



Democratic Support

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AUDIT COMMITTEE

Thursday 8 December 2016
2pm
Council House, Plymouth

Members:

Councillor Sam Leaves, Chair
Councillor Parker Delaz-Ajete, Vice Chair.
Councillors Sam Davey, Dr Mahony and Mrs Pengelly.

Independent Members:

Mr Clarke and Mr Stewart.

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

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Tracey Lee

Chief Executive

Audit Committee

Agenda

1. Apologies

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

2. Declarations of Interest

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

3. Minutes (Pages 1 - 6)

To confirm the minutes of the meeting held on 15 September 2016.

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. Mid-Year Treasury Management Report 2016/17 (Pages 7 - 22)

The committee will receive the Mid-Year Treasury Management report 2016/17.

6. Treasury Management Strategy 2017/18 (Pages 23 - 60)

The committee will receive the Treasury Management Strategy 2017/18.

7. Treasury Management Report - The Impact of Leaving the European Union (Pages 61 - 64)

The committee will receive the Treasury Management Report – the Impact of Leaving the European Union.

8. Operational Risk and Opportunity Management - Update Report (Pages 65 - 70)

The committee will receive the update report on Operational Risk and Opportunity Management update report.

9. Local Government Ombudsman Report (Pages 71 - 78)

The committee will receive the Local Government Ombudsman report.

The following background papers can be accessed at the Council's website Council and Democracy/Councillors and Committees/Library/Audit background papers or using the following hyperlinks –

Report of Local Government Ombudsman Investigation into Complaints Plymouth City Council: <http://tinyurl.com/hzucttw>

Valuation Report District Valuer: <http://tinyurl.com/zgqhd49>

Interim Report - John Grimes Partnership (including plans and sections and borehole monitoring data) -

Report: <http://tinyurl.com/gpk5p75>

Plans: <http://tinyurl.com/go376gv>

Borehole Monitoring Data: <http://tinyurl.com/h863jyh>

10. Issues Arising from Local Government Ombudsman Investigation: 15015955 and 15015963 (To Follow)

The committee will receive the issues arising from the Local Government Ombudsman investigation 15015955 and 15015963.

11. Impact of Workforce Changes (Pages 79 - 80)

The committee will receive a report on the Impact of Workforce Changes.

12. Internal Audit Half Year Report 2016/17 (Pages 81 - 112)

The committee will receive the Internal Audit Half Year Report 2016/17.

13. Audit Committee Progress Report (Pages 113 - 118)

The committee will receive the Audit Committee Progress Report.

14. Annual Audit Letter (Pages 119 - 130)

The committee will receive the Annual Audit Letter.

15. Integrated Commissioning - Finance and Assurance Review Group - Annual Report 2015/16 including the ASW Audit Programme for the CCG (Pages 131 - 136)

The committee will receive the Integrated Commissioning – Finance and Assurance Review Group – Annual Report 2015/16 and a verbal update on the ASW Audit Programme for the CCG.

16. Review of Work Programme 2016/17

(Pages 137 - 142)

The committee will review its work programme 2016/17.

Audit Committee

Thursday 15 September 2016

PRESENT:

Councillor Sam Leaves, in the Chair.
Councillor Parker-Delaz-Ajete, Vice Chair.
Councillors Sam Davey, Dr Mahony and Mrs Pengelly.

Independent Members; Mr R Clarke and Mr Stewart.

Also in attendance: David Curnow (Devon Audit Partnership), Brenda Davis (Devon Audit Partnership), Pamela Evans (BDO), Chris Flower (Lead Accountant), Andrew Hardingham (Assistant Director for Finance), Carolyn Haynes (Lead Accountant), Mike Hocking (Head of Assurance Services), Julie Hosking (Risk Management and Insurance Officer), David Northey (Head of Integrated Finance), Greg Rubins (BDO) and Helen Wright (Democratic Advisor)

The meeting started at 2.00 pm and finished at 3.25 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.

15. **To Note the Appointment of the Vice Chair**

The committee noted the appointment of Councillor Parker Delaz-Ajete as Vice Chair for the forthcoming municipal year 2016/17.

16. **Declarations of Interest**

Councillor Sam Leaves declared a personal interest as she was employed by NEW Devon CCG.

17. **Minutes**

The committee agreed that the minutes of the meeting held on 30 June 2016 as a correct record.

18. **Chair's Urgent Business**

There were no items of Chair's urgent business.

19. **Statement of Accounts 2015/16**

Carolyn Haynes (Lead Accountant) presented the Statement of Accounts 2015/16, which highlighted the following key areas –

- (a) the Council's draft Statutory Statement of Accounts for year ending 31 March 2016 had been prepared and approved ready for the Council's external auditors by the Assistant Director for Finance on

30 June 2016;

- (b) the accounts had now been audited and were being presented to the Audit Committee for approval; the Account and Audit Regulations required the accounts to be formally approved and published on or before 30 September 2016; the Audit Committee was also asked to approve the Annual Governance Statement for 2015/16;
- (c) the main amendments which had arose following the publication of the draft accounts were included in Appendix C of the report.

In response to questions raised by the committee, it was reported that –

- (d) information would be circulated to members relating to -
 - why there had been an increase in long term debtors written out in year;
 - the reasons for the reduction in 2014/15 and 2015/16 in revenue and other funds;
 - the split between local government and claimant error regarding housing payment overpayment provision;
 - the current collection rates for council tax;
- (e) although this was the first year that BDO had audited the Council's accounts, both organisations had worked well together; following the sign off of the accounts a meeting would be held to discuss the lessons learnt;
- (f) data on satisfaction surveys undertaken within Adult Social Care would be reported as part of the integrated fund and as and when new data was available it would be reported to the Audit Committee;
- (g) the increase in the audit fee had been due to an elector's objection regarding the authorisation of expenditure for the MTV Crashes event held in 2015;
- (h) the Assistant Director for Finance was charged under the Local Government Act 1972, Section 151 to ensure that the council's finance function was properly resourced in order to discharge his responsibilities.

The Chair, on behalf of the Audit Committee, thanked the staff within finance for their work on the Statement of Accounts.

The committee agreed to -

- (1) approve the Statement of Accounts for 2015/16;
- (2) approve the Annual Governance Statement for 2015/16;
- (3) Authorise the Letter of Representation and submit it to the Auditor.

The committee noted the amendment made to the Statement of Accounts of 2015/16 as agreed with the Auditor.

20. **Treasury Management 'Brexit' Report**

Chris Flower (Lead Accountant) presented the treasury management 'Brexit' report which provided a commentary on the effects on treasury management caused by the UK's decision to leave the European Union. The report also outlined the changes in the economy and markets, and how these had affected the Council's treasury management.

The committee noted the report.

21. **Strategic Risk and Opportunity Register Monitoring Report**

Mike Hocking (Head of Assurance Services) presented the strategic risk and opportunity register monitoring report for March 2016 to August 2016 which highlighted the following key areas -

- (a) a review of the strategic risk and opportunity register was undertaken at the beginning of the year to ensure the risks included on it are those that affect or are created by our strategic objectives and allow the senior officers to carry out more proactive management of the key risks that may impact on the Corporate Plan;
- (b) as a result of the review, the total number of risks had increased from 12 to 14;
- (c) two risks added related to 'the organisation's ability to meet performance and delivery expectations in relation to statutory duties and deadlines are reduced' and 'risk of non-delivery of a plan for waste that delivers increased recycling levels in Plymouth.

In response to a question raised regarding the organisation's ability to meet performance and delivery expectations, in relation to statutory duties and deadlines, it was reported that there were concerns relating to the ability of the organisation to continue to deliver services with fewer people; it was further reported that staff stress surveys were undertaken together with the annual staff survey.

The committee considered that elected Members should also undertake a survey to gauge their opinions on the ability of the organisation to deliver services.

The committee agreed to include staff sickness on the agenda for the December 2016 meeting and to invite the Assistant Director for HR and OD to attend.

The committee noted and endorsed the current position with regard to the strategic risk and opportunity register.

22. **Internal Audit Progress Report**

David Curnow (Devon Audit Partnership) and Brenda Davis (Devon Audit Partnership) presented the Internal Audit progress report which provided a position statement on the audit work carried out since April 2016 and based on work performed to date during 2016/17.

Members were advised that –

- (a) progress in the period up to 19 August 2016 had included completion of work carried forward from 2015/16, undertaking follow up audits and completing assignments in accordance with the timescales agreed with management;
- (b) overall and based on work performed to date during 2016/17, Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the authority's internal control environment.

In response to a question raised by the committee, it was reported that a review had been undertaken on planning compliance but this had not included issues such as planning applications, enforcement or Section 106 monies.

The committee agreed that Internal Audit undertake a review relating to planning Section 106 monies.

The committee noted the report.

23. **Internal Audit Follow Up Work**

David Curnow (Devon Audit Partnership) and Brenda Davis (Devon Audit Partnership) presented the Internal Audit follow up work.

The committee was informed that –

- (a) the report was to provide assurance to the Audit Committee that where an audit had been undertaken and that an opinion of Improvement Required or less had been provided, Devon Audit Partnership had undertaken follow up audit reviews wherever possible or discussed progress with relevant officers;
- (b) it should be noted that no opinion of 'fundamental weakness identified' had been given for any of the audits undertaken in 2015/16 and to date;

- (c) the Partnership had given an opinion of 'significant assurance' for the Annual Audit report 2015/16.

In response to a question raised by the committee, it was reported that there was currently a national issue with the re-assessment of housing benefit claims.

The committee noted the report.

24. **Annual Report to Those Charged with Governance (ISA 260) 2015/16 including Value for Money**

Greg Rubins (BDO) and Pamela Evans (BDO) presented the annual report to those charged with governance (ISA260 report) 2015/16 including value for money (VFM) which highlighted key matters arising from BDO's audit of the Council's financial statement for the year ended 31 March 2016 as follows -

- key audit and accounting matters;
- summary of audit findings;
- outstanding matters;
- other reporting matters;
- control environment;
- whole governance accounts;
- use of resources.

The committee agreed to include an update on Lender Option, Borrower Option (LOBO) loans at a future meeting.

The committee noted the report.

25. **Review of Work Programme 2016/17**

The committee agreed to include the following items for the December meeting, on its work programme for 2016/17 –

- (1) staff sickness (invite the Assistant Director for HR and OD to attend);
- (2) the implications of 'Brexit' on Council, to be included in the mid-year Treasury Management report.

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PLYMOUTH CITY COUNCIL

Subject:	Mid-Year Treasury Management Report 2016/17
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Assistant Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact details	Tel: 01752 304212 email: chris.flower@plymouth.gov.uk
Ref:	FIN/CF
Key Decision:	No
Part:	I

Purpose of the report:

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's strategy for 2016/17 was approved by full Council at its budget meeting on 16 February 2016. This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2016. It is a requirement of the CIPFA Code of Practice on Treasury Management that a mid- year report, as a minimum, should be presented to Full Council.

The Council Corporate Plan 2016/19:

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 and its implications have been fully incorporated into the council's budgets.

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

N/A

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

- I. The Mid-Year Treasury Management Report 2016/17 to be noted by the Audit Committee.

Alternative options considered and rejected:

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

Published work / information:

Treasury Management Strategy and Annual Investment Strategy 2015/16 to Council 16 February 2016.

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
Not applicable										

Sign off:

Fin	AKH/ 1670.4 3	Leg	DVS26 975	Mon Off	DVS2 6975	HR		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

Mid-Year Treasury Management Report 2016/17

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 1.2 The Authority's Treasury Management Strategy for 2016/17 was approved by full Council on 16 February 2016 which can be accessed on [Treasury Management Strategy 2016/17](#).
- 1.3 The Authority has borrowed £251m and invested £74m as at the mid-year position and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

- 2.1 The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.
- 2.2 The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.
- 2.3 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for

longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

- 2.4 The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.
- 2.5 Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.
- 2.6 Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.
- 2.7 The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

3. **Market reaction:**

- 3.1 Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 2.
- 3.2 On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from

the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

- 3.3 The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%.

4. Local Context

- 4.1 At 31/3/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £306m, while usable reserves and working capital was £51m. The Authority currently has £253m of borrowing and £74m of investments.
- 4.2 The Authority has an increasing CFR over the next 5 years due to the capital programme, but minimal investments will therefore require borrowing of up to £122m over the forecast period.

5. Borrowing Strategy

- 5.1 At 30/9/2016 the Authority held £253m of loans, (an increase of £11m from 31/3/2016), as part of its strategy for funding previous years' capital programmes. The Authority does not expect to exceed its authorised borrowing limit of £400m in 2016/17.

The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

- 5.2 Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources and borrow short-term loans instead.
- 5.3 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis.

- 5.4 Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £107m of such loans were borrowed at an average rate of 0.40% and an average life of 3 months which includes the replacement of maturing loans where appropriate.

Borrowing Activity in 2016/17

	Balance on 01/04/2016 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2016 £m
CFR					
Short Term Borrowing ¹	96	(127)	0	138	107
Long Term Borrowing	146	0	0	0	146
TOTAL BORROWING	242	(127)	0	138	253
Other Long Term Liabilities	125	0	0	0	125
TOTAL EXTERNAL DEBT	367	(127)	0	138	378
Increase/ (Decrease) in Borrowing £m					11

6. PWLB Certainty Rate and Project Rate Update:

- 6.1 The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2015. In April the Authority submitted its application to the CLG along with the 2016/17 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2016.

6.2 Debt Rescheduling:

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence

7. LOBOs:

- 7.1 The Authority holds £82m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. None of these LOBOS had options available during 2016/17.
- 7.2 In June Barclays Bank informed the Authority of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £18m of the Authority's Barclays LOBO loans to fixed rate loans removing the uncertainty

on both interest cost and maturity date. This waiver has been done by ‘deed poll’; it is irreversible and transferable by Barclays to any new lender.

8. Investment Activity

8.1 The Authority holds a small amount of invested funds, representing income received in advance of expenditure plus balances and reserves held.

8.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority’s aim is to achieve a yield commensurate with these principles. The authority’s average rate of return on investments over the period 1 April to 30 September 2016 was 1.61%.

Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2016 £m
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of [A-] or higher - Local Authorities	37	8	(14)	31
Long term Investments - Banks and Building Societies with ratings of [A+] or higher - Local Authorities	35	8	(0)	43
TOTAL INVESTMENTS	58			74
Increase/ (Decrease) in Investments £m				16

8.3 Security of capital has remained the Authority’s main investment objective. This has been maintained by following the Authority’s counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

8.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority’s minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody’s); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

8.5 During the period the Authority has continued to monitor its short term investment opportunities but with rates have fallen to new lows and therefore there have been few investments opportunities.

11 Counterparty Update

- 11.1 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.
- 11.2 Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.
- 11.3 Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.
- 11.4 There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.
- 11.5 The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

12 Budgeted Income and Outturn

- 12.1 The average cash balances were £16m during the quarter. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management

Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.

The Authority's budgeted investment income for the year is estimated at £1.3m. The Authority is currently anticipating delivering this by the year end.

- 12.2 The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As the majority of the Authority's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the next year.
- 12.3 The authority has £20m invested in the CCLA Property Fund. This is a pooled fund with other local authorities and is kept as a long term investment. Following the decision to leave the European Union in June the value of the fund fell by 8% but the investment income is expected to remain at about 3.5%.

13 **Update on Investments with Icelandic Banks**

- 13.1 A total of £1.3m is still outstanding from Glitnir Bank. These funds are still held in Iceland and are accruing interest but no clear date is available as to when these funds will be released. We continue to work in association with Local Government Association.

14 **Compliance with Prudential Indicators**

- 14.1 The Authority confirms compliance with its Prudential Indicators for 2016/17, which were set in 16 February 2016 as part of the Authority's Treasury Management Strategy Statement.

15 **Treasury Management Indicators**

- 15.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

15.2 **Interest Rate Exposures:**

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	210%	210%	210%
Actual	£375.9m		
Upper limit on variable interest rate exposure	60%	60%	60%
Actual	£107.4m		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

- 15.3 Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	50%	0%	43%
12 months and within 24 months	60%	0%	0%
24 months and within 5 years	60%	0%	1%
5 years and within 10 years	50%	0%	11%
10 years and above	50%	0%	45%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Note: treat LOBO option dates as potential repayment dates, but exclude variable rate borrowing.

- 15.4 Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£45m	£40m	£40m
Actual	£8m	£0m	£0m

The authority does, however, have £20m invested in the CCLA Pooled Property Fund which although can be call upon at any point it is planned to remain invested for up to five years. This is currently providing a return in excess of 3.5%.

- 15.5 Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each

investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	A

- 15.6 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£25m	£31m

16 **Investment Training**

- 16.1 Arlingclose Investment Workshop – Responding to Bail-in
 Arlingclose Workshops - Principles of Treasury Management
 Arlingclose Workshop - Treasury Management Decision Making & Treasury Management Practices
 CIPFA – Post Brexit workshop
 CIPFA - Treasury Management Training for Technical Accounting Issues
 CCLA – Investment workshop

17 **Outlook for the remainder of 2016/17**

- 17.1 The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.
- 17.2 The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.
- 17.3 Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose’s central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	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
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

17.4 Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November’s presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

17.5 In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority’s counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

Appendix 1

Prudential Indicators 2016/17

The Local Government Act 2003 requires the Authority to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority’s planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	102	149	141	83
Total Expenditure	102	149	141	83
Capital Receipts	11	2	1	1
Government Grants	39	70	66	56
Reserves	-	-	-	-
Revenue	5	2	1	0
Borrowing	12	75	73	26
Leasing and PFI	35	-	-	-
Total Financing	102	149	141	83

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority’s underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	306	381	454	480
Total CFR	306	381	454	480

The CFR is forecast to rise by £174m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Actual £m	30.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Borrowing	242	317	391	417
Other long-term liabilities	125	125	125	125
Total Debt	397	425	516	542

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	300	400	430
Other long-term liabilities	125	125	125
Total Debt	425	525	555

The Authority confirms that during 2016/17, the Operational Boundary was not breached.

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the [Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	350	450	480
Other long-term liabilities	150	150	150
Total Debt	500	600	630

Total debt at 30/9/2016 was £251m. The Authority confirms that during 2016/17 the Authorised Limit was not breached at any time.

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in April 2002.

Money Market Data and PWLB Rates

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

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
Minimum	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
Average	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
Maximum	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
Spread	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

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

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30

30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	Low	1.03	1.17	1.64	2.00	2.20	2.28
	Average	1.30	1.57	2.15	2.58	2.82	2.89
	High	1.63	2.04	2.73	3.17	3.41	3.48

Table 4: PWLB Variable Rates (standard rate)

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

Please note PWLB rates are standard rates

PLYMOUTH CITY COUNCIL

Subject:	Treasury Management Strategy 2017/18
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor Darcey
CMT Member:	Andrew Hardingham (Assistant Director for Finance)
Author:	Chris Flower, Finance Business Partner – Accountant for Capital and Treasury Management
Contact details	Tel: 01752 304212 email: chris.flower@plymouth.gov.uk
Ref:	Fin/CF
Key Decision:	No
Part:	I

Purpose of the report:

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires local authorities to set a Treasury Management Strategy on an annual basis to include the Annual Investment Statement and the Minimum Revenue Provision Statement.

The Council Corporate Plan 2016/19

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. The Treasury Management Strategy sets the authorised limits and operational boundaries within which investment and borrowing decisions are taken and risks managed. 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.

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

A robust Treasury Management Strategy is key to ensuring a successful delivery of our Medium Term Financial Strategy and ensuring the Council can achieve its objectives to be a Pioneering, Growing, Caring and Confident City.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

- I. The Audit Committee recommends the Treasury Management Strategy 2017/18 (incorporating the authorised limits, operational boundaries and prudential indicators) to the Cabinet for approval.

This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected:

It is a statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the CIPFA Code of Practice for Treasury Management.

