payroll solution means more complex interface design. With the delay to the implementation from the development work required (particularly the absence and attendance / organisational hierarchy) the final interface solution cannot be signed off until these developments are concluded.	The final solution can only be completed when absence and attendance is completed from development. The payroll system will stand-alone until this (and other fixes and final architecture design is completed). This will require dual-input into systems.
Reporting requirements	The standard reporting functions are not developed sufficiently for human capital management, payroll control or workforce planning. Further complicated by pay calculations being held in third party system.	PCC are establishing a 'data cube' solution and defining reporting requirements.
Case management	The case management system with in the Microsoft AX product is purely for recording case stages and does not provide the full case management functionality expected from an ERP solution.	The council has developed case management within an existing corporate system (Customer Relationship Management) Microsoft CRM.
Pre-employment checks (including safer recruitment handling)	Whilst the core product allows simple recording of compliance about pre-employment checks, it does not handle the end-to-end management of the pre-employment checks. As a significant employer with around 10 per cent turnover annually, this is a key efficiency.	The council has developed pre-employment handling within an existing corporate system (Customer Relationship Management) Microsoft CRM.
Recruitment	The recruitment (on-boarding) aspect is purely a requisition to recruit function; there is no front-end recruitment or back-end recruitment handling.	A third party system, currently in use, has been extended pending further investigation of the Microsoft solution. It is likely to be integrated in to the overall Microsoft CRM solution.

7.0 Resolution and Future Management

7.1 The Project Board implemented the contingency plan to de-risk the project, with the primary function of maintaining the ability to deliver payroll services from April 2013. This has been done by de-coupling the payroll solution from the Microsoft product, removing the need for the final interface design that is dependent on the delivery of the solutions to the gaps identified above.

7.2 Between September 2012 and December 2012 the Council escalated concerns about the product and project delivery through the key contractors (KPMG, Microsoft, 2e2). This has resulted in a final escalation to the global lead partner for the relationship for Microsoft within KPMG, the global product lead (Vice President) of the Microsoft Corporation for Microsoft AX, and directors of 2e2.

7.3 The Council's chief executive has also had conversations with very senior personnel from KPMG and Microsoft setting out key expectations of the Council in terms of time to resolve the outstanding issues. It has been made clear that if the product and final solution are not ready for testing by June 2013, the Council may withdraw from the implementation.

7.4 In order to get to the testing stage (and parallel running towards the final AX solution) Microsoft Corporate undertook a Project Quality Review. This is due to report by 8 March 2013. The first milestone will discuss the response from Microsoft including their interpretation of the project issues and solutions (including potential future product development).

7.5 The Council continue to test and develop against the fixes identified within the core product and is expected to receive Absence and Attendance ready for testing in March 2013, in line with the revised plan.

7.6 KPMG are also in discussions with a new technical partner to replace 2e2, following 2e2 entering into administration and being unable to fulfil key milestones and provide on-going resource. This arrangement is set out further in Part Two.

7.7 In terms of overall project completion, a high level view of the project would suggest we are current 80 per cent complete on the full solution. However, the remaining 20 per cent includes the delivery of the absence and attendance and interface solution that are both business-critical to the overall delivery of the final business benefits.

8.0 Project Resources

8.1 The overall project was estimated at £2million. Following the initial 'analysis phase' it was identified that the delay to the delivery (resultant from additional supplier side expenses) would require a further £200k of capital contingency. Both amounts have been approved by the Council as part of the Council's capital programme.

8.2 The implementation of the contingency plan has added a further £85,000 of supplier costs, outside of the programme. This is being funded through revenue-underspend from the re-profiling of capital borrowing required from the project resources.

8.3 Further risks to the financial viability of the project will occur from the extended period of consultants on-site aligned to the time delays. To this end, most contractor resource is now delivering remotely to reduce costs and project management time has been reduced. We continue to monitor the allocation of contractor resource and will allocate internal resources initially to reduce costs.

8.4 The programme, whilst overtime, remains currently within the resources allocated. The reason is set out in Part Two for commercial reasons.

8.5 There are risks that a further capital contribution will be required to maintain development resource on-site following the administration of 2e2. This is to retain key developers for the implementation.

8.6 The Council's resources (ICT, HR and finance) are not costed against this project, as per the initial business case proposals, keeping the overall project cost down, however this does impact on operations.