Published work / information:

Not Applicable

Background papers:

Not Applicable

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

Sign off:

Fin	AKHI 670.4 3	Leg	DVS 2697 6	Mon Off	DVS 2697 6	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Assistant Director													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

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+ TREASURY MANAGEMENT STRATEGY 2017/18



How Plymouth will invest to grow and meet future Infrastructure needs

Foreword



Councillor Ian Darcy **Cabinet Member for Finance and ICT**

“This Strategy demonstrates our commitment to sound management of the Council’s finances. It shows how the Council’s ambitious capital programme will be funded.

It also demonstrates the network of controls that are in place to ensure our investments are secure.

These are important decisions and this year’s Strategy offers much greater openness and transparency to residents and stakeholders”



Andrew Hardingham **Assistant Director for Finance**

“This Strategy is designed to underpin the Council’s ambition to invest in the future of Plymouth. It offers a series of opportunities to manage the Council’s finances to maximise returns, reduce risk, diversify investments and minimise the cost of borrowing. The strategy will keep us within our prescribed limits under the Prudential Code. The Council is seeking at all times to deliver good investment returns that are secure and affordable.”

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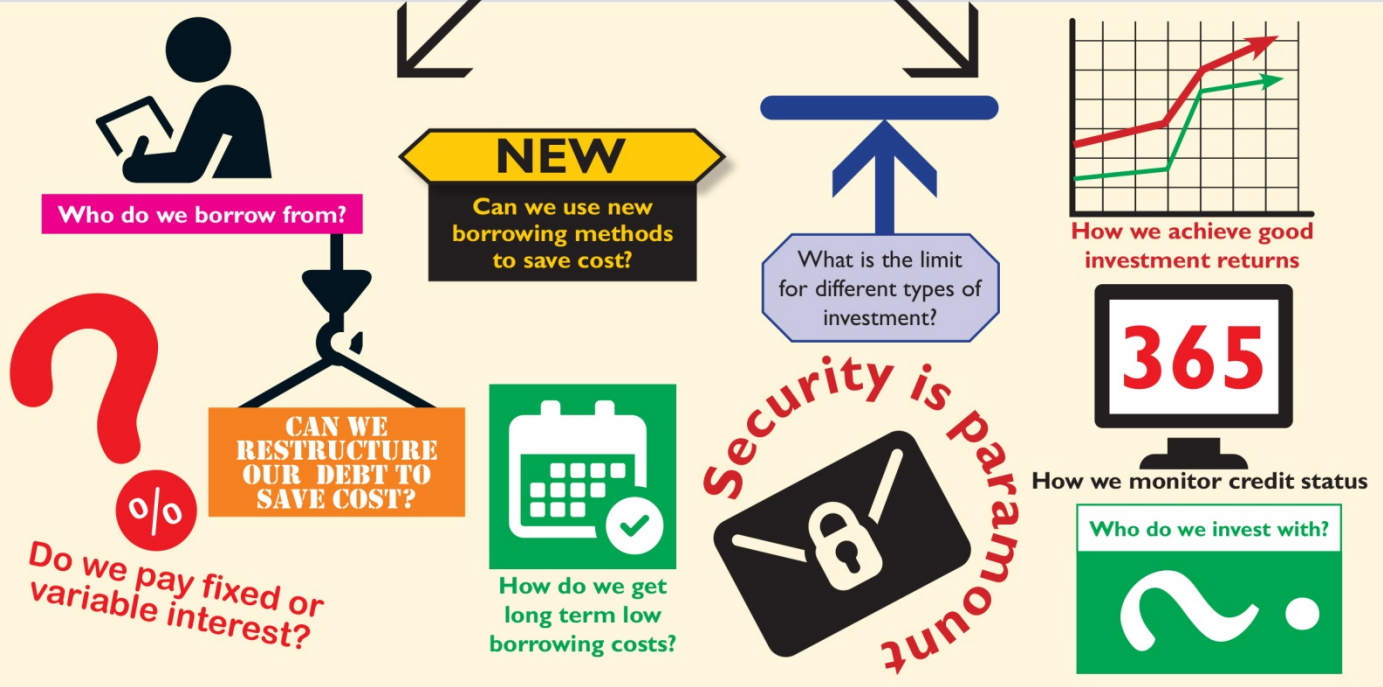
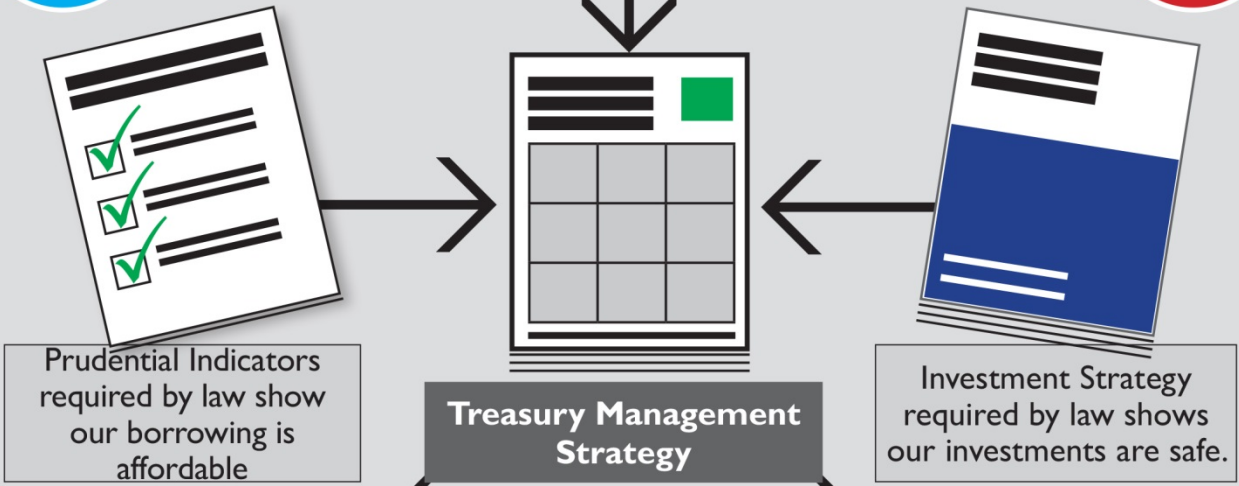
How the Treasury Management System works



Infrastructure and capital investment needs to deliver the Plymouth Plan



Borrowing to fund the investment. Investing surplus funds



Introduction

The Treasury Management Strategy sets out how Plymouth will invest to grow and meet future Infrastructure needs. It is a companion document to the Medium Term Financial Strategy which sets out Plymouth's ambitions and priorities from the Plymouth Plan.

INVESTMENTS – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

- To achieve the best secure investment returns
- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

Market Intelligence

- 2016 Autumn Statement
- Market Outlook by the Council's advisers Arlingclose

Statutory and Performance Framework

Rules that guide us

Specified Investments

- Sterling only
- Repayable in 12 months
- Can use UK Government, Local Authority or a body of high credit quality

Counterparties and Limits (see table on page 23)

Non-specified investments

- **£40m** max long-term
- **£10m** max below

Investment Limits – subject to credit ratings table on page 22

- **No limit** UK Government
- **£12m** any single organisation
- **£40m** any group of organisations
- **£25m** per pooled fund
- **£40m** negotiable instruments per broker
- **£12m** per foreign country
- **£12m** per registered provider
- **£10m** unsecured with Building Societies
- **£5m** unrated corporates
- **£55m** money market funds

Key Council Budget Assumption for 2017/18

- Investments will make an average rate of 1.41%

Approach

Choices made within the framework

Objective Security first, yield second

Strategy To maximise returns, reduce risk and diversify investments

Risk Assessment and credit ratio Our advisors monitor credit ratings daily so no new investment will be made if they do not meet our ratings

Other information on security of Investments Market intelligence from our advisors may give warnings before a credit warning changes

BORROWING – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

- To achieve the best secure investment returns
- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

Market Intelligence

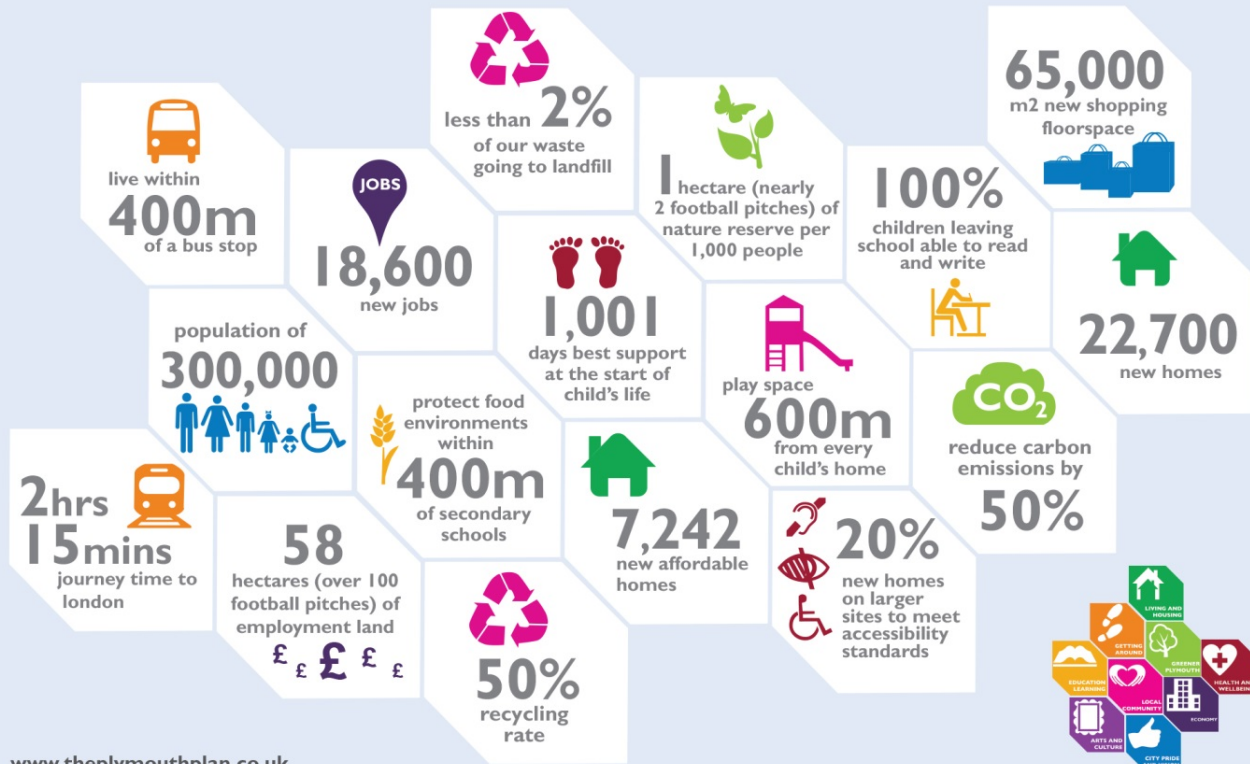
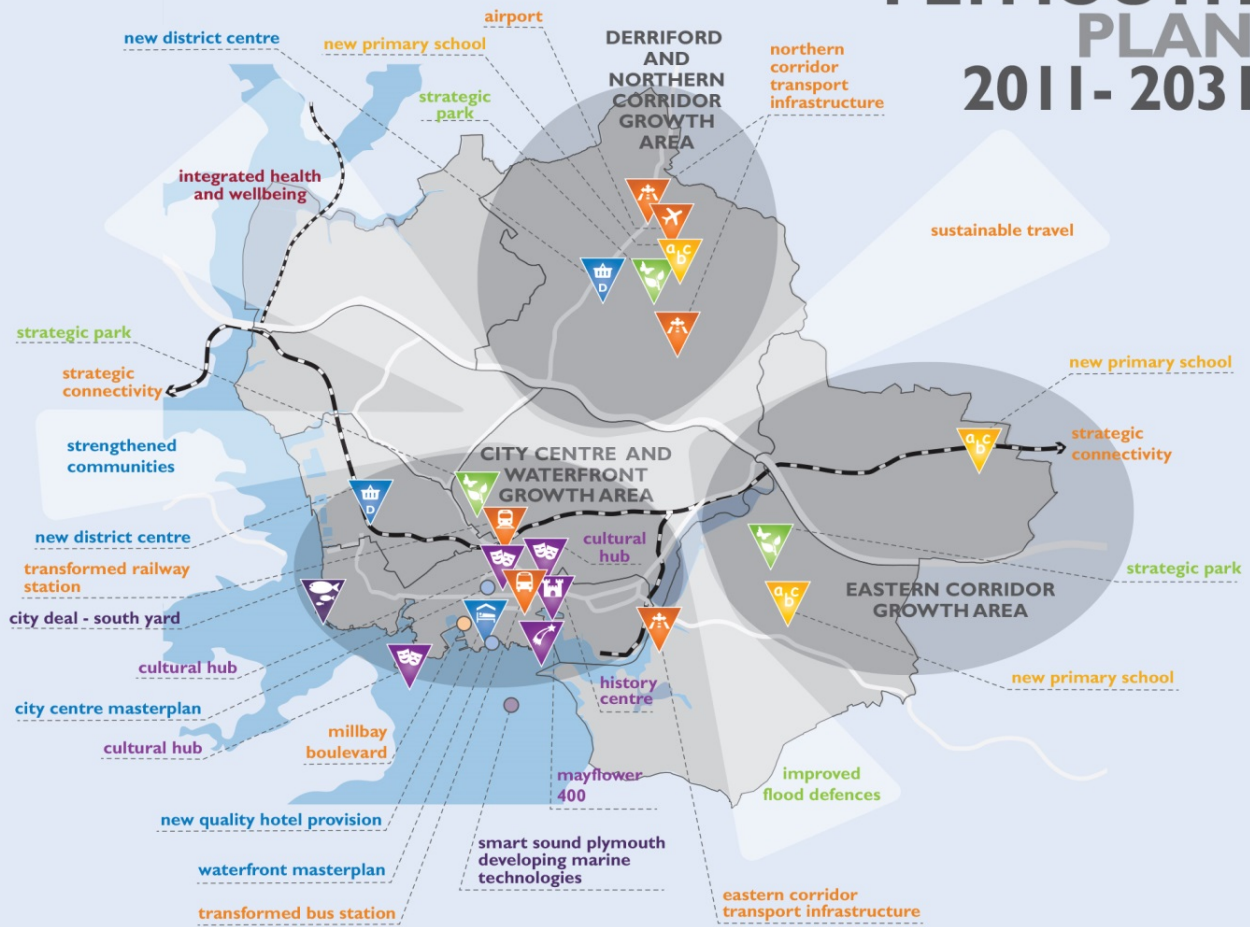
- 2016 Autumn Statement
- Market Outlook by the Council's advisers Arlingclose

<p style="text-align: center;">Statutory and Performance Framework</p> <p style="text-align: center;"><i>Rules that guide us</i></p>	<p>Borrowing</p> <ul style="list-style-type: none"> • £155.2m Total Capital Expenditure • £516m Capital Finance Requirement (need to borrow) • £510m Total Debt (loans and private finance initiatives) • £540m Operational Boundary (practical ceiling on borrowing) • £610m The Authorised limit (absolute maximum debt approved)
	<p>Prudential Indicators</p> <ul style="list-style-type: none"> • 5.81% Ratio of finance costs to net revenue stream (borrowing costs as a proportion of total budget) • £6.79 Hypothetical increase in Council Tax affordability. This is a CIPFA prescribed technical measure; the Council has made no future years tax decisions
	<p>Treasury Management Indicators</p> <ul style="list-style-type: none"> • 100% Limit on Fixed Interest Exposure • 25% Limit on Variable Interest Rate • 0% to 75% Maturity Structure of Borrowing, exposure in any duration • 2.93% average interest rate on new long term loans
	<p>Minimum Revenue Provision Policy</p> <ul style="list-style-type: none"> • Annuity Method • 50 year repayment for capitalisation directions • PFI/Leases determined by the specific agreement • No MRP on capital loans or investments • MRP first charged in the year the project is completed
	<p>Key Council Budget Assumption for 2017/18</p> <ul style="list-style-type: none"> • Long-term loans will cost an average rate of 2.93%
<p style="text-align: center;">Approach</p> <p style="text-align: center;"><i>Choices made within the framework</i></p>	<p>Objective - Balance low interest rates with long term certainty</p> <p>Strategy – to borrow short term now and lock in long term when appropriate</p> <p>Sources Approved by Arlingclose - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back</p> <p>LOBOs Council will repay if no additional cost</p> <p>Municipal Bonds Agency Council will use where appropriate</p> <p>Debt Restructuring A present value calculation based on current rates for the same period of loan may result in a discount or premium. Council will re-schedule if it reduces cost or risk</p>

Plymouth

Britain's Ocean City

THE PLYMOUTH PLAN 2011-2031



www.theplymouthplan.co.uk



Plymouth

Britain's Ocean City

THE PLYMOUTH PLAN 2011-2031

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone

WHAT WE WANT TO ACHIEVE...

LEADING CITY

A city fulfilling its strategic role as a major economic driver and provider of services in the region

HEALTHY CITY

People live in happy, healthy, safe and aspiring communities

GROWING CITY

A city which has used its strengths to deliver a prosperous city with a strong economy and quality places

INTERNATIONAL CITY

Plymouth is internationally renowned as Britain's Ocean City and is the UK's premier marine city, famous for its waterfront

HOW WILL WE KNOW WE'RE SUCCESSFUL?

Plymouth is recognised as a key regional economic driver	People get the best start to life , enjoy a better quality of life and increased life expectancy	Plymouth's population has grown to more than 300,000	Plymouth offers a diverse cultural experience with a major events programme
Plymouth has high quality strategic services and facilities	More people are taking care of themselves or finding care within their community	Plymouth continues to be recognised as a leading Green City	Plymouth is internationally renowned as a leading UK tourist destination
The quality and resilience of Plymouth's transport and digital connectivity has improved	More residents are contributing to and involved in their community	Plymouth has more vibrant, productive and innovative businesses	Plymouth is recognised internationally for marine science and high technology manufacturing
Plymouth's strategic defence role has been safeguarded and strengthened	There is good quality health and social care for people who need it	People have the skills to be school ready and work ready to meet the needs of the city	Plymouth has a reputation for world class universities and research institutions
Plymouth's stunning setting and natural assets have been enhanced	Plymouth has good quality neighbourhoods where people feel safe and happy	Plymouth has the right environment for growth and investment	Plymouth has a reputation as a welcoming and multicultural city with diverse communities

WHAT PRINCIPLES WILL GUIDE US?



POWER

People have confidence that they can influence decisions that affect them



OPPORTUNITY

People can contribute to and benefit from being part of the city's future



ROOTS

People belong and care about Plymouth's future and their own



CONNECTIONS

People mix, learn from each other and work together



FLOURISH

People, communities and businesses thrive in a creative and diverse city



Our Corporate Plan includes themes of infrastructure and investment

Corporate Plan

The Corporate Plan 2016 to 2019 sets out our vision to be ‘one team serving our city’ and retains our ambition to be a Pioneering, Growing, Caring and Confident City.

**OUR PLAN
ONE CITY COUNCIL**



**CITY VISION
Britain's Ocean City**

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone.

OUR VALUES

WE ARE DEMOCRATIC

Plymouth is a place where people can have a say about what is important to them and where they can change what happens in their area.

WE ARE RESPONSIBLE

We take responsibility for our actions, care about their impact on others and expect others will do the same.

WE ARE FAIR

We will be honest and open in how we act, treat everyone with respect, champion fairness and create opportunities.

WE ARE PARTNERS

We will provide strong community leadership and work together to deliver our common ambition.

OUR VISION One team serving our city

PIONEERING PLYMOUTH

We will be innovative by design, and deliver services that are more accountable, flexible and efficient.

GROWING PLYMOUTH

We will make our city a great place to live by creating opportunities for better learning and greater investment, with more jobs and homes.

CARING PLYMOUTH

We will work with our residents to have happy, healthy and connected communities where people lead safe and fulfilled lives.

CONFIDENT PLYMOUTH

We will work towards creating a more confident city, being proud of what we can offer and growing our reputation nationally and internationally.

OUR THEMES

- Quality services focused on customers' needs
- Balancing the books
- New ways of working
- Best use of Council assets
- Working constructively with everyone

- Quality jobs and valuable skills
- Broad range of homes
- Increased levels of investment
- Meeting future infrastructure needs
- Green and pleasant city

- Focus on prevention and early intervention
- Keeping children and adults protected
- Inclusive communities
- Respecting people's wishes
- Reduce health inequalities

- Council decisions driven by citizen need
- Plymouth as a destination
- Improved street scene environment
- Motivated, skilled and engaged workforce
- Setting the direction for the South West

The Autumn Statement was delivered by the Chancellor on 23 November 2016. It is important market intelligence for borrowing and investment decisions.

National Context

Autumn Statement Summary

Growth forecasts have been reduced by Office for Budget Responsibility. The Chancellor is borrowing to fund infrastructure. There are marginal taxation changes with the objective of securing a level playing field between different categories of employment.

Public borrowing/deficit/spending

- Borrowing is forecast to be £122bn higher in the period until 2021 than forecast in March's Budget
- Debt will rise from 84.2% of GDP last year to 87.3% this year, peaking at 90.2% in 2017-18
- Office for Budget Responsibility (OBR) forecasts borrowing of £68.2bn this year, then £59bn in 2017-18, £46.5bn in 2018-19, £21.9bn in 2019-20 and £20.7bn in 2020-21
- Public spending this year to be 40% of GDP - down from 45% in 2010
- Departmental spending plans set out in 2015 Spending Review to remain in place
- Government will meet commitments to protect budgets for key public services, defence, overseas aid and the pension "triple lock" until the end of this Parliament

The state of the economy

- OBR growth forecast upgraded to 2.1% in 2016 - from 2.0% - then downgraded to 1.4% in 2017, from 2.2%
- Forecast growth of 1.7% in 2018, 2.1% in 2019 and 2020 and 2% in 2021.
- Government no longer seeking a budget surplus in 2019-20 - committed to returning public finances to balance "as soon as practicable"

Taxation and Pay

- Income tax threshold to be raised to £11,500 in April, from £11,000 now
- Higher rate income tax threshold to rise to £50,000 by the end of the Parliament
- Tax savings on salary sacrifice and benefits in kind to be stopped, with exceptions for ultra-low emission cars, pensions, childcare and cycling
- National Living Wage to rise from £7.20 an hour to £7.50 from April next year
- Employee and employer National Insurance thresholds to be equalised at £157 per week from April 2017
- Insurance premium tax to rise from 10% to 12% next June
- Universal Credit taper rate to be cut from 65% to 63% from April at a cost of £700m
- No plans for further welfare savings in this Parliament

Housing

- Ban on upfront fees charged by letting agents in England "as soon as possible"
- £2.3bn housing infrastructure fund to help provide 100,000 new homes in high-demand areas
- £1.4bn to deliver 40,000 extra affordable homes

Fuel

- Fuel duty rise cancelled for seventh year in succession - at a cost of £850m, saving average car driver £130 and van driver £350 a year
- For the oil and gas sector, the Carbon Price Support capped until 2020 and business rates reductions worth £6.7bn

Transport/infrastructure/regions

- £1.1bn extra investment in English local transport networks
- £220m to reduce traffic pinch points
- £23bn to be spent on innovation and infrastructure over five years
- £2bn per year by 2020 for research and development funding
- £110m for East West Rail and commitment to deliver Oxford to Cambridge Expressway
- More than £1bn for digital infrastructure and 100% business rates relief on new fibre infrastructure
- £1.8bn from Local Growth Fund to English regions
- Rural Rate Relief to be increased to 100%, "giving small businesses a tax break worth up to £2,900"
- £7.6m for repairs to Wentworth Woodhouse, near Rotherham, said to be inspiration for Pemberley in Jane Austen's *Pride and Prejudice*

Business

- Doubling UK export funding capacity
- £400m into venture capital funds through the British Business Bank to unlock £1bn in finance for growing firms

Other

- Funding for 2,500 more prison officers
- Reforms to compensation for whiplash to cut the cost of motor insurance
- Promise to abolish Autumn Statement, with Budgets happening in the autumn from next year, along with "Spring Statement" from 2018

Specialist advisers Arlingclose support the Council with borrowing and investment advice. This is Arlingclose's expert assessment of the economy in the coming months and years.

Economic update from Treasury Management advisors Arlingclose

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union.

Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years.

Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher.

The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017. This will be the first time this has happened since late 2013. The Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth.

The prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment. Unless counteracted by higher public spending or retail sales, a delay in new business investment will weaken economic growth in 2017/18.

Looking overseas, the US economy and its labour market are showing steady improvement. The market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016.

The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year.

Challenges have the potential for upsets. These include:

- Immigration
- The rise of populist, anti-establishment parties
- Negative interest rates which have resulted in savers being paid nothing or little for their frugal efforts
- The outcomes of Italy's referendum on its constitution (December 2016)
- The French presidential and general elections (April – June 2017)
- The German federal elections (August – October 2017)

PWLB - The government has confirmed plans to abolish the 223-year-old Public Works Loan Board and transfer its functions for lending to local authorities to the Treasury.

This is Arlingclose's view of the risks of bank failures in the period ahead.

Credit Outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

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This is Arlingclose's expert view on future interest rates.

Interest Rate Forecast

The central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods.

Given this view and the current inflation outlook, further falls in the Bank Rate look less likely.

The Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt.

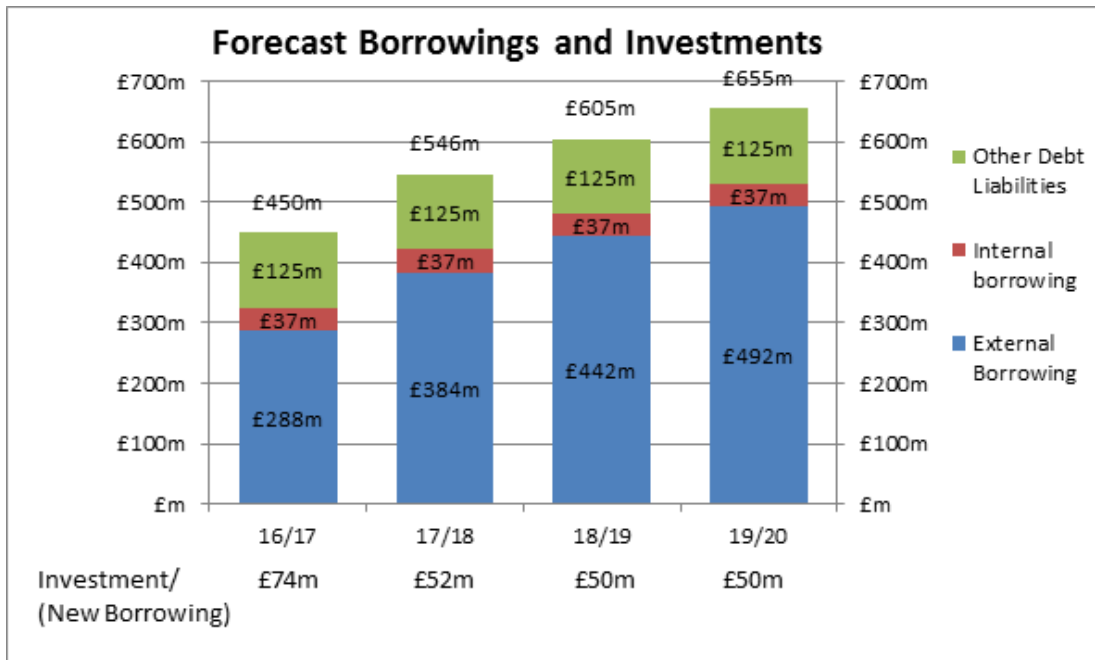
The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

Part 2 – Detailed Analysis

Borrowing

This is how much we debt we expect to have next year and in the years ahead.



These are borrowing limits we are required to set by law. They are affordable levels and needed to fund our capital programme.

Maximum Total Debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement. Usable reserves and working capital are the underlying resources available for investment. The current strategy is not to borrow to the full underlying need. Some internal resources are used instead of external borrowing.

CIPFA’s *Prudential Code for Capital Finance in Local Authorities* sets a maximum for total debt. This is the maximum the CFR is expected to reach at any time during the next three years. The Authority expects to comply with this recommendation during 2017/18.

The Council held £251 million of loans in September 2016. This was an increase of £11 million on the previous year. The increase in loans is because of funding previous years’ capital programmes. The Authority expects to hold borrowing up to £384m in 2017/18.

The Council can bring forward planned external borrowing into an earlier financial year. This might be done to take advantage of favourable long term interest rates. The total borrowing must not exceed the authorised limit set by the Council of £450 million.

We seek low interest rates, but it is good to be as sure as possible what our interest costs will be in future years.

Prudential Indicators 2017/18

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing may be summarised as follows.

This is how we will fund the investment needed to deliver the Plymouth Plan

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	104.910	155.230	98.190	98.190
Total Expenditure	104.910	155.230	98.190	98.190
Capital Receipts	8.510	8.510	8.510	8.510
Grants and Contributions	48.080	37.350	34.150	34.150
Reserves	-	-	-	-
Revenue	2.590	0.930	0.530	0.530
Borrowing	45.730	108.440	55.000	55.000
Leasing and PFI	-	-	-	-
Total Financing	104.910	155.230	98.190	98.190

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

This is the total past and planned capital expenditure we need to finance.

Capital Financing Requirement	31 Mar 17 Revised £m	31 Mar 18 Estimate £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m
General Fund	410.930	516.160	614.350	712.540
Total CFR	410.930	516.160	614.350	712.540

The CFR is forecast to rise by £302m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

This is how much we expect to borrow over the three years

Debt	31 Mar 17 Estimate £m	31 Mar 18 Estimate £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m
Borrowing	288.020	383.750	442.190	492.190
PFI liabilities & Finance Leases	125.000	125.000	125.000	125.000
Total Debt	413.020	508.750	567.190	617.190

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, (i.e. prudent, but not worst case) scenario for external debt.

This is the flexibility we need to cope with our changing borrowing position from day to day.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	350.000	400.000	425.000
Other long-term liabilities	140.000	140.000	140.000
Total Debt	490.000	540.000	590.000

Authorised Limit for External Debt

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Authority can legally owe. The Authorised Limit provides headroom over and above the operational boundary for unusual cash movements.

This is the absolute maximum of debt approved by the City Council

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	400.000	450.000	500.000
Other long-term liabilities	160.000	160.000	160.000
Total Debt	560.000	610.000	660.000

Ratio of Financing Costs to Net Revenue Stream

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

This measure demonstrates that our proposed borrowing is affordable.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	1.97%	5.81%	6.15%	6.50%

Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

This is a technical measure prescribed by CIPFA to demonstrate affordability. The Council has not made any decisions on council tax levels in future years.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	5.80	6.79	8.89

Adoption of the CIPFA Treasury Management Code

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* in April 2002.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

This is how we measure our performance.

Security

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A

This is a technical measure to limit how much we can be affected by changing interest rates.

Liquidity

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£5m

This is a technical measure to limit how much we can be affected by changing interest rates.

Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	25%	25%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Our loans fall due for repayment at various dates. We expect to have mainly fixed rate debt for longer loans. This avoids the risk of extra interest costs.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	60%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	75%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond one year	£20m	£20m	£20m

Annual Minimum Revenue Provision Statement 2017/18

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

Minimum Revenue Position Policy

MRP will be determined by charging the expenditure over the expected useful life of the asset on an annuity method, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is funded from revenue with an option that part or all of the payment could be funded from capital receipts.

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 using the annuity method over the life of the asset.

Capitalisation Directions

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made using the annuity method over 50 years.

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.

Any loan or investment to an organisation defined as capital expenditure will not attract MRP. The original capital expenditure will be met from the capital receipt on the maturity of the loan/investment.

MRP will commence in the financial year following the one in which the expenditure is incurred, except for expenditure funded by borrowing where the project is not complete at 31st March 2017 (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.

Objectives of Borrowing Decisions

- To strike an appropriately low risk balance between securing low interest and certainty of costs.
- Flexibility to renegotiate loans should the Authority's long-term plans change.

It is much cheaper to borrow for a short period now. Before long term rates rise we intend to lock into fixed rate loans.

Strategy

Short term interest rates are currently much lower than long-term rates. It is likely to be more cost effective in the short term to use internal resources, or to borrow short-term. This will reduce net borrowing costs and overall treasury risk. Long term borrowing rates are forecast to rise modestly. The benefits of deferring long term borrowing will be monitored regularly.

Alternatively, the Authority may arrange forward starting loans. In a forward starting loan the interest rate is fixed in advance but is drawn later. Such loans give certainty of cost without suffering a cost of carry.

We are always looking at options to replace existing loans with cheaper alternatives.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

The Authority will reschedule or repay loans where this is expected to lead to an overall cost saving or a reduction in risk.

The Authority will only borrow from approved sources.

These are the lenders we are allowed by Government to use.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Devon Local Government Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Any other counterparty that are approved by the authority's TM advisors.
- A Plymouth City Council bond

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised some of its long-term borrowing from the PWLB and through LOBOs but it continues to investigate other sources of finance, such as local authority loans and bank

**These agreements were entered into under different market conditions.
Where possible we will replace them with lower cost loans.**

Lender's Option Borrower's Option (LOBOs)

During 2016/17 Barclays Bank decided to transfer the authority's Barclays Bank LOBOs (Lender's Option Borrower's Option) to fixed term borrowing and therefore this has reduced the authorities total LOBOs by £18m. The Authority holds £82m of LOBO loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £57m of these LOBOS have options during 2017/18, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £82m.

This allows the flexibility to borrow from the Municipal Bonds Agency

Municipal Bond Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Treasury Management Board.

Short-term and Variable Rate loans

These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

If we can, we will replace existing loans with cheaper new loans.

Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investments

These are the ways Government allows us to invest surplus funds

Specified Investments

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

**These are the limits we use for making individual investments.
They are based on advice from Arlingclose.**

Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£20m 50 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years
AA-	£5m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£5m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£4m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£4m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
BBB+	£3m 100 days	£5m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
Pooled funds	£20m per fund				

Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£50m

Investment Limits

The Authority's revenue reserves available to cover investment losses are forecast to be £45 million on March 31 2017. In order that no more than 45% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. When considering investment limits in the chart below you must also refer to the credit ratings of the individual organisations (as shown in the chart on page 22) to make the final assessment.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£40m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£12m per country
Registered Providers	£12m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£55m in total

Liquidity Management

The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on

long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

This is the rate we expect to pay on new borrowing, and how much we expect to earn on investments.

Council Budget Assumptions for 2017/18

- Investments will make an average rate of 1.41%
- Long-term loans will cost an average rate of 2.93%

**This sets out how we invest any surplus funds.
Security of the funds is paramount**

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £60 and £80 million, and is expected to remain about the same in the forthcoming year.

Objectives

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates

If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

Given the increased risk and falling low returns from short-term unsecured bank investments, the Authority continues to hold its investments in more secure, lower yielding asset classes. The authority holds £20m as a longer-term investment in the CCLA Property Fund and this gives a higher return than the short term investments. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, Local Authorities and money market funds. The Authority will continue to look for investment opportunities that give a good return whilst being a secure investment.

Approved Counterparties

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all relevant factors including external advice will be taken into account.

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on use of Financial Derivatives

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 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, including those present in pooled funds and forward starting transactions, 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 and the relevant foreign country limit.

Investment Training

The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staffs regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by quarterly review meetings and periodically tendering for the provision of Treasury Management Consultancy services

Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £400 million. The maximum period between borrowing and expenditure is expected to be one year, although the Authority is not required to link particular loans with particular items of expenditure.

Other options considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic and Interest Rate Forecast November 2016

Underlying assumptions

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Avg
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	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	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.30	0.30	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.39
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	0.83
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64

Appendix B - Existing Investment and Debt Portfolio Position

	31 Sept 2016 Actual Portfolio £m	31 Sept 2016 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	44.25	5.76
Local Authorities	107.00	0.39
LOBO Loans	82.00	3.65
Long Term Borrowing	18.00	4.37
Total External Borrowing	251.25	2.68
Other Long Term Liabilities:		
PFI	123.17	n/a
Finance Leases	1.73	n/a
Total Gross External Debt	376.15	
Investments:		
<i>Managed in-house</i>		
Short-term investments	30.20	0.76
Long-term investments	23.90	variable
<i>Managed externally</i>		
Pooled Funds	20.00	variable
Total Investments	74.10	
Net Debt	302.05	

Treasury Management Strategy

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PLYMOUTH CITY COUNCIL

Subject:	Treasury Management Report – The Impact of Leaving the European Union
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Assistant Director for Finance)
Author:	Chris Flower (Finance Business Partner - Accountant for Capital and Treasury Management)
Contact details	Tel: 01752 304212 Email: chris.flower@plymouth.gov.uk
Ref:	FIN/CF
Key Decision:	No
Part:	I

Purpose of the report:

The report is to provide a commentary on the effects on Treasury Management caused by the UK's decision to leave the European Union.
The report gives a general update on the changes in the economy and the markets and how these have affected the Council's Treasury Management.

The Council's Corporate Plan 2016/19

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**

The changes in Treasury Management will have implications on Treasury Management budget. The income on the Council's investment has fallen but this will be partially compensated by the falling cost of borrowing.

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

N/A

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

I) Recommendations and Reasons for recommended action:

The Audit Committee to note the report.

Alternative options considered and rejected:

None

Published work / information:

Background papers: None

None

Sign off:

		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

Treasury Management Report – The Impact of Leaving European Union – December 2016

Economic update from Treasury Management advisors Arlingclose

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union.

Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years.

Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher.

The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017. This will be the first time this has happened since late 2013. The Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth.

The prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment. Unless counteracted by higher public spending or retail sales, a delay in new business investment will weaken economic growth in 2017/18.

Looking overseas, the US economy and its labour market are showing steady improvement. The market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016.

The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year.

Challenges have the potential for upsets. These include:

- Immigration
- The rise of populist, anti-establishment parties
- Negative interest rates which have resulted in savers being paid nothing or little for their frugal efforts
- The outcomes of Italy's referendum on its constitution (December 2016)
- The French presidential and general elections (April – June 2017)
- The German federal elections (August – October 2017)

PWLB - The government has confirmed plans to abolish the 223-year-old Public Works Loan Board and transfer its functions for lending to local authorities to the Treasury.

Interest Rate Forecast

The central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods.

Given this view and the current inflation outlook, further falls in the Bank Rate look less likely.

Autumn Statement Summary

Growth forecasts have been reduced by Office for Budget Responsibility. The Chancellor is borrowing to fund infrastructure. There are marginal taxation changes with the objective of securing a level playing field between different categories of employment.

Public borrowing/deficit/spending

- Borrowing is forecast to be £122bn higher in the period until 2021 than forecast in March's Budget
- Debt will rise from 84.2% of GDP last year to 87.3% this year, peaking at 90.2% in 2017-18
- Office for Budget Responsibility (OBR) forecasts borrowing of £68.2bn this year, then £59bn in 2017-18, £46.5bn in 2018-19, £21.9bn in 2019-20 and £20.7bn in 2020-21
- Public spending this year to be 40% of GDP - down from 45% in 2010
- Departmental spending plans set out in 2015 Spending Review to remain in place
- Government will meet commitments to protect budgets for key public services, defence, overseas aid and the pension "triple lock" until the end of this Parliament

The state of the economy

- OBR growth forecast upgraded to 2.1% in 2016 - from 2.0% - then downgraded to 1.4% in 2017, from 2.2%
- Forecast growth of 1.7% in 2018, 2.1% in 2019 and 2020 and 2% in 2021
- Government no longer seeking a budget surplus in 2019-20 - committed to returning public

PLYMOUTH CITY COUNCIL

Subject:	Operational Risk & Opportunity Management Update Report
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Lesa Annear, Strategic Director for Transformation & Change
Author:	Mike Hocking, Head of Assurance
Contact details	Tel: 01752 304967 mike.hocking@plymouth.gov.uk
Ref:	CRM/MJH
Key Decision:	No
Part:	I

Purpose of the report:

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

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

This report now outlines the continuing progress being made across Services in delivering Operational Risk and Opportunity Registers in line with the Council's shared vision and priorities.