8.7 The business revenue savings from the HR & OD department will still be achieved following the implementation of the payroll services (including self-service and re-engineered processes) ahead of schedule. There remains pressure on the service until the final solution is in place. For ICT the allocation of key resources for the implementation, testing and data migration is putting pressure on ICT services that are recharged against projects and affecting their income generating ability.

8.8 A risk to the internal resources of the project is the extended timescales on staff. We have a committed team working on the solution who should be commended for their dedication, and often long hours of work. However, long-term this is not sustainable and there are a number of key people and single points of failure that continue to add risk to the project.

AUDIT COMMITTEE REPORT

PLACE – Plymouth and West Devon Record Office

BACKGROUND TO ISSUES

In 2005, the National Archives wrote to Plymouth City Council to explain that the storage conditions for the Plymouth and West Devon Record Office were not fit for purpose and a new site meeting the then standard BS5454 needed to be found by summer 2013. If this was not to be the case, then the Place of Deposit status for Public Records (such as Coroners' records, Magistrates Records, Prison Records, etc) would be removed and the records with them.

Since that point, various sites and opportunities have been put forward, with the most significant of these being:

- Windsor House in 2008/9 – HLF turned down the Stage 1 submission.
- Parkside School in 2010 – decision was made to provide a UTC instead.
- Factory Cooperage Building, Royal William Yard 2011 – total project costs approximately £30m; outside the projected external funding capability.

All of these projects had their strengths and opportunities but for a variety of reasons were unsuccessful.

PROGRESS SINCE MOVE TO PLACE

Since PWDRO moved to Economic Development / PLACE in 2012 and given the variety but lack of successful solutions for this problem, a decision was made to take a step back and review what options there were. A designated officer from Strategic Capital was assigned to take it forward, and a piece of work was commissioned to investigate a variety of options and to identify those that were deliverable. This piece of work was undertaken by Stride Treglown, an Architect's firm in the locality who had been involved in the most recent Royal William Yard scheme and who therefore understood the background to the project and already had a lot of the space requirements, which saved time and money. They were also very well briefed in the new PD5454 standard (which replaces BS5454) which was only published last summer.

UPDATE SINCE LAST MEETING

Significant ground has been covered since the last board on the 12th February 2013 with the key elements of the programme being achieved within the required time frame.

The Options Study for all seven options has been completed and the city has moved towards a preferred option. Given the commercial sensitivities around the preferred option, we are not yet in a position to disclose it, but will do so as soon as we are able to.

A second piece of work is also underway that will set out the strategic vision for this project and describe how it relates to the wider city context and ambition. This is expected to be completed by the 21st March.

Conversations have also happened in this period with Highways and Planning, regarding the benefits of the different options around public realm and overall feel, together with Land and

Property about site assembly around the preferred option as well as some potential commercial opportunities that this site offers.

We have also met with the National Archives on the 18th December, and they have since confirmed that they are happy with our progress. They will continue to keep in touch, and our next scheduled meeting is in July 2013.

Discussions were also held with the Heritage Lottery Fund on the 22nd January on our progress to date, and they too have indicated their support for our progress and our plans.

NEXT STEPS

The key deadline and the focus for much of the work over the next months is the application to the Heritage Lottery Fund for approximately £10m. As they are the key funders and the application to them forms part of TNA's prerequisites for progress, their deadline of 29 November 2013 (for a Stage 1 submission) is defining the timescale. Therefore, we are now working towards:

- An outline vision for the project. This will give an overview of what the project aims to achieve over and above fixing the problem of PWDRO and how this fits into a wider picture for the heritage and culture of the city. The notes from the visioning workshop are currently being turned into a document by the 21st March which can be used for various purposes: the application itself but also advocating the project to stakeholders.
- Formalising a response from the National Archives. Although they have clearly stated that they are impressed with our progress to date, they are aware that there is a need for a public statement from them to address the impending deadline. They want to make sure this is handled sensitively on both sides and also want to formalise a reporting framework over the forthcoming months, including a site visit in the summer.
- Outline agreements with owners and lease holders around the site assembly for the preferred option. Again this has to be handled very sensitively because there are financial and political issues around some of the freeholds and leaseholds on the preferred site that do not belong to Plymouth City Council.
- An appropriate communications and engagement plan. With the negative press that this project has received in the past – and the above concerns – we need to be sure that communications and engagement with stakeholders are robust and do not put the project at risk. HLF will also be looking at the impact of this project, so will require detailed information on what 'need' there is in the city for this scheme and how the building and collections will be used to engage people throughout the development phase (after Stage 1 submission) and beyond.

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