The total number of operational risks now reported has increased from 90 to 104, comprising of 1 high (red) risk, 62 medium (amber) risks and 41 low (green) risks.

The report also provides an update on the partnership work being undertaken between the Council and NHS Northern, Eastern and Western Devon Clinical Commissioning Group to develop an integrated risk management framework and an integrated risk register.

The Councils Corporate Plan 2016/19:

Operational Risk and Opportunity Registers are aligned to Corporate Plan Performance Framework Outcomes. This ensures that appropriate links are identified with individual risks where control action contributes to delivery of a key corporate objective.

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

None arising specifically from this report but control measures identified in risk and opportunity 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 and opportunity 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 operational risk and opportunity management.

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’s Risk & Opportunity Management [Strategy](#)

Background papers:

None.

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

Sign off:

Fin	pc1617. 43	Leg	DVS2 6942	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Assistant Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1. Introduction

1.1 The position with regard to Operational Risk and Opportunity Risk Register monitoring was last reported to this Committee on [30 June 2016](#) and this report now provides a summary of the latest monitoring exercise covering the position as at November 2016.

2. Background

2.1 Fourteen years ago Plymouth City Council implemented its first risk management [strategy](#). This has been continuously reviewed each year and updated to ensure it remains fit for purpose.

2.2 To comply with the Risk and Opportunity Management Strategy each Directorate must implement a robust process of managing risks to corporate, service, project and partnership objectives for which they have responsibility.

2.3 To support the promotion and co-ordination of risk management each Directorate/Service has a dedicated Risk Champion. Risk Champions represent their Directorate/Service at the Operational Risk Management Group which is chaired by the Head of Assurance.

2.4 The good progress made towards achievement of this outlined in this report should provide Members with assurance that operational risks are being identified effectively, mitigation actions put in place and Operational Risk and Opportunity Registers monitored routinely alongside the delivery of objectives.

3. Operational Risk and Opportunity Registers and Analysis of Risks Identified

3.1 The corporate risk management process to enable service level Operational Risk and Opportunity Registers to be linked to the Corporate Plan is now embedded across the Council.

3.2 Assistant Directors and Heads of Service are identifying risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis, will be tracking the effectiveness of mitigation controls.

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

4. Red Risk

4.1 One red risk is being reported for this risk monitoring period, details are shown below:-

EXISTING RED RISK	Delivering Council services within the envelope of the resources provided in 2017-19 Medium Term Financial Strategy
Dept: Finance (Financial Planning & Reporting)	
Comments/Mitigation: The Council has successfully reduced net revenue expenditure by £65m over the last three years through the transformation programme. Despite the achievements in reducing our costs and spending, the further reduction of grants and continuation of rising demand means we are projecting a further funding gap of £37m over the next three financial years to 2019-20.	
We are continuing with the transformation programme which is improving efficiency and reducing costs whilst still delivering benefits to the customer. Significant savings are focussed in three key	

programmes:-

- Growth, Assets and Municipal Enterprise (GAME2) – This programme is investing in accelerating Plymouth’s economic growth, which will raise income through business rates and Council tax. It includes a wide range of initiatives to create more jobs and deliver more homes in Plymouth, guided by the Plymouth Plan and the Plan for Homes. We are also maximising the opportunities to increase income by making best use of our assets and taking a more commercial approach to the way we commission and run services.
- One System, One Aim (Transformation of the People Directorate) - This programme emphasises the need for preventative and early intervention services to improve health, thus reducing demand for services in the longer term to develop a sustainable system.
- Transforming the Corporate Centre - This programme has been established to define and deliver an organisational service centre to deliver universal services and transactions with consistency and commonality, including delivery of digital service transformation across the entire organisation to enable channel shift and process.

5. Risk and Opportunity Register Information

- 5.1** Operational Risk and Opportunity Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case.
- 5.2** Risks scored 5 and under are considered to be managed to an acceptable level and have been removed from registers and archived in line with the Risk and Opportunity Management Strategy.
- 5.3** More detailed information on individual Services’ risk and opportunity registers can be obtained from the Head of Assurance, Corporate Risk Advisor, departmental risk champions or Heads of Service.

6. CCG/PCC Integrated Risk Register

- 6.1** Plymouth City Council and NHS Northern Eastern and Western Devon Clinical Commissioning Group (NEW Devon CCG) formed an integrated commissioning function on 1 April 2015, working towards a single commissioning approach, an integrated fund, and risk and benefit sharing agreements.
- 6.2** The Head of Assurance presented an update report to the Finance and Assurance Review Group (FARG) on the 23 May 2016 who endorsed the framework document which provides the foundation and a common infrastructure for delivering, maintaining and governing risk management with the integrated commissioning function.
- 6.3** A risk workshop took place with members of FARG on 21 October 2016 to identify and scope risks relating to the governance of the integrated commissioning system.
- 6.4** Risks have been aligned to the corporate objectives arising from the One System One Aim transformation project (formerly Integrated Health & Wellbeing).
- 6.5** Risk management is now a quarterly agenda item at FARG meetings where the integrated risk register will continue to be monitored by members of FARG who have responsibility for escalating risk issues where necessary as per the framework.

7. Finance FIT Risk Management Review

- 7.1 The Finance FIT project has been launched with the objective of managing delivery of a modern, fit for purpose, cost efficient, cost effective and customer focused Finance Service.
- 7.2 As reported to this Committee in [September](#), a review of our risk management arrangements took place during the summer as a joint working collaboration between the Corporate Risk Team and Devon Audit Partnership.
- 7.3 An Internal Audit Report has been produced and action has been agreed to be implemented over the next 12 months.
- 7.4 Two of the common themes raised by participants of the review were the need for 'real time' risk information and alignment with other corporate functions such as performance and financial management.
- 7.5 As a result of this a risk software scoping exercise was undertaken and one of the options considered was the use of the Project Server system currently used within the Portfolio Team to record project management risks.
- 7.6 The current Project Server system is being upgraded in the New Year and an initial scope of the new system has confirmed that it can be adapted to store corporate risks which will provide 'one version of the truth', streamline the risk monitoring process and make reporting easier.
- 7.7 A trial of the system is planned to coincide with the next strategic risk monitoring exercise during January and February 2017. If successful, a recommendation will be made to CMT to roll this out to departments to record their operational risks. Further work to align risk to other corporate functions will then follow.

8. Conclusion

- 8.1 The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 8.2 The Council recognises that it is operating in a climate of unprecedented financial pressure and that it needs to substantially reduce operating costs and ensure maximum possible investment in achieving its objectives and therefore needs to be innovative, resourceful, customer focused and provide greater value for money. The achievement of delivery plan actions to deliver budget savings continues to be closely monitored by Services with regular reporting on a risk rated basis to the Corporate Management Team.
- 8.3 The Council's approach to operational risk and opportunity management supports the implementation of the council-wide transformation programme, and is focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business and Delivery Plans – this in turn should in time impact positively on outcomes for service users.
- 8.4 One of the responsibilities of the Audit Committee is to seek and receive assurances that the Council has an effective internal control framework in place which includes arrangements for the management of risk at both strategic and operational level.

- 8.5** This update report confirms that operational risks are now being identified across Services with clear links to corporate objectives and also confirms the good progress in embedding risk and opportunity management in the Council's other core business processes.
- 8.6** The Risk and Opportunity Management Strategy will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed to be able to manage the upside of risk.
- 8.7** The Operational Risk Management Group is continuing to work with departmental Risk Champions to maintain the good progress to date and to further develop consistent application of risk management considerations across all operations of the Council.
- 8.8** The next operational risk report will be presented to Audit Committee in June 2017.

PLYMOUTH CITY COUNCIL

Subject: Local Government Ombudsman Report

Committee: Audit Committee

Date: 8 December 2016

Cabinet Member: Councillor Ian Darcy

CMT Member: Anthony Payne, Strategic Director for Place

Author: Paul Barnard, Assistant Director of Strategic Planning and Infrastructure and
David Shepperd, Head of Legal Services

Contact details: Tel 01752 304077 / 01752 305403
Email: paul.barnard@plymouth.gov.uk / david.shepperd@plymouth.gov.uk

Ref:

Key Decision: No

Part: I

Purpose of the report: To review the recommendations made by the Local Government Ombudsman (LGO) regarding a complaint from residents of D Street, (LGO ref: 15015955 and 15015963) and to agree actions outlined in this report. The complaint relates to a planning application xyz. It should be noted that the LGO report does retain the confidentiality of certain details and so the Council's report and background papers have followed this and the key for the references can be found in the LGO report.

The Corporate Plan 2016 - 19:

This report is relevant to some of the key values of the Council and in particular:

Democracy – it is important that the Council can demonstrate that residents can have their say about planning decisions in their area.

Responsibility – it is important that the Council takes responsibility for its actions and the impact its decisions can have on others.

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

In order for the actions recommended in this report to be implemented the following costs have been identified:

Costs already expended

District Valuer – costs of producing valuation report for the two properties in D Street- £2,000

John Grimes Partners – investigation report to consider surface water drainage issues - £9,700

Recommended additional costs

Costs recommended by the District Valuer: £32,500

Compensation to complainants: £1,000

External training for Planning Committee members: up to £1,000

It is proposed that all these costs are met from the existing Strategic Planning and Infrastructure revenue budget. In relation to the review of any new requirement for planners to have chartered town planner status through the Royal Town Planning Institute, any additional costs arising from this review to also be met from the Strategic Planning & Infrastructure budget.

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

None.

Equality and Diversity:

No implications

Recommendations and Reasons for recommended action:

It is recommended that the following actions are undertaken in response to the LGO recommendations:

1. Following the publication of the valuation report for the properties in D Street by the District Valuer on 21st November 2016 it is proposed that the Council should pay the complainant Ms C £17,500 and the complainant Mr and Mrs B £15,000.
2. Following the publication of the drainage report by John Grimes Partners it is proposed that no further action is required with regard to alleged deficiencies in the soakaways in the new development subject to planning application xyz.
3. Following the recommendations of the LGO report it is proposed that both the complainants are each given £500 compensation and provided with an apology.
4. Following the recommendation of the LGO report officers make arrangements for external independent training for Planning Committee members through the Planning Advisory Service.

In addition, to further improve the future resilience of future planning decisions, it is recommended that the Assistant Director of Strategic Planning & Infrastructure be instructed to review the requirement for planning officers to have Chartered Town Planner status through the Royal Town Planning Institute.

Alternative options considered and rejected:

The alternative option would be for Members not to agree to the actions proposed for the recommendations provided by the LGO. This option has been rejected because, even though the LGO has no legal power to force the Council to follow its recommendations, the LGO is likely to issue a public non compliance report if it considers that the Council has not properly considered the recommendations of the LGO.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
Report by the Local Government Ombudsman – investigation into complaints against Plymouth City Council (ref 15015955 and 15015963), 1 September 2016	x									
Valuation report District Valuer, 21 st November 2016	x									
Interim Report on John Grimes Partnership, 25 November 2016 (including plans and sections and borehole monitoring data)	x									

Sign off:

Fin	161 713 6	Leg	LS/2 1094 /JP/ Nov 16	Mon Off	DVS 2693 2	HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the content of the report? Yes / No													

1.0 Background

1.1 On 26th November 2013 planning permission xyz was granted for a new development., This application was a revision to a previously approved planning permission abc. The application was granted by Planning Committee.

1.2 Following the commencement of works on site the Council received complaints from Mr and Mrs B and Ms C both of D Street and these complaints were responded to by the Council on 25th September 2014. The complaints are summarised below:

- Changes were made to the Decision Notice after it had been published.
- There were inaccuracies in the case officer report regarding the impact of the development.
- The development had not been built in accordance with the approved plans.
- There was inadequate public consultation on the planning application.
- The ecology report was out of date.

1.3 The complainants were not satisfied with the Council response and therefore referred the matter to the Local Government Ombudsman (LGO) for consideration. There followed a very detailed investigation by the LGO on the matters originally raised by the complainants and further matters that arose during the investigation. In addition to the complaints raised in paragraph 1.2 the LGO investigated a number of additional matters, the primary ones being summarised below:

- The extent to which the Council considered surface water drainage and the need for consultation with the Environment Agency on this matter.
- The extent to which the Council properly considered the protection of a Devon hedge on the boundary of the development.

2.0 The investigation of the complaints

2.1 The Council has admitted to a number of errors in the way it considered planning application xyz and, as a consequence put in place a number of measures to minimise the risk of these errors arising in the future. These are summarised below.

Changes to the Decision Notice

2.2. The LGO considers that the Council was wrong to change a Decision Notice after it was initially issued. The Council admits this was an error. The reason for this change was because the plan numbers in the Decision Notice were incorrectly identified as those from the original planning application. Because the Council considered the error was due entirely to an administrative oversight by the case officer it was considered that no harm was caused by amending the original Decision Notice.

2.3 It is acknowledged that there is no legal basis to amend a Decision Notice in this way and therefore the Council has amended its policy on such matters. If a case officer realises that an error has been made, the matter must now be referred to the Head of Development Management and the Council's Senior Planning Lawyer to agree an appropriate course of action.

Inaccuracies in the case officer report

- 2.4 The LGO considers that the case officer report did not properly consider the impact of the development on the complainants' properties and the case officer did not explain these points adequately to Members of the Planning Committee.
- 2.5 Whilst the Council does not admit to any inaccuracies in the case officer report it does admit that the report could have better explained the potential harm that the development would have on the complainants' property. This harm could also have been explained more fully to Members of the Planning Committee. One of the recommendations in this report is therefore for the Strategic Planning and Infrastructure Department to review the resilience of its Planning officers and to look to ensuring that all relevant officers obtain chartered planning status through the Royal Town Planning Institute (RTPI).

Inadequacy of the public consultation for the planning application

- 2.6 The LGO considers that the public consultation was inadequate, that site notices were not erected as indicated by the case officer and the complainants were not given adequate opportunity to be aware of, or comment on, planning application xyz.
- 2.7 The Council strongly disputes that it did not carry out adequate public consultation. It maintains that site notices were erected in accordance with its own publicity code and has provided documentary evidence that one of the complainants was contacted by email to advise of the Planning Committee meeting. However, in order that the Council can evidence in the future that it has met its own public consultation requirements, officers now take a photograph of all site notices in situ when they are erected and provide a written record of all site visits undertaken.

Consultation on surface water drainage solutions

- 2.8 The LGO considers that the Council should have consulted the Environment Agency on the appropriate surface water drainage solution for the development. As the planning application site area exceeded 1 hectare the Environment Agency were, at the time, a statutory consultee. The legislation has since changed with the introduction of the Local Lead Flood Authority to consider certain developments. The reason given by the case officer why the Environment Agency was not consulted was because the area of development was less than 1 hectare (excluding the part of the site to be retained as open space). The Council admits it was wrong to make this conclusion following the receipt of independent legal advice on this matter.
- 2.9 Although the Council has always maintained that the surface water drainage solution is sufficient for the development and has received no evidence from the LGO that there are any deficiencies now that the development has been built, the statutory consultation requirements for surface water drainage have been reinforced by managers with case officers.
- 2.10 In addition to the above the Head of Development Management undertook a workshop with all case officers to ensure that the lessons outlined above are learnt and changes have been made to the Development Management Officer Manual to reinforce these points.

3.0 The LGO response

3.1 Notwithstanding the response provided by the Council to the complaints, as outlined in section 2 of this report, the LGO published a report of its recommendations on 1st September 2016, which was then made public on 15th September 2016. The lengthy delay in the publication of the LGO report was due in part to the number of disagreements that the Council had with the LGO over the accuracy of the LGO's initial findings, the harm that resulted to the complaints and the appropriate remedy to this harm. However the LGO considers that "[the Council] has shown no regard to the harm it may have caused, nor any understanding of the principles of natural justice, in particular that it cannot judge in its own cause".

3.2 The LGO made four recommendations and these are outlined below:

1. Ask the District Valuer to assess the current value of the complainants' two properties and the value that would have been attributed to each of the properties in the event that the development had been constructed in accordance with the plans previously agreed (Abc). The Council should pay Mr and Mrs B the difference between the two valuations on their property and it should pay Ms C the difference between the two valuations on hers. Unless the Council has a legally binding arrangement in place for the developer to replace the Devon hedge bank, the current valuations should make no assumptions about its ability to provide screening;
2. Pursue the proposals in its drainage report. If the soakaways are deficient and it is not able to take appropriate remedial action against the developer, it should remedy the deficiencies so far as are necessary to protect the complainants' properties and this work should be complete before the onset of winter. Engineers commissioned by the Council have said how, as a last resort, a drain could be laid along the footpath on land the Council owns;
3. Apologise to each family and pay each £500 in recognition of the time and trouble to which they have been put, the frustration they have experienced and their consequent loss of confidence in the Council; and
4. Arrange for all Members of its planning committee to have at least one day's training from professionally qualified planning officers who are not employed by the Council. The purpose of the training should be to ensure Members are equipped and confident to challenge the view of planning officers prior to making decisions.

4.0 Council response

4.1 LGO Recommendation I- valuations

4.1.1 The Council commissioned the District Valuer to undertake a valuation as outlined in recommendation I. The District Valuer concluded that "it is a difficult and somewhat subjective judgement" as to whether the development has impacted on the value of the complainant properties. However, the District Valuer did conclude that there would be a relatively small variation in the valuation of the properties that amounted to 6.2% of the value of Ms C's property and 5.8% of Mr and Mrs B's property. This equates to compensation of £17,500 to Ms C and £15,000 to Mr and Mrs B.

4.2 LGO Recommendation 2 – surface water drainage

4.2.1 The Council commissioned John Grimes Partners to arrange a topographical survey of the manholes and ground near the soakaways and affected land and to carry out a trial excavation at the soakaway sites of both the relevant properties to confirm that they have been constructed as per the details and carry out soakage tests. The conclusion from this independent investigation was that the soakaways are working effectively and that no additional actions are necessary.

4.3 LGO Recommendation 3 – compensation and apology

4.3.1 The Council intends to compensate each of the complainants by £500 and to apologise as advised by the LGO.

4.4 LGO Recommendation 4 – Planning Committee training

4.4.1 Officers have liaised with the Planning Advisory Service which forms part of the Local Government Association to provide advice and support to local planning authorities. A one day member training course is being organised in 2017 with external independent facilitators for Planning Committee Members at a cost of £1,000. It is proposed that the Planning Committees of neighbouring authorities are invited to also attend this training to both share the cost and to share best practice.

5.0 Conclusion

5.1 There are lessons to be learned from the way in which this planning application was considered and improvements to existing processes to address some of the issues highlighted by the LGO have already been implemented.

5.2 There are, however, still some areas of dispute between the Council and the LGO on the LGO's final conclusions regarding the complaints from the residents of D Street. Notwithstanding those areas of dispute, officers recommend that the LGO recommendations are complied with in full as outlined in this report.

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IMPACT OF WORKFORCE CHANGES

Human Resources and Organisational Development



Subject:	Impact of Workforce Changes
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor John Riley
CMT Member:	Lesla Annear (Strategic Director for Transformation and Change)
Author:	Alison Mills (Head of HR Specialist Services)
Contact:	Tel: 01752 307865 Email: alison.mills@plymouth.gov.uk
Ref:	
Key Decision:	No
Part:	N/A

1. Purpose

At the recent Audit Committee held 29th September 2016, Members of the Audit Committee were presented the six monthly monitoring of the Strategic Risk and Opportunity Register. A new risk had been added to the register in relation to 'the organisation's ability to meet performance and delivery expectations in relation to statutory duties and deadlines. Members of the committee raised a question regarding the impact of delivering services with a reducing workforce and the effect on sickness levels. Monitoring, tools and measures were briefly discussed. In response to this item, this report summarises workforce and sickness trends and highlights particular monitoring and measures in place in relation to work related stress.

2. Workforce Information

Workforce information is monitored by the Council Management Team (CMT) and departmental managers. Workforce numbers have been reducing over the years.

The table below shows workforce numbers at the end of each financial year, alongside the level of sickness absence:-

Year	Headcount as at 31 March	FTE as at 31 March	Number of working days/FTE as at 31 March
2015/2016	2739	2269.4	6.87
2014/2015	3417	2695.9	8.56
2013/2014	3670	2935.5	6.79
2012/2013	3838	3063.0	9.23
2011/2012	4155	3248.5	9.78

Other sickness information:

Current sickness is running at an average of 7.01 working days per FTE for the last 12 month period. Reasons for sickness absence remain consistent:

- Minor illnesses such as colds and flu contribute to the most common reasons for short term sickness.

- Musculoskeletal and stress related illness remains the most common reasons for long term sickness absence.

Stress related absence figures have been reviewed alongside the decreasing headcount/FTE statistics over the last five years. The statistics show stress level fluctuations regardless of headcount/FTE.

Further month by month analysis was undertaken for the current financial year to date at directorate level but no correlation was found between decrease in headcount and FTE and increase in stress levels.

3. Approaches to Managing Sickness Absence and Employee Wellbeing

Plymouth City Council proactively supports the well-being of Plymouth City Council staff. We have multiple strategies in place to equip managers and support employees to manage sickness absence, including return to work meetings.

The Health, Safety and Wellbeing (HSW) Team within HR&OD offer an assessment tool and guide on Managing Stress and Resilience in the workplace. This provides guidance to managers on the principles and processes of reducing stress related sickness absence. Implementation of this guidance is monitored on an annual basis, with recommendations made to departmental Joint Consultative Meetings. Stress audits and Stress Resilience Assessment training is also offered by the Health, Safety and Wellbeing team.

Plymouth City Council is the first organisation in the area to be awarded the National Workplace Wellbeing Charter. The Health, Safety and Wellbeing (HSW) Team is currently working with Public Health and other teams within HR&OD to develop an action plan to further improve workplace wellbeing, with a focus on leadership, attendance management and mental health. This demonstrates the organisation's commitment to the health, safety and wellbeing of its staff and ultimately improve attendance through various proactive initiatives e.g. Workplace Wellbeing Champions, Mindful Employer.

In order to identify priorities and effectively deploy resources to support employee wellbeing, the HSW Team is undertaking an in-depth Health Needs Assessment. This exercise will look at our employees as a demographic, looking for correlations between job hazards and the working environment, workplace incidents and absences. It will also include a health survey to identify lifestyle behaviours.

In partnership with the team at Livewell South West, the HSW Team will be offering health checks for all employees over the age of 40 in the New Year. Those who are eligible will receive an assessment to identify the risk of heart disease, stroke, kidney disease and diabetes and will be given support and advice to help them reduce or manage that risk.

The annual flu vaccination programme is taking place in November and December this year, with 400 vaccinations available to employees.

An employee assistance programme providing 24/7 practical information and resources is offered to employees, including access to counselling and advice to help balance their work, family and personal lives.

PLYMOUTH CITY COUNCIL

Subject:	Internal Audit – Half Year Report 2016/17
Committee:	Audit Committee
Date:	8 December 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Lesa Annear (Strategic Director for Transformation & Change)
Author:	Robert Hutchins, Head of Devon Audit Partnership
Contact details:	Tel: 01752 306710
Ref:	AUD/RH
Key Decision:	No
Part:	1

Purpose of the report:

This report provides Members of the Audit Committee with a position statement on the audit work carried out since April 2016 and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The Council's Corporate Plan 2016/19:

The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

The delivery of the Internal Audit Plan assists all directorates in delivering outcomes from the Corporate Plan:-

- Pioneering Plymouth – by ensuring that resources are used wisely and that services delivered meet or exceed customer expectations;
 - Confident Plymouth - the Government and other agencies have confidence in the Council and partners.
-

Implications for Medium Term Financial Plan and Resource Implications:

Including finance, human, IT and land:

None.

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

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

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

It is recommended that:-

1. The report be noted.
-

Alternative options considered and rejected:

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2015.

Published work / information:

Internal Audit Annual Plan 2016/17 – March 2016

Background papers:

None

Sign off:

Fin	AH	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the content of the report?													

Internal Audit

Half Year Report 2016/17

Plymouth City Council
Audit Committee

December 2016

Not Protectively Marked

Robert Hutchins
Head of Audit Partnership



Auditing for achievement

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<p>Devon Audit Partnership</p> <p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.</p>	<p>Confidentiality and Disclosure Clause</p> <p>This report is protectively marked in accordance with the government security classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation’s disclosure policies.</p> <p>This report is prepared for the organisation’s use. We can take no responsibility to any third party for any reliance they might place upon it.</p>
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Introduction

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

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. The following report and appendices set out the current position of the audit service provision; reviews work undertaken to date in 2016/17 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a report providing an opinion that can be used by the organisation to inform its governance statement. This report provides a position statement at half year on the progress towards that opinion.

Expectations of the Audit Committee from this half year report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- progress impact against strategic aims
- audit coverage and findings provided;
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Robert Hutchins
Head of Audit Partnership

Assurance Statement

Overall, based on work performed from the current year progress and our experience previous years audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement.

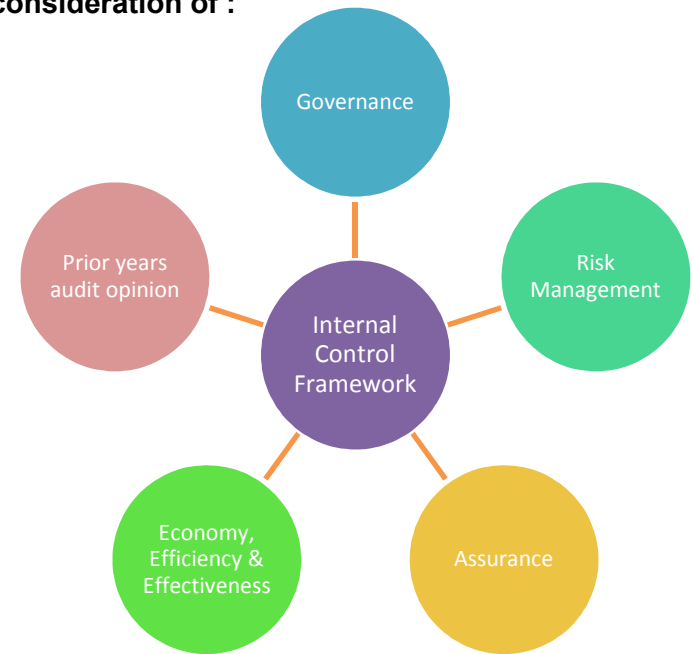
The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework.

Directors have been provided with details of Internal Audit's opinion on each audit review carried out in 2016/17. If significant weaknesses have been identified in a specific area, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2016/17.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans rests with management and are reviewed during subsequent audits or as part of a specific follow-up process.

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

This statement of opinion is underpinned by our consideration of :



Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Progress Against Plan

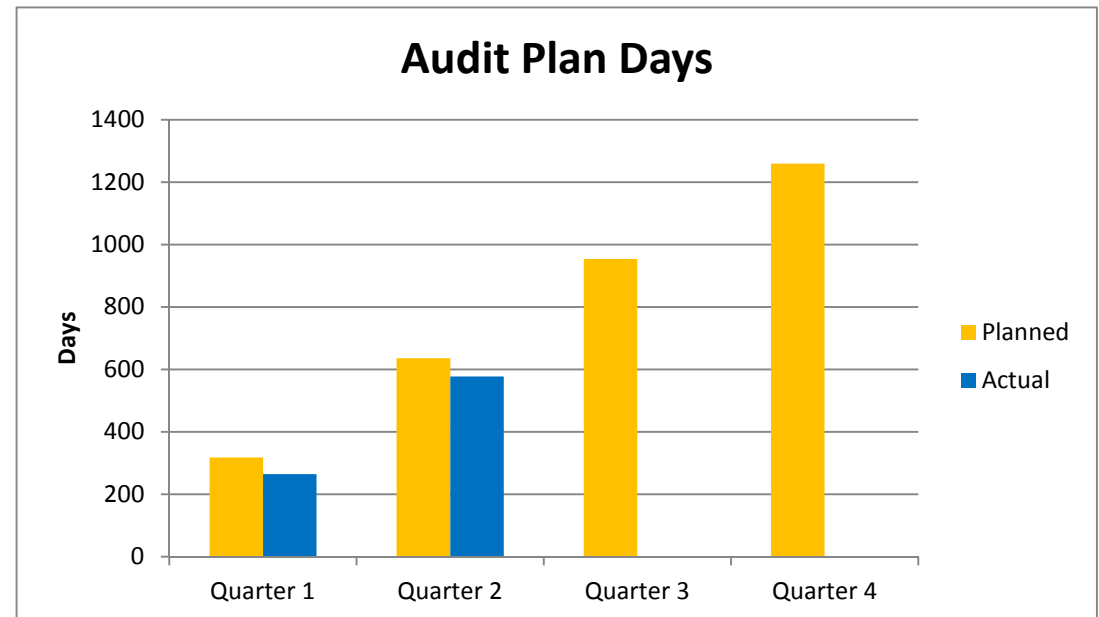
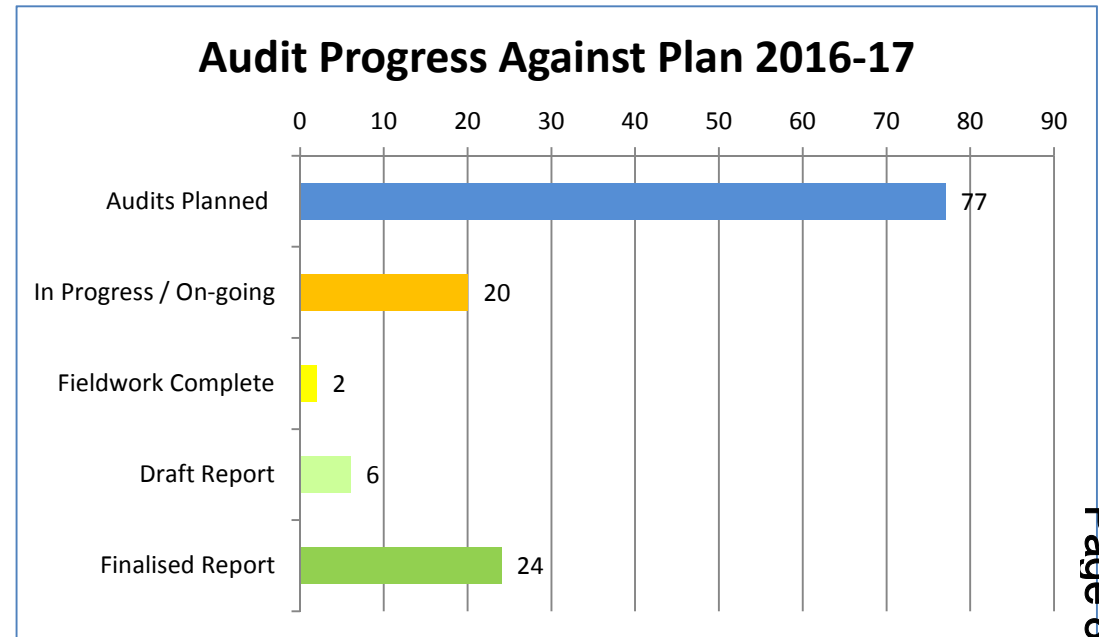
This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit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

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

The extent to which our work has been affected by changes to audit plans has not been notable during the first six months of the year.

The bar charts right show the status of audit progress against plan and audit the days delivered against target planned. The charts demonstrate that progress is largely in line with expectations for the first six months of 2016/17. We have, additional to progress against plan, completed and finalised an number of audit reviews conducted as part of the 2015/16 Audit Plan.

Appendix 2 provides further performance information for the first six months of 2016/17.



Progress Impact Assessment

Our audits completed to date this year, in the majority of areas, provide assurance that identified risks are being minimised or mitigated where appropriate.

Transformation and Change

Several areas within the audit plan support key elements within transformational change and as our work progresses over the coming months, synergies may be identified with other projects. For example, income collection strategies involving front line services within People and Place and how these interface with the Commercialisation project within the Transformation programme.

Following on from the added value work conducted in respect of ICT retained client activities during 2015/16, work continues to look at progression in this key area. Work to assess the effectiveness of Cyber Security controls operated by Delt has commenced and further work to look at ICT Material Systems is planned for the third quarter of 2016/17 and will obtain assurance that Delt's operational procedures appropriately mitigate risks that could materially impact the Council's financial accounts.

The effectiveness of risk and opportunity management arrangements were found to vary across the Council, opportunities have been identified that would enable the use of real time risk and opportunity information allowing the flow and use of risk information as part of day to day management.

Place

Our review of Planning Compliance identified opportunities that would increase capacity within the team as well as improve management information, data quality, customer satisfaction and realise further efficiencies through better utilisation of resources. Potential opportunities to explore options for further innovation, joint working and income generation were also highlighted.

Our engagement in the evaluation and moderation of the bids for the new Highways Maintenance contract has proved beneficial to ensure that a consistent and fair approach was followed throughout. Our initial findings are that the planning stage for mobilisation is well placed. We will continue to provide challenge, advice and best practice guidance during the

mobilisation of the new contract, due to commence in 2017, working with the Project Team and Programme Board to ensure that the transition from the current contractor to their successor is as seamless as possible, for example the interfaces between Council and contractor IT systems.

The principles, in terms of lessons learnt around contract management need to be taken forward by the Council as a whole and by teams/officers responsible for managing contracts in the future. As part of this, Audit will continue to work with the team overseeing the PFI Waste contract to ensure that robust contract monitoring and assurance plans are in place.

People

The Material System reviews, involving the use of CareFirst, continue to highlight the complexity of social care and the need to ensure suitable communication between front line workers and support functions as the Local Authority structure changes.

The People Directorate has made significant progress in joining up Health and Social Care Budgets and Commissioning, progressing in the summer of 2016 to the Plymouth and Western System Development Board. This move requires realignment of the planned audit work as a greater understanding of the change is developed. The planned work on the Success Regime will also need to be reviewed to take into account the Sustainability and Transformation Plan. Liaison with audit colleagues in the NHS enables sharing of knowledge and learning on the Regime.

The progress on integration continues to pose risks to which we can provide assurance on their management, along with independent advice on the potential of the continuation of the partnership working between local public bodies and service providers.

The effect of national policy and the restrictions it applies during integration are considered a limiting factor and will continue to have a "dragging effect" on the pace of change, and until a change is made at national level this limiting factor is considered to be a constant.

The audit plan for the remainder of the year is well placed to support the ongoing goals of the People Directorate and provide assurance to key stakeholders.

Value Added

Our internal audit activity has added value to the organisation and its stakeholders by:

- providing objective and relevant assurance;
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Officers have found our engagement and support as a “trusted advisor” effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

Transformation and Change

- Operational effectiveness of the core financial systems supporting reduction on staff resources whilst maintaining the control framework;
- Reviewing the tender evaluation processes for significant contracts;
- ICT audit resources are being used to support the Information Management and iTrent projects, as appropriate;
- Collaborative working with the Corporate Risk Team will continue to raise the profile and understanding of risk and opportunity management and strengthen existing arrangements;

Place

- Continued support, advice and challenge on the contract management arrangements relating to the South West Devon Waste Partnership, to ensure that the City Council’s interests are protected;
- Audit’s participation in the Highways Maintenance (HM17) project, including involvement in the design of the evaluation process, the checking of key documents and the monitoring of the moderation process has contributed to ensuring that the final outcome has been

reached correctly by following best practice and the processes published in the tender documentation. This, in turn, has assisted in mitigating the risk of successful challenge by unsuccessful bidders;

People

- The Integrated Commissioning Finance and Assurance Review Group including Risk Management, Governance and the Pooled Fund Manager;
- Providing independent input and challenge to the Integrated Health and Wellbeing Programme.

Schools

The Partnership informs and attends the School Health Check process to provide the internal audit view of the financial management of individual schools based on the most recent audit visit. The provision of internal audit’s performance data provides a greater focus on those schools causing concern in the wider control environment. The result of our input was:

- 3 schools were highlighted as of concern for audit to undertake follow-up reviews;
- Safeguarding – single central record will be ‘dip tested’ at 5 schools to inform the possible need for a wider assurance review;
- intervention reviews will be made to two further schools by the Governor Consultant and School Improvement.

The culmination of this work should, once complete, lift the performance of these schools.

Executive Summary - Audit findings

Transformation and Change

In our opinion, based upon our audit work completed, 'watching briefs' and direct advice provided for on-going projects so far in 2016/17, we are able to provide assurance that identified risks are being managed or mitigated where appropriate and internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

Based on audits completed and on indications from previous and on-going work, we are able to report that key financial system controls are well maintained and where weaknesses have been identified, management have responded positively to our recommendations.

The continued reductions in government funding have meant that the Council has had to review the provision of services and how they are delivered. As service areas look to review and transform, Audit are providing an independent review of ways to streamline service delivery and processes, for example Trade Waste, Integrated Health and the management of contracts.

The Appendix 1 details the assurance opinions for individual audits for which the definitions of the assurance opinion ratings are given in Appendix 2.

Key Risks / Issues

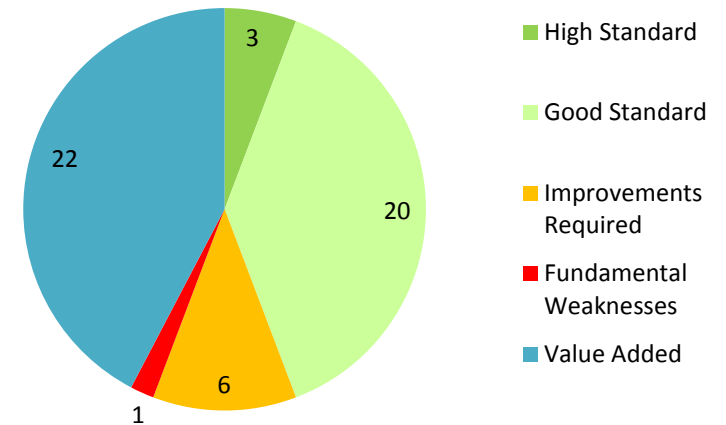
Audit has been liaising with the Retained Client Function with particular emphasis on DELT as well as other ICT service provisions e.g. Firmstep. Audit will be reviewing the function to ensure that it is appropriately resourced, fit for purpose and is "future proof" to meet the ever changing needs of the Council.

Direct Payments continues to be highlighted as an area where despite the progress made, improvements are still required, and these requirements have been identified and recorded in an updated action plan.

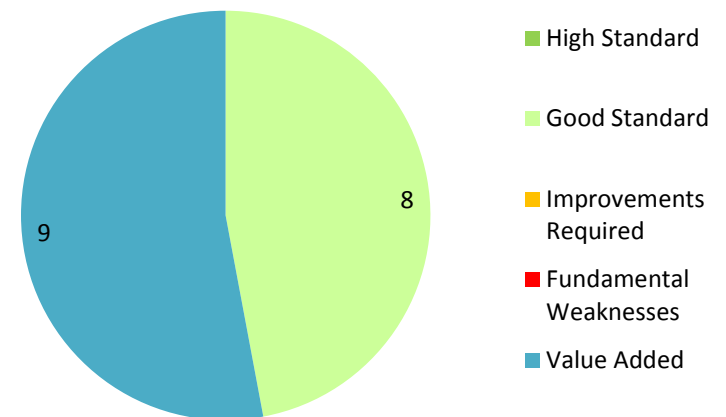
Child Independent Placements, is rated as improvements required where the main issue is to the lack of ownership within the system and the potential for efficiency improvements within the processes for managing payments.

Following the appointment of a new contractor for the Highways Maintenance contract, the HM17 project has moved into the 6 months mobilisation phase ahead of service commencement in April 2017. A number of key workstreams are actively working to ensure the smooth transition to the new provider. Work plans are being developed and key risks identified during a Project workshop. Audit will continue to provide challenge, advice and best practice guidance during this phase.

Assurance Opinions 2015/16



Assurance Opinions Apr - Sept 2016/17 (inc Cross-Cutting & Grants)



Place

In our opinion, and based upon our audit work completed during 2015/16, 'watching briefs' and direct advice provided for on-going projects, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

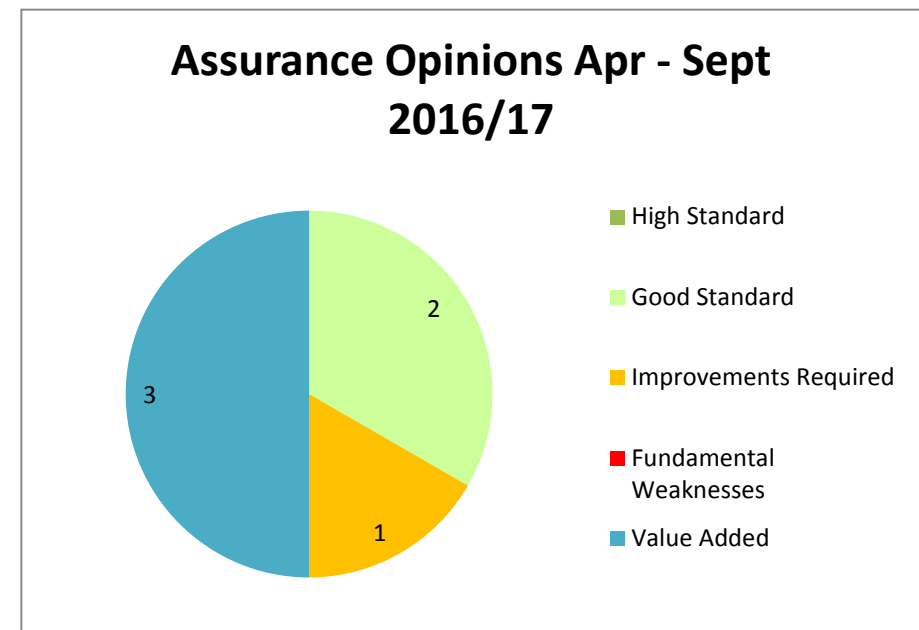
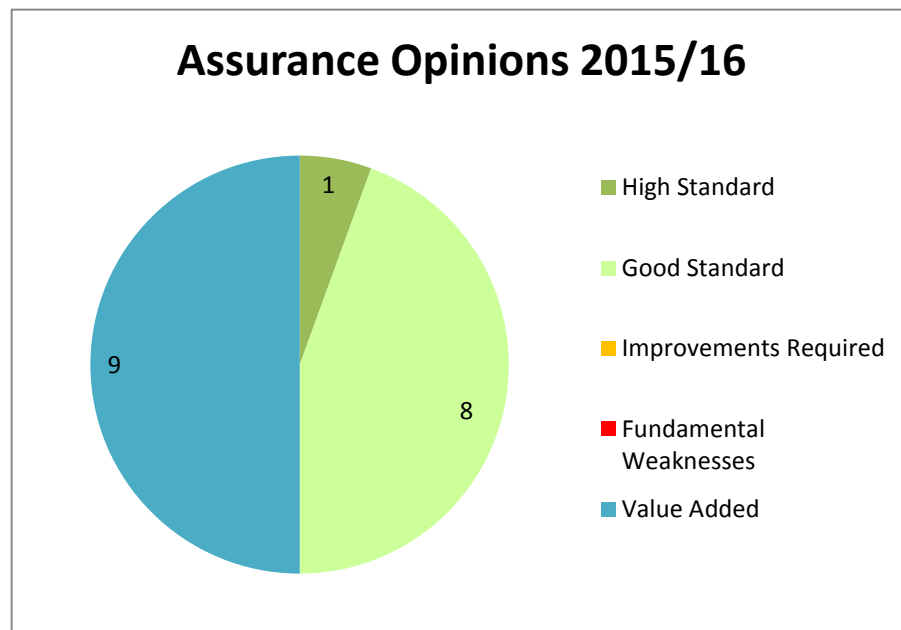
The Energy from Waste plant in North Yard officially became operational in September 2015 and Internal Audit have continued to work with the Project Executive and Contract team, providing support and challenge on contract management arrangements and the development of an audit and assurance plan.

DAP has provided support and challenge to those tasked with procuring the future Highways Maintenance contract jointly with Devon and Somerset County Councils. This involved the review of tender documentation, evaluation and pricing models prior to their issue to bidders and was followed by Audit being present at bid moderation sessions and conducted validation of evaluation scores, pricing models and "relative merits" prior to the selection of a preferred bidder and contract award, to ensure that a consistent and fair approach was followed throughout.

No significant concerns have been identified from our work and management have responded positively to any recommendations for improvement. Appendix 1 details the assurance opinions for individual audits, for which the definitions of the assurance opinion ratings are given in Appendix 4.

Key Risks / Issues

Following the appointment of a new contractor for the Highways Maintenance contract, the HM17 project has moved into the 6 months mobilisation phase ahead of service commencement in April 2017. A number of key workstreams are actively working to ensure the smooth transition to the new provider. Work plans are being developed and key risks identified during a Project workshop. Audit will continue to provide challenge, advice and best practice guidance during this phase



People

In our opinion and based upon our audit work completed which also includes watching briefs and direct advice, we are able to report that suitable internal controls are in place, or where internal controls have required update, corrective actions have been designed. If the planned actions are implemented, effective controls will be in place in the majority of cases. We can also confirm that any concerns identified through the on-going work leading to recommendations for improvement are responded to positively and swiftly by management.

Appendix 1 details the assurance opinions for individual audits which includes 2015/16 audits finalised within the current financial year, and a number of pieces of work from the 2016/17 plan. Definitions of the assurance opinion ratings are given in Appendix 4.

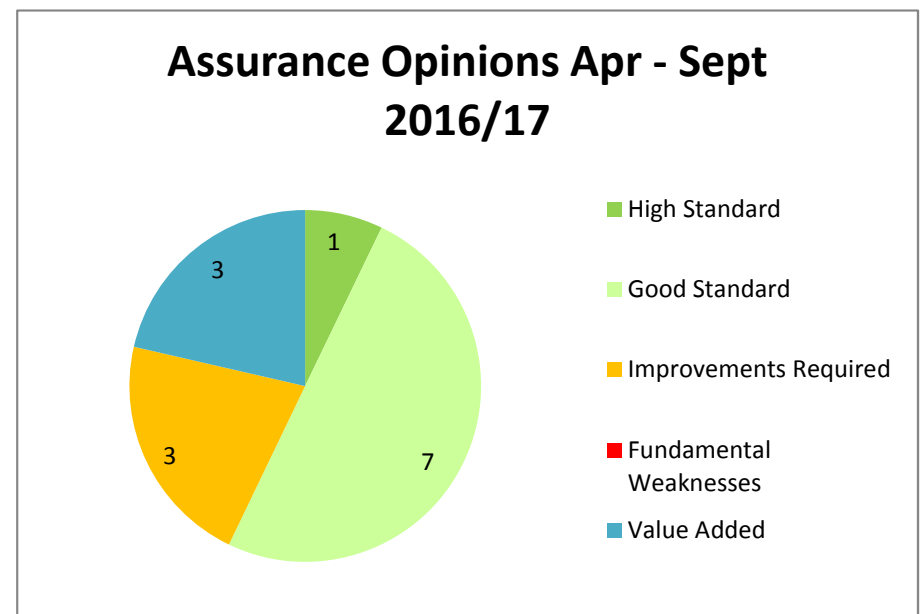
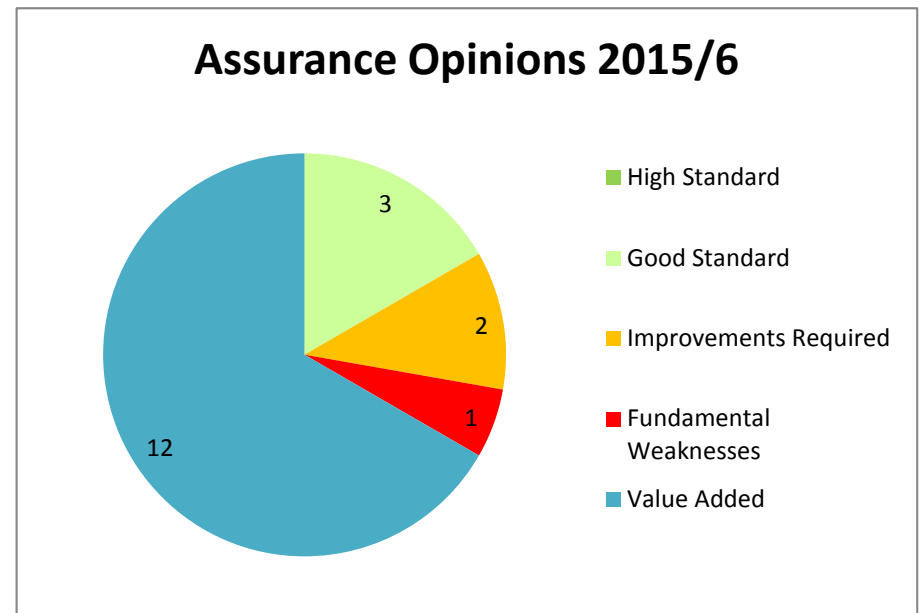
The overall assurance from schools audit is of good standard. The risk and control framework is of a good standard although there is some non-compliance or poor practice in a small number of schools on governance and use of resources to achieve school improvement. Detailed assurance is provided under a separate report.

Key Risks / Issues

The key risks within this area are linked to the success of the integration with health and social care partners, as success in this area will improve services, drive efficiency and allow more controlled management of reductions in funding levels. Failure to act through change represents the greatest risk to the ongoing delivery of services.

Direct Payments continues to be highlighted as an area where despite the progress made, improvements are still required, and these requirements have been identified and recorded in an updated action plan.

Child Independent Placements, currently issued as a draft report, was rated as Improvements required. This was in the main due to the lack of ownership within the system and the potential for efficiency improvements within the processes for managing payments. We are currently working with management to finalise their responses to the recommendations made.



Schools

Progress is being made against plan and the chart shows that we forecast completion of the plan by year end subject to further schools converting to academies. This year to date, five schools who were scheduled to receive their routine visit became academies. We have been requested by Principal Leadership Adviser to carry out additional follow up audits under Schools Intervention. Visit arrangements continue to be made with the schools to complete the plan by 31 March 2017.

The key objectives for Devon Audit Partnership (DAP) are to provide assurance to the Director for People and the Assistant Director for Finance, as the Council's S151 Officer, on the adequacy and security of the financial systems and controls operating within the maintained schools and to provide advice and assurance to governors, head teachers and the Local Authority.

Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. Although specific risks are identified in the core element of the audit review, for some schools, recommendations have been made to mitigate risks in other areas with the aim of strengthening what are mainly reliable procedures.

To date we have notified the Director of one school with cause for concern but we have not reported any issues relating to the Annual Governance Statement.

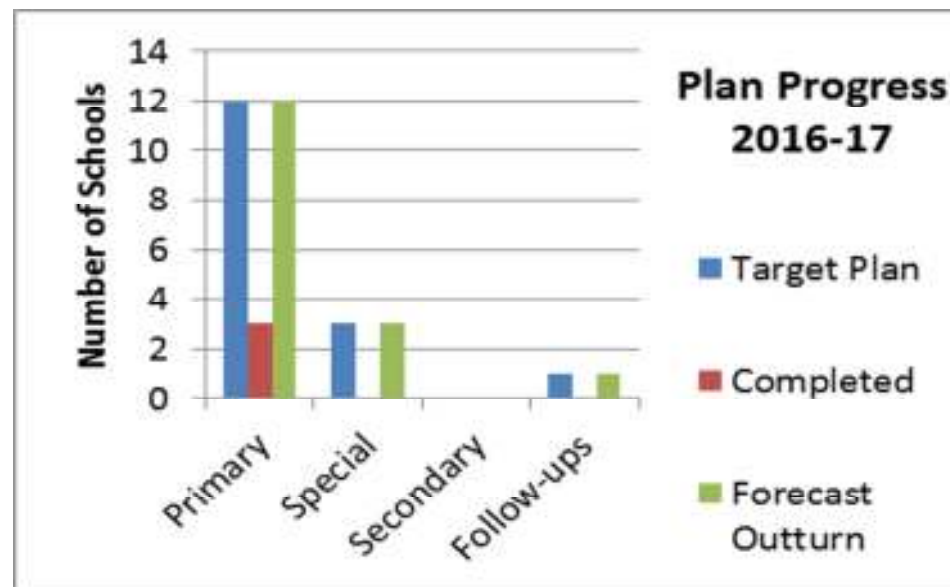
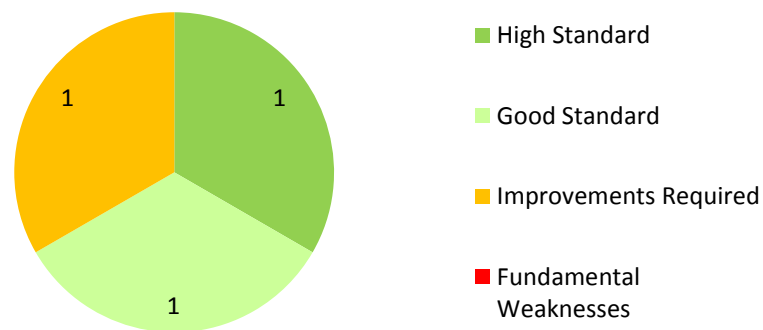
Key Risks / Issues across schools

- understanding of financial management by governors as evidenced by the requirements of the Standard, skills assessment and absence of key business from meetings;
- demonstrable benchmarking & financing of plans for raising standards and attainment;
- business continuity planning.

These risks will be addressed in coming audits this year.

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

Assurance Opinions Apr - Sept 2016/17



Fraud Prevention and Detection

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Work coordinating the review of the data sets involved with the 2014/15 NFI, the Cabinet Office's national data matching exercise, has concluded. Focus has turned to supporting the 2016/17 NFI exercise. The appropriate statutory notification have been published e.g. via website and payslips. Arrangements were made with department contacts to extract the data from a range of Authority systems at the end of September. DAP then uploaded these data sets to the NFI web application where they will be matched against other local authority data sets. DAP will then co-ordinate and lead the review of the data match reports when they are published later in the year.

DAP have continued to develop a working relationship with the Council's Corporate Fraud Team, to exchange information and knowledge.

Irregularities - In the first six months of 2016/17, Internal Audit has carried out or assisted in four investigations within the Authority, including schools. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
IT Misuse	2
Poor Procedures	2

DAP were informed of the potential misuse of the Council's internet facilities, which in one case led to a member of staff employed by Pertemps resigning and a second case, only recently referred, remains under investigation.

DAP were asked to investigate a case relating to an externally hosted website used to facilitate the on-line booking of educational courses. The Council had been notified that the website had been subject to a malicious data breach and notified effected persons and the Information Commissioners Office accordingly. Neither this website, nor any alternative on-line booking system, is currently in use. However, audit recommendations have been made to tighten procurement and contract management arrangements which were considered to be weak in this particular instance. Whilst the Council had suffered reputational damage, the Information Commissioners Office did not consider the circumstances of the breach warranted any further action and / or penalty.

In a separate case, concerns were raised about the potential for double charging to occur linked to the Extra Care Housing service but Audit's review found no evidence of this. Although relatively minor in relation to the amounts involved, there were an unacceptable number of discrepancies / errors between a provider's documentation and the Council returns and processes were subsequently updated.

In addition to the specific investigations outlined above, DAP have also provided management with a range of advice and support on courses of action or improvements to controls.

Customer Value

Performance Indicators - Resources

Overall, performance against the indicators has been very good (see Appendix 2 We have improved timeliness of draft issue and final reports were issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We are working on LEAN approaches which we hope will further improve report efficiency and timeliness.

Customer Service Excellence (CSE)

DAP continues to be maintain accreditation by G4S Assessment Services of the CSE standard.

During the period we issued client survey forms with our final reports. The results of the surveys returned are very positive. The overall result is very pleasing, with 97% being "satisfied" or better across our services, see Appendix 3. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

What Our Customers Said

We have had some very complimentary feedback in the last six months. More details can be found on our website www.devonaudit.gov.uk but some of the more relevant comments include:-

"The professionalism and technical knowledge of the auditor and his understanding of the key areas for improvement and, importantly, how these improvements could be delivered. A very constructive and helpful audit."

Added Value

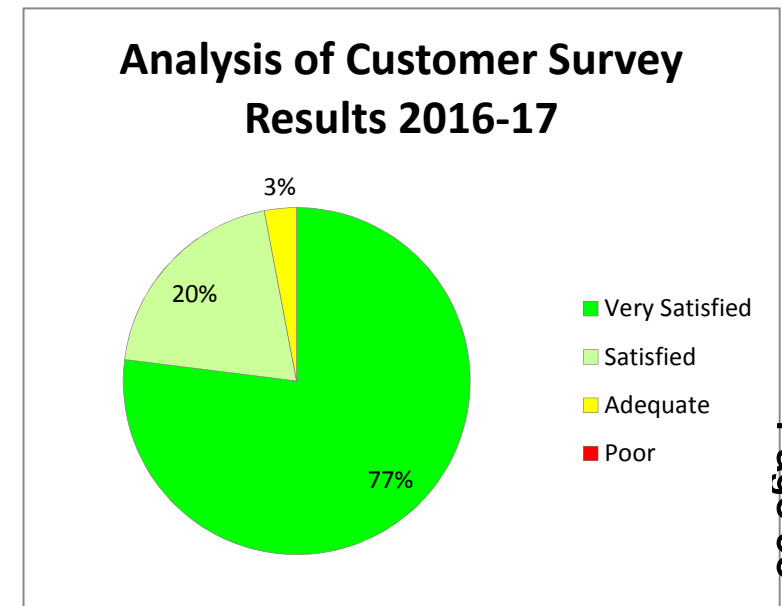
We aim to provide a cost effective, efficient and professional internal audit service that takes the opportunity to add value whenever possible. We have had some very complimentary feedback in the last six months. More details can be found on our website (www.devonaudit.gov.uk) but some of the more relevant comments include:-

On governance and risk management *"I always find DAP staff most engaging and helpful, in particular as a sounding board for ad-hoc issues. The audit was able to add value by providing both challenges and also suggestions"*.

On Integrated Health *"How refreshing it was to see an internal audit team who were not only obviously well-schooled in the art of audit but also able to offer frank and honest views.....I found the meeting very open, frank and certainly added value – it gave another independent view of what we are trying to achieve"*.

On planning, *"The Auditor has again identified the key issues and made relevant recommendations which are likely to secure the greatest benefits to the Council and its customers in terms of planning compliance activities. The audit report will help us to be better organised and work more systematically, with improved performance monitoring built in, to secure improved services."*

We continue to develop and train our staff so that they can add value to the organisation as it faces the difficult challenges ahead.





Appendix 1 – Summary of audit reports and findings for 2016/17



Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

Assurance Progress Key



Green – action plan agreed with client for delivery over an appropriate timescale;
 Amber – agreement of action plan delayed or we are aware progress is hindered;
 Red – action plan not agreed or we are aware progress on key risks is not being made.
 * report recently issued, assurance progress is of managers feedback at debrief meeting.
 ** for transformation & other projects, the direction of travel reflects our view of how effective the project is run.



Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Transformation and Change					
Core Assurance – Key Financial System					
The key financial reviews will be commenced in the second half of 16/17:					
Civica Financials: <ul style="list-style-type: none"> • Creditors ANA - High • Main Accounting ANA - High • Debtors ANA – Medium iTrent – Payroll ANA – Medium ICT Systems ANA - High			Academy Revs & Bens: <ul style="list-style-type: none"> ➢ Housing Benefits ANA - High ➢ Council Tax ANA - Medium ➢ Business Rates NNDR ANA – Low Treasury Management ANA - Medium		Page 96
The review of Capital Accounting (Fixed Asset Register) ANA – Medium has been cancelled with the agreement of the client as the External Auditors have advised that they are covering the same areas in their final accounts audit.					
Core Assurance - Other					
Corp Information Management (ILOG, FoI, DPA, Policies & P's, EDRMS, End User Computing)	SRR46 - Amber ANA – High	Final	Value Added	A formal report to consolidate all current and outstanding Information Governance issues identified during work conducted in 2015/16 and early 2016/17 has been issued. Responsibility for remedial actions has been assigned to ILOG, with individual responsibilities being designated by the Head of Assurance where necessary.	
Corp Information Management (ILOG, FoI, DPA, Policies & P's, EDRMS, End User Computing)	SRR46 - Amber ANA – High	Ongoing	Value Added	DAP continues to attend and support the Information Lead Officers Group (ILOG) and has regular contact with the Council's Corporate Information Manager regarding matters concerning data / information management and security. Support of the Information Management project continues and work will be undertaken as needs require.	



Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
"Active Directory"	SRR46 - Amber ANA – High	Completed	Value Added	A review of the Council’s Active Directory (that governs access to the Council’s ICT network and logical assets) was recommended within our Information Management report. Working with the Information Governance Manager, a formal initial assessment has been completed and fed into the Transformation programme work stream.	
ICT Retained Client	ANA - High	Final	Value Added	A formal review of the ‘retained client’ function has been completed which assessed key retained functions and controls and the effectiveness of the Council’s ability to meet transformational requirements and operate on a more commercial basis. Nine potential opportunities for continual service improvements were identified within the report and these were discussed with senior management who are considering them whilst defining the Retained Client activity going forward. The “early life” developmental relationship contributed to the Retained Client being used to manage operational relationships. Moving forward the function now needs development to enable the ability to optimise the value of the retained client through more “intelligent” and performance related activities and these are now being introduced.	
ICT Retained Client	ANA - High	Ongoing	Value Added	The theoretical retained client function is potentially broad in scope and, as commonly found in organisations adopting this delivery model, still developing within PCC. Following on from the 2015/16 review, Internal Audit Work has been undertaken to provide a framework to focus formal reviews of specific functional areas within 2016/17. Observations on the current meeting cycle for this area have been made in order to accelerate understanding and in developing relationships with potentially key auditees. Initial findings identify that the all-important relationship between Delt and those undertaking retained activities within the Council are becoming increasingly effective.	
The reviews will be commenced in the second half of 16/17: Quarter 3 - Cyber Security SRR113 Amber – ANA – High Information Security (Includes Gov.Connect & PCI DSS) SRR46 Amber – ANA – High				Quarter 3&4 Service Strategy / Design – Retained Client Functions	



Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Transformation & Change – Strategic and Operational					
Transformation Process	SRR95 - Red ANA - High	Ongoing	Value Added	Audit have provided support and challenge to the Transformation Portfolio Team as they continue to develop and issue policies, strategies and procedures in areas such as integrated assurance and benefits realisation. DAP, in conjunction with the Council’s Policy, Performance and Planning Team, reported its findings following the verification of the results from the project maturity self-assessment carried out by the Portfolio Office in Autumn 2015. This showed positive developments across many of the assessed areas at each of the three levels (Portfolio, Programme and Project) but also highlighted areas that required improvement. It is anticipated that a similar exercise will be conducted again in 2017 in order to further gauge progress in developing best practice in the running of projects and programmes.	
Risk Management	ANA - High	Final	Opportunity (Working)	<p>It is acknowledged that the Corporate and Senior Management Teams are risk focused and consider risks to objectives as part of day to day corporate and service management with risk registers maintained and subject to routine monitoring and reporting. However visibility and understanding has diminished following a sustained period of significant change, opportunities should now be taken to raise the profile and understanding of risk and opportunity management and strengthen existing arrangements including:</p> <ul style="list-style-type: none"> • Identification of risk and opportunity through consistent business planning processes, and setting of risk appetites to provide focus, • Capturing proportionate timely risk and opportunity information within established management processes, • Provision of real-time risk and opportunity information that is integrated with finance and performance information and utilised in decision making, • Further develop horizon scanning for both risk and opportunity at all levels of management and understanding of the cost vs benefit of risk mitigation, • Removal of tension between culture and process and strengthening common purpose, value and ethics. This will encourage universal adoption, application of key policies and procedures, and encourage timely, transparent and honest communication. 	


The Management of Delt (ANA - High) review will commence in the second half of 16/17




Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
People					
Core Assurance – Key Financial System					
Independent Placements (Children)	ANA – Medium	Draft	Improvements Required	<p>A review of seven placements found that the majority of payments were made correctly, they had been agreed at Resource Panel, a contract was in place, any additional payments were paid correctly and budgets were closely monitored and reported to management. However, there is a need to update, change and improve controls in a number of areas.</p> <p>Functions are split between the Commissioning Team and the Child Payments Team who are located at different sites. Roles and responsibilities have evolved over time and are unclear in areas such as overpayments, reconciliations and following up on missing documentation. In addition, communication and collaboration needs to be improved to reduce the risk of errors, late, missed and/or overpayments as we found instances of significant delays, up to 29 weeks, in commencing payment to some providers.</p> <p>The report highlighted opportunities to streamline longstanding processes, for example:</p> <ul style="list-style-type: none"> • With regards the fortnightly payment run; • Further automation of the system, use of electronic signatures and avoidance of large volumes of printing. 	 *
Direct Payments (Pre-Paid Cards) Follow-Up	ANA – High	Final	Improvements Required	<p>A previous follow-up in 2015 resulted in an action plan to be managed within PCC ASC. The transfer of adult social care to Livewell Southwest in April 2015 removed the direct oversight for the implementation of a number of the original recommendations. Following this there was a focus on the update of operational processes within PCC and clarification of retained roles and responsibilities.</p> <p>This has led to a project group being set up to look at the end to end processes. Work will include updating written procedures and guidance for Social Workers and Business Support and will include documents sent to clients or 3rd party representatives.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
CareFirst - Residential Care Payments (Adults) Independent	ANA – High	In Progress	N/A	<p>This review will identify the systems in operation in place and then test to both measure compliance and evaluate the effectiveness of system controls. The areas for review include:</p> <ul style="list-style-type: none"> ensuring that payments are correct, authorised, timely and in line with contracts; overpayments are recovered; there is effective monitoring of expenditure; invoices are raised promptly for Health Contributions. <p>Whilst reviewing the processes we will aim to comment on any potential efficiency that can be gained by updating the control framework or elements of existing processes/procedures.</p>	N/A
<p>The following review will be commenced later in 16/17:</p> <ul style="list-style-type: none"> CareFirst - Income Collection (Adults) - ANA – High 					
Core Assurance - Other					
Income Collection Strategy / Maximisation	ANA - Critical	Draft	Good Standard	<p>The Council has taken substantial steps to ensure that clients receiving adult social care are financially assessed, and in turn made aware of their responsibility to contribute to their care. Financial assessments are underpinned by the Council's Fairer Charging Policy which conforms with national legislation and guidance.</p> <p>Work is required to ensure that client files always contain the relevant contracts and paperwork so that billing can occur.</p> <p>Full Council agreed to enact the 2% Council Tax levy as announced by the Government in November 2015. Review of financial data showed that the ASC budget increased over and above the value of the 2% precept, suggesting that funding to ASC has been prioritised.</p>	
Retained Client, Deprivation of Liberty Safeguards (DoLS) – Internal Processes	ANA – High	Final	High Standard	<p>The way in which the officers within the DoLS office manage the process is a significant factor in considering the area to be a high standard. Performance is monitored and reported to management on a monthly basis. This includes the numbers of applications received during the month and the numbers of assessments completed. The numbers of reassessments due and completed are also monitored closely as these are considered high priority.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Integrated Health and Wellbeing (Integrated Fund)					
Governance and Risk Management	ANA – High	Final	Good Standard	<p>The breadth of stakeholders linked to the Integrated Fund is a key factor in the complexity of the governance structures. The number of entities involved has lead to some duplication.</p> <p>The partner members' delegated authority is linked to that held in their respective organisations. Whilst this retains the original governance and accountability of the CCG and the Council, it does not necessarily reflect the ideal long term solution as it can unintentionally make the decision making path longer.</p> <p>Risk Management within the Integrated Fund is considered to be "developing" and it is clear that the right people are involved from the respective organisations. Work is progressing on joining up risk policy and risk registers with additional mitigation through the existing risk management processes of each partner.</p> <p>Due to the nature and value of the Integrated Fund, assurance is required by a variety of bodies across organisations at both a strategic and operational level. The Finance and Assurance Review Group is key within the Integrated Fund and Audit comments on membership, accountability and the separation of duties will further strengthen its ability to fulfil its role.</p> <p>Whilst the current arrangements are achieving their goals, the simplification of existing structures and interactions, including suitable delegations, would provide opportunity for potential efficiency and effectiveness gains.</p>	
Integrated Fund Financial Reporting	ANA - High	Draft	Good Standard	<p>2015/16 was a "learning" year for combined financial reporting. Despite this, overall the reporting to partners and other bodies has been completed as required.</p> <p>We highlighted opportunity to:</p> <ul style="list-style-type: none"> ➤ strengthen the report compilation process, ➤ refine the report format, and ➤ develop reporting to a greater level of detail, <p>All of which had started to be discussed and included in forward looking action plans.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				Good progress has been made and reporting is in place, underpinned by information from both partner financial systems, which are, in turn, subject to separate review of controls by Internal and External Audit.	
Integrated Fund	SRR83 – Amber ANA - High	Ongoing	Value Added	<p>DAP has continued to monitor and support the actions of the Integrated Fund (IF). Assurance has been sought, and support provided through attendance and input at the IF Finance and Assurance Review Group which is tasked with coordinating assurance, financial reporting and risk management for the Integrated Commissioning Board.</p> <p>In addition, more formal input has been provided through the provision of an advisory paper on the role of the Pooled Fund Manager and presentation of Audit Report Summaries which are relevant to the IF.</p>	
Compliance with/Delivery of Commissioning Strategies	ANA – Critical	In Progress	N/A	This review aims to examine the Wellbeing Strategy including the associated action plan, for robustness, feasibility of achieving the aims in an appropriate timeframe and the potential impacts of failure. The current Internal Audit Plan also includes a review of the Integrated Commissioning System Design Groups, which are in place to feed into the development processes to deliver the strategies. The two reviews would benefit from a combined approach as this will allow the use of practical examples when reviewing the SDG and associated processes.	N/A
<p>The following reviews will be commenced later in 16/17:</p> <ul style="list-style-type: none"> ➤ CCG Success Regime / Sustainability and Transformation Plan – ANA – High; ➤ Plymouth and Western System Development Board – ANA – High; 					
Integrated Health and Wellbeing (Transformation Programme)					
Transformation Programme Board (IHWB)	ANA - Medium	Ongoing	Value Added	During 2016/17, DAP has attended the Integrated Health and Wellbeing Programme Board to gain assurance on the processes and transformation actions, along with using the opportunity to provide audit input to those with operational responsibility. Additionally we have provided summaries of the work undertaken which is relevant to IHWB Transformation and the ongoing work with the CCG and other partners.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				The IHWB Board was formally closed on 19 th August 2016 and realigned with the One System One Aim priorities through the Plymouth and Western System Development Board.	
System Enablers Board	ANA - Medium	Ongoing	Value Added	The System Enablers Board is a subgroup of the IHWB Programme, tasked with ensuring that IT requirements are identified and addressed. DAP has worked closely with the Project Manager to challenge and support ongoing work and provide an independent view on the longer term projects such as the 2020 Digital Partnership.	
Public Health					
Joint IHWB Commissioning - Design of Future Service Delivery	ANA – High	In Progress	N/A	See “Compliance with/Delivery of Commissioning Strategies” above as the two reviews are now linked.	N/A
<p>The following review will be commenced in the second half of 16/17:</p> <ul style="list-style-type: none"> ➤ Joint IHWB Commissioning - Service Delivery Performance Frameworks – ANA – High 					
Place					
Highways Maintenance Contract – letting and mobilisation	SRR107 - Amber ANA - Critical	Ongoing	Value Added	<p>Audit has continued its involvement in the letting of a new Highways Maintenance Contract, providing support and challenge to both Devon and Plymouth Councils at the various stages of the procurement, culminating in the receipt and evaluation of final bids in August. Audit provided independent assurance in the lead up to bid submission, attending meetings of the Programme Board and training sessions given to evaluators, and during the evaluation of these bids. Audit supported moderation sessions and validated evaluation scores, pricing models and “relative merits”, to ensure that a consistent and fair approach was followed throughout.</p> <p>As the project moves through its mobilisation phase, Audit continues provide assurance and support to officers.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Waste PFI		On-Going	Value Added	Audit has continued its participation with the Partnership, attending Project Executive, providing support and advice on contract management issues and the annual reconciliation process which is going through its first iteration. Audit will be asked to "sign off" the Partnership accounts.	
Planning Compliance	ANA – Low (Client Request)	Final	Good Standard	Planning Compliance is proportionate and in accordance with legislation and best practice. Appropriate outcomes are achieved through effective negotiation reducing the number of cases where formal enforcement action is necessary. The current IT systems have not been sufficiently developed to provide effective management and customer information. Idox Uniform and Enterprise systems are due to be implemented in October 2016 and this provides the service with the opportunity to deploy new functionality to capture planning compliance data and further improve the quality and availability of information to aid timely and effective decision making.	
Street Services	SRR95 - Red ANA - High	N/A	N/A	The allocated resource in the original audit plan are being utilised on audit areas as shown below, in agreement with officers. Further areas could be identified as the year progresses.	N/A
On-Call Service	Management Request	Draft	Good Standard	The operation of the on-call system is well managed in respect of the close monitoring of the duties undertaken on an on-call basis. Staff are required to record what actions they take whilst on-call and any corresponding claims for additional hours and stand-by payments are checked and authorised by management.	 *
Trade Waste	Management Request	Draft	Improvements required	Audit testing identified significant weakness with invoicing arrangements, with unacceptable delays in generating invoices appearing to be commonplace. In particular, the invoicing relating to the Council's relationship with a 3rd party contractor was four months behind at the time of the audit, with no invoices having been raised to date for any of the collections undertaken on behalf of the contractor during this financial year. This equated to approximately £120K of income which had yet to be invoiced. This invoicing arrangement is contrary to normal practices where customers are billed in advance of delivery of service. It is also of concern that the relationship with the contractor does not appear to have ever been formalised. At face value this raises questions as to whether the Council has acted outside of its own Contract Standing Orders and leaves the	 *

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
				<p>Council vulnerable to reputational damage should the relationship with the contractor be questioned or challenged by competing businesses.</p> <p>It would also appear to be a commonly held belief that the Trade Waste service is losing money in respect of the above relationship, in the main, due to the belief that waste collected on behalf of the contractor is routinely over-weight. Efforts to evidence this have stalled due to the failure of weighing equipment, this needs to be rectified as soon as possible and comprehensive data obtained with which to address these concerns.</p>	
Highways Act – Section 38 and Section 278	ANA – Low Client Request	In Progress		<p>The objective of the review is to ensure the best possible service provision from the team responsible for administration of agreements under Sections 38 and 278 of the Highways Act 1980. The review is considering:</p> <ul style="list-style-type: none"> • Statutory Duty, Legislation and Policy; • Procedures and processes, including prioritisation and day to day working arrangements; • Use of IT; • Maximisation of income streams; • Protection of Council interests, including Cash Bonds, Commuted Sums and accounting arrangements. 	Page 106
History Centre (Record Office)	SRR108 Red ORR – ANA –Medium	On-Going	Value Added	<p>Whilst Audit are not part of the Project Board, we do have sight of board papers which enables us to keep abreast of progress with the project and allows us to then review/challenge particular decisions and actions.</p>	
Plymouth City Market	ANA - Medium Client request	In Progress		<p>The field work has been completed and the report is being drafted. Controls around cash collection were found to be quite robust but some opportunities for efficiencies have been identified.</p>	
Events Planning & Delivery	Client Request	In Progress		<p>The focus of this review was to evaluate the adequacy of controls, process and management practice in connection with the planning and delivery of the Council's events programme.</p> <p>Audit fieldwork has been completed and a client debrief is due to be undertaken by the end of October.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	

The following review will be commenced in the second half of 16/17:

- Fleet Management inc Tranman and Operators Licences ANA - Medium
- Environmental Projects ANA – Medium


Cross Cutting






Civica Financials Project	ORR F7 ANA - High	On-Going	Value Added	The work to improve the Civica systems has been included within the scope of the technology workstream within the Finance FIT project. DAP will provide input to the project to support successful design and implementation of business changes, ensuring that the necessary controls are in place.	Page 107
Business Continuity	SRR08 - Green, ORR CS5 - Amber ANA - High	On-Going	Value Added	DAP continues to be a member of the Council’s Business Continuity Strategy Group as Trusted Advisor. In addition, Audit give consideration to issues relating to Business Continuity plans within individual service reviews and projects that it has involvement in.	
Commercialisation	ANA - High	On-Going	Value Added	Audit has met with the Strategic Commercial Manager to discuss the Council’s strategy for seeking and developing commercial opportunities. Audit will look to provide support and challenge to this programme and its workstreams as well as considering how the commercialisation strategy can be applied as we carry out work in other audit areas.	

The following review will be commenced in the second half of 16/17:

- Alternative Service Delivery Vehicles (ASDV) ANA – High
- Review of Major Contracts ANA – High
- Co-operative Review of Services ANA – High
- Firmstep Digital Platform ANA – High
- Contract Management Strategy / Retained Client Function ANA - High

Grants

Rogue Landlord	Regulatory Requirement	Complete	Certified	No issues identified	
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Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Assurance Progress RAG Score
		Status	Assurance Opinion	Executive Summary	
Derriford Transport Scheme	Regulatory Requirement	Complete	Certified	No issues identified	
DFT Local Transport Capital Block	Regulatory Requirement	Complete	Certified	No issues identified	
DFT Challenge Fund	Regulatory Requirement	Complete	Certified	No issues identified	
DECC Green Deal Communities Fund	Regulatory Requirement	Complete	Certified	No issues identified	
DCLG Plymouth City Deal (South Yard)	Regulatory Requirement	Complete	Certified	No issues identified	

Other Chargeable Activities (not incorporated above)

Completion of 2015/16 Audit Plan

The following reviews conducted as part of the 2015/16 Audit Plan have been finalised since April 2016, the findings of these reviews were reported in the Audit Annual Report presented to Audit Committee in June.

- Council Tax
- NNDR
- Housing Benefits
- Debtors
- Creditors

- Main Accounting System
- Treasury Management
- Payroll
- Recruitment - Pre Employment Checks

Appendix 2 – Performance Indicators

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

Annual Local Performance Indicators (LPI)	2013/14	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2016/17
	Target	Actual	Target	Actual	Target	Actual	Full Year Target	Six month Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	96.5%	100%	98%	100%	100%	100%	66.9%
Percentage of Audit plan Completed (Inc. Schools)	93%	94.6%	93%	94%	93%	94%	93%	43.1%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	97.5%	95%	96%	95%	95%	95%	39.8%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	100%	100%	On Target
Percentage of chargeable time	65%	69.3	65%	67.8%	65%	68%	65%	69.6%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	99%	90%	99%	90%	100%
Draft Reports produced within target number of days (currently 15 days)	90%	80.1%	90%	94%	90%	87%	90%	98.2
Final reports produced within target number of days (currently 10 days)	90%	89.1%	90%	99%	90%	96%	90%	97.7
Average level of sickness absence (DAP as a whole)	2%	3%	2%	5.5%	2%	5.9%	2%	5.46%
Percentage of staff turnover (DAP as a whole)	5%	3%	5%	16.6%	5%	4%	5%	17%
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes	Yes	On Target

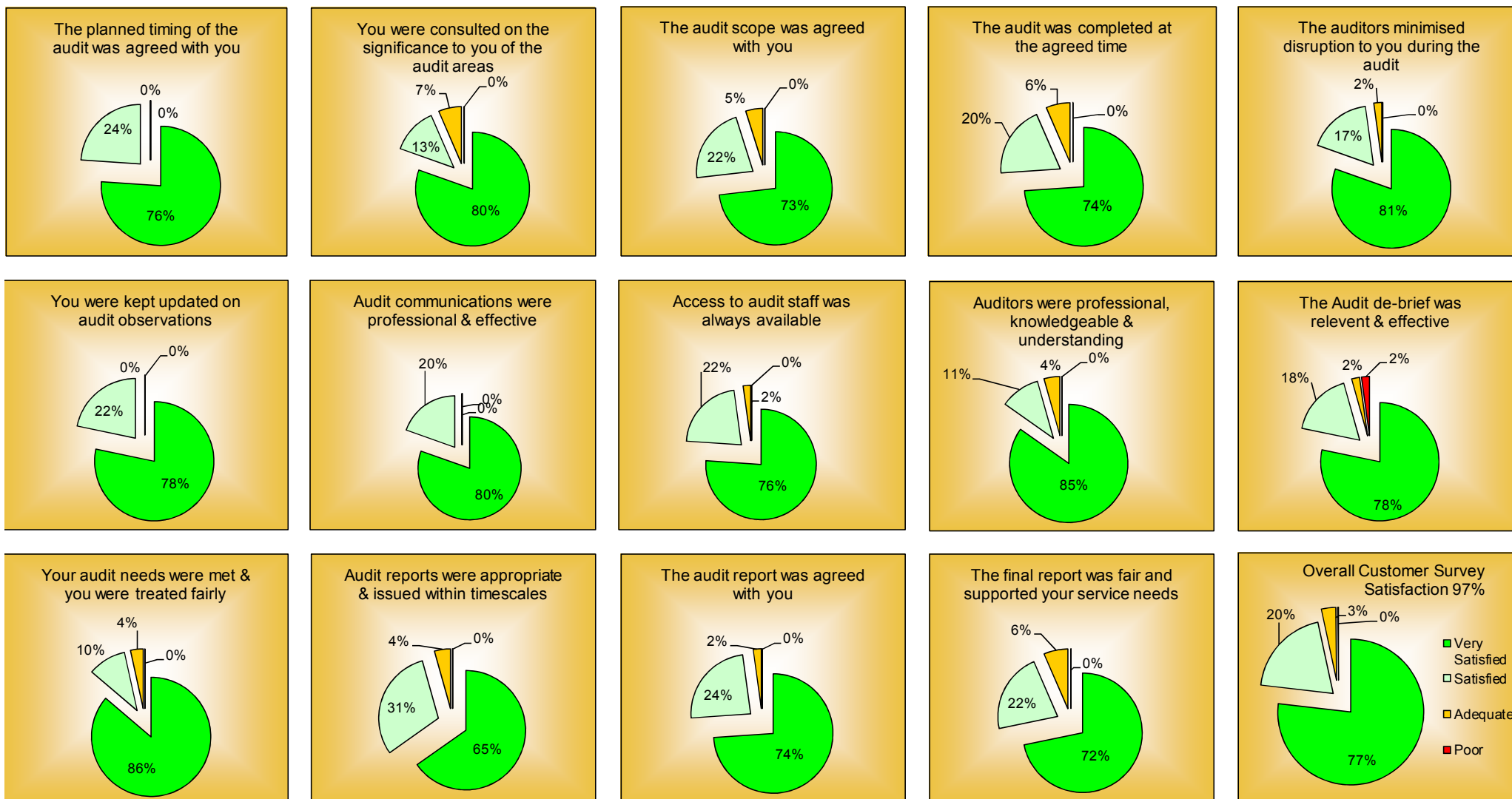
Note 1 - Sickness across Devon Audit Partnership in the first part of 2016/17 has been high at 198 days or 5.64% of available time; equates to around 6.5 days per FTE. As always, we are working with staff to ensure that attendance at work is maximised; the assistance of HR support organisations such as Occupational Health also assist us. We recently asked HR colleagues within Devon County Council to provide detailed absence management training for managers and expect that this will ensure all episodes are dealt with consistently and in line with the County Council's Managing Absence arrangements.

Note 2 – Three people have left DAP; one apprentice started; one person on secondment to another role.

Appendix 3 - Customer Service Excellence

Customer Survey Results April - October 2016

The charts below show a summary of 46 responses received.



Appendix 4 – Definitions

Definitions of Audit Assurance Opinion Levels

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

Confidentiality under the Government Security Classifications

Marking	Definition
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

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PLYMOUTH CITY COUNCIL

Progress report prepared for the Audit Committee
meeting scheduled for 8 December 2016

INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2015/16 audit together with an update of the initial planning that has been undertaken in connection with the 2016/17 audit.

The auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the Council's:

- financial statements; and
- the arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns.

Completion of the 2015/16 Audit

We issued our audit opinion on the Council's financial statements on 23 September 2016. At that time, we stated in our audit opinion that we could not complete our audit and issue our audit certificate until we had completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We completed this part of our audit on 21 October 2016 and issued our 2015/16 audit completion statement to the Council on 7 November 2016.

The final elements of the 2015/16 audit work include the certification of the Teachers' Pensions Contributions Return for 2015/16 and the completion of our work on the Council's Housing Benefit Subsidy for 2015/16.

In Appendix 1 we have set out a summary of the main areas covered in our 2015/16 audit and the relevant dates. Given that it is necessary to issue papers to the Audit Committee in advance of the scheduled meeting, some aspects of our 2015/16 audit which need to be concluded by 30 November 2016 are currently in progress although we do expect to meet the submission deadline.

We will provide a verbal update at the 8 December Audit Committee meeting.

Preparations for the 2016/17 audit

We have commenced our planning procedures for the 2016/17 audit and have met with management as part of our initial audit planning. We will continue to perform further planning procedures and prepare for the Audit Committee an audit planning document containing our audit strategy and which we will present to the next meeting of the Audit Committee scheduled for 16 March 2017.

In 2016/17, the Council will need to implement some changes to its accounts and we have held preliminary discussions with management to discuss the implications of the new accounting requirements. It is also evident that the Council will be completing some potentially complex

transactions in 2016/17. For example, a number of assets that were originally acquired for development are to be let to third party tenants. Accordingly it will be necessary to consider these transactions where properties, currently classified within property, plant and equipment asset category may need to be reclassified as investment property. These transactions require careful consideration and we have agreed with management that the technical aspects will be assessed in the early stages of our audit. In addition there are other areas of potential technical complexity where we will be discussing how early consideration of the area can support efficiency both in closing the Council's accounts and delivering an efficient audit.

We have commenced discussions with officers to bring forward the accounts preparation and audit for 2016/17. This would be in preparation for 2017/18 when the statutory timetable will change.

For 2016/17 the statutory audit timetable is unchanged from the timetable that was in place for 2015/16 i.e. preparation of approved accounts for audit by 30 June and issue of the audit opinion by 30 September. However, in 2017/18, the timetable will be brought forward and the dates for preparing approved accounts for audit will be 31 May 2018 (i.e. one month earlier) with the deadline for issuing the auditor opinion also brought forward to 31 July (i.e. two months earlier).

The requirement to achieve a faster close and audit will require both the Council and ourselves to consider how this accelerated timetable will be met and agree the steps that will need to be taken. In addition, in 2017/18, the Council will be affected by a significant change to the accounting rules affecting the highways network infrastructure asset which comprises highways related assets including roads, bridges, streetlights and other street furniture such as traffic lights. This will be a significant task.

Therefore it is important to consider how the 2016/17 audit can be used as an opportunity to bring forward the audit and publication in preparation for 2017/18 and we will continue to discuss with management how we can work together to achieve this objective. The proposed deadlines are 31 May 2017 for preparation of approved accounts and 31 August 2017 for audit opinion. This timeline will necessitate appropriate Audit Committee meetings or delegation arrangements and it will be useful to discuss these arrangements with the Audit Committee at the 8 December meeting

2015/16 Annual Audit Plan - summary of elements

Appendix 1

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	Work is complete.	Audit Plan 2015/16 Issued and presented to the Audit Committee in March 2016.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2016.	Work is complete.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements and use of resources audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion covering the financial statements and the use of resources was 30 September 2016.	Work is complete	Final Report to the Audit Committee Final ISA 260 report presented to the Audit Committee on 15 September 2016. Opinion on the financial statements Unqualified audit opinion issued on 23 September 2016. Opinion on Use of Resources We concluded that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. The deadline was 21 October 2016	Work is complete	Opinion on the WGA Consolidation Pack Schedules and assurance statement issued on 21 October 2016
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	Work is complete.	Annual Audit Letter Annual Audit letter issued to Public Sector Audit Appointments (PSAA) on 28 October 2016.

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Housing Benefit Subsidy Claim Form	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Work is in progress	Housing Benefit grants claim and return to be audited and submitted to Department of work and Pensions by 30 November 2016 deadline.
Non Audit Commission grants and returns	To certify and submit the Teachers' Pension Contributions Return to the Teachers' Pensions Agency by 30 November 2016.	Work is in progress	Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.
Grants Report	Summary of our certification work to be reported to the Council by February 2017.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2017.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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PLYMOUTH CITY COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office’s Code of Audit Practice (the Code), and to review and report on:

- the Council’s financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 23rd September 2016.
We reported our detailed findings to the Audit Committee on 15th September 2016.

USE OF RESOURCES

We issued an unqualified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 23rd September 2016.

The Council has prepared a Medium Term Financial Plan (MTFP) which has identified a need to achieve savings of approximately £24 million in 2016/17 to bring expenditure in-line with the forecast level of financial resources. Grant funding is forecast to decline further in future years requiring further substantial savings in the period to at least 2020.

We considered the Council’s arrangements and concluded that they are currently reasonable but the scale of the financial challenge will require the position to be closely monitored.

EXERCISE OF STATUTORY POWERS

An elector made an objection in connection with expenditure incurred in connection with an event for which the Council provided financial support. We did not identify any significant issues as a result of this investigation but did identify some recommendations to improve the clarity of the Council’s processes for authorising such activities.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued an unqualified true and fair opinion on the financial statements on 23rd September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

REVENUE RECOGNITION	RESPONSE	FINDINGS
Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	<p>We carried out procedures to gain an understanding of the Council's internal control environment relevant to preventing loss of income and ensuring that income is recognised in the correct accounting period.</p> <p>We tested a sample of transactions to confirm that it was appropriate to recognise the income and that it had recorded in the correct accounting period.</p>	No issues were identified by our testing of revenue.
WASTE TO ENERGY PFI	RESPONSE	FINDINGS
The Council, in partnership with Torbay Council and Devon County Council is a member of the SW Devon Waste Partnership. The Partnership has jointly procured a waste to energy arrangement run by MVV Umwelt through a Private Finance Initiative and the facility became operational in September 2015.	We reviewed the accounting of the scheme, using a PFI specialist within the BDO team. This was complex because the three Councils disagreed with the financial advice given by their advisors, although the advisors did say that it was finely balanced. We also reviewed the way the scheme was accounted for in the financial statements.	We are satisfied that the Council's treatment of this scheme has been appropriate.

FINANCIAL STATEMENTS

Continued

PROPERTY PLANT AND EQUIPMENT (PPE)	RESPONSE	FINDINGS
<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. Valuations are performed at least every five years.</p>	<p>We reviewed the valuation performed by the Council’s external valuer and tested a sample of assets to confirm the valuation had been correctly accounted for.</p>	<p>We are satisfied that the Council’s treatment of its PPE has been appropriate.</p>
GROUP ENTITIES	RESPONSE	FINDINGS
<p>The Council has a financial interest in a number of entities including a majority holding in CaterED, a company providing catering to schools and DELT, a joint venture with NEW Devon CCG.</p> <p>The Council is also a partner with the CCG in a pooled budget for health and social care.</p>	<p>We reviewed the accounts of both CaterEd and DELT, which were not consolidated.</p> <p>We also tested the expenditure relating to the pooled budget and liaised with the auditors of NEW Devon CCG.</p>	<p>The Council chose not to prepare Group Accounts on the basis that consolidation would not have materially affected the Council’s accounts. We are satisfied that this decision was reasonable on the grounds that the adjustments would not have been material.</p> <p>We are also satisfied that the treatment of the Council’s transactions in connection with the pooled budget were correct.</p>
PENSIONS ASSUMPTIONS	RESPONSE	FINDINGS
<p>The Council’s pension liability comprises a share of the market value of assets held in the Local Government Pension Scheme (LGPS) administered by Devon County Council and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We tested the amounts and disclosures recorded in the Council’s accounts to information provided by the Devon County Council Pension Fund actuary. We also requested information from the auditor of the Devon Pension Fund to provide assurance on the amounts disclosed in the Council’s accounts.</p>	<p>The amounts and disclosures made by the Council have been appropriate.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £10.8 million. This was determined by reference to the Council's expenditure and which we consider to be one of the principal considerations for the Council in assessing financial performance. The agreed materiality level represents approximately 1.75% of the Council's gross expenditure.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £324,000.

Audit differences

We identified a misstatement of £416,000 relating to the pension liability that was identified when the accounts for the Tamar Bridge and Tor Point Ferry were finalised. The Council considered amending the accounts but the amount was below the materiality level set during the audit and amendment was not necessary.

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Other matters we report on (continued)

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the 2015/16 narrative report is consistent with the financial statements.

Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. A number of areas for improvement were identified which we have discussed with management. These include improvements to be made to the final accounts process.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by councils where expenditure exceeds £350 million.

We have completed our review in accordance with the Instructions issued by the National Audit Office. This required that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counterparty transactions and balances, and provide an assurance statement to the National Audit Office.

We have no issues to report.

USE OF RESOURCES

CONCLUSION We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 23rd September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The Council has prepared a Medium Term Financial Plan (MTFP) which has identified a financial resources shortfall of approximately £24 million in 2016/17.</p> <p>Looking longer-term, the MTFP identifies additional financial pressures. Current forecasts indicate that further savings of approximately £37 million in the three years from 2017 to 2020 will be required.</p>	<p>We considered the Council’s MTFP and the basis of the assumptions within these forecasts.</p> <p>We also obtained details of the Council’s processes for managing the major transformation that will be required to achieve the cost savings and reviewed the arrangements for monitoring progress against financial targets.</p>	<p>The Council has prepared a medium term financial plan (MTFP) and has also instituted a process that seeks to address the financial challenge. It is evident that management have identified the successful achievement of the budget as a key priority and there is substantial focus on the steps that need to be taken.</p> <p>The Council has developed arrangements that are reasonable and close monitoring is in place. The detailed analysis of year to date net spend at the end of Quarter 1 (to 30 June 2016)’s identified a shortfall against the 2016/17 budget of approximately £3.8 million. Steps are being taken to address this shortfall.</p> <p>The Council is facing a major financial challenge but the arrangements in place are currently reasonable.</p>

USE OF RESOURCES

Continued

WORKING WITH OTHER ORGANISATIONS	RESPONSE	FINDINGS
<p>The Council has a number of partnership arrangements in place, including DELT (a joint venture company with NHS NEW Devon CCG), a waste to energy PFI involving other local authorities and a Better Care Fund (BCF) arrangement.</p> <p>As with any partnership arrangements, there are risks around governance, control and value for money and therefore for existing partnerships these do need to be assessed regularly. Similarly, for any new proposed partnership arrangement the arrangements should be assessed in advance of entering the new arrangement. At the same time, it is important that the Council remains alert to opportunities to work with others and continues to seek out opportunities to work innovatively with its partners.</p>	<p>We responded to this risk by assessing the arrangements the Council has in place and the extent to which the Council works with others in the area.</p>	<p>The Council has developed many arrangements with other organisations and in addition to the Integrated Fund with NEW Devon CCG, the Tamar Bridge and Tor Point Ferry operation represents a long-standing joint operation with Cornwall County Council. The Council’s arrangements with NEW Devon CCG are innovative and include genuine risk pooling and some joint Audit Committee meetings with the CCG.</p> <p>In addition, in partnership with NHS NEW Devon CCG, the Council has created a joint venture (JV) company (DELT) to provide IT services to both the Council and the CCG. The creation of the JV provides an opportunity to expand the scope of DELT’s work and its customer base and therefore represents a future commercial opportunity.</p> <p>The Council has reasonable arrangements in place for working with others and the governance arrangements are satisfactory.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have undertaken work in connection with an elector objection that we received relating to the Council's financial support for the MTV Crashes event.

Use of statutory powers

During the audit, we received notice that a local elector wished to make an objection in connection with expenditure incurred by the Council when it provided financial support for the MTV Crashes event in 2015.

The objection claimed that the Council's expenditure in supporting the event had not been properly authorised and therefore was potentially unlawful. We investigated the background to the decision including reviewing the papers prepared for Cabinet and the minutes of the meeting. We concluded that adequate authorisation for the expenditure had been given.

Unless new information is brought to our attention there is nothing further for us to investigate with regard to this matter. We did, however, note that it would have been helpful if the papers that were provided to members in connection with the event had been significantly clearer about the financial risks for the Council.

We have discussed this matter with officers and agreed that officers will ensure that the financial risks associated with future events are made clearer in reports to members and that any significant overspends will be reported back to members.

Audit certificate

We have formally concluded our audit and issued our Audit Certificate on 28 October 2016.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and we anticipate that it will be completed ahead of the submission deadline of 30 November 2016.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

At the date of this report, there are no other claims or returns that are being reviewed by us.

APPENDIX

Reports issues

We have issued the following reports

REPORT	DATE
Audit Plan	March 2016
Final audit report	September 2016
Annual Audit Letter	October 2016

Fees

We reported our original fee proposals in our Audit Plan and the latest estimate of our fee for 2015/16 are set out below.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit	£136,784	£149,199
Treatment of PFI waste to energy scheme	£10,000	£10,000
Certification of housing benefits subsidy	£17,477	£17,477
Elector objection	Up to £10,000	£8,610
Fee for audit services	£174,261	£185,286
Audit related services:		
- None	Nil	Nil
Fee for audit related services	Nil	Nil
Non audit related services:		
- None	Nil	Nil
Total fees	£174,261	£185,286

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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Northern, Eastern and Western Devon
Clinical Commissioning Group



Integrated Commissioning Finance and Assurance Review Group (FARG) Annual Report 2015/16

Executive Summary

Under the terms of reference for the Integrated Commissioning Finance and Assurance Review Group (FARG), the Chair will prepare an Annual Report and an Effectiveness Review on the activities of the FARG to be completed in the spring of each year. This report will detail the work undertaken during the financial year, the successes and risks plus look into the coming year to highlight key tasks. This formal report will be presented to FARG for approval and onward distribution to Plymouth City Council's Integrated Health & Wellbeing Board (IHWB) and the Plymouth Integrated Commissioning Board (PICB).

Measuring success purely from a financial perspective, on an Integrated Fund of £482m both the CCG and PCC each recorded a small over spend against their budget share, resulting in the risk share on the Plymouth Integrated Fund of £0.089m. The Section 75 sets out the methodology for the application of the risk share and this resulted in a requirement for a contribution from Health to the Local Authority of the £0.089m based on those outturns.

This is a significant achievement in terms of the joint management of financial positions, and the minimal impact of a joint risk share on an Integrated Fund of this size (£482m). Although there were key overspends within the Integrated Fund including the Care Co-ordination Team, Children and Young People's Care, and the QIPP and Transformation Programme, the Adult Social Care team came in under budget for the first time in six years.

Vision Statement

The vision for the Health and Wellbeing programme is to establish a collaborative, integrated and strategic approach to how CCG and PCC with some partners commission and deliver services, with the aim of improving patient/service user experience and improving outcomes for residents in Plymouth from the resources available.



Northern, Eastern and Western Devon
Clinical Commissioning Group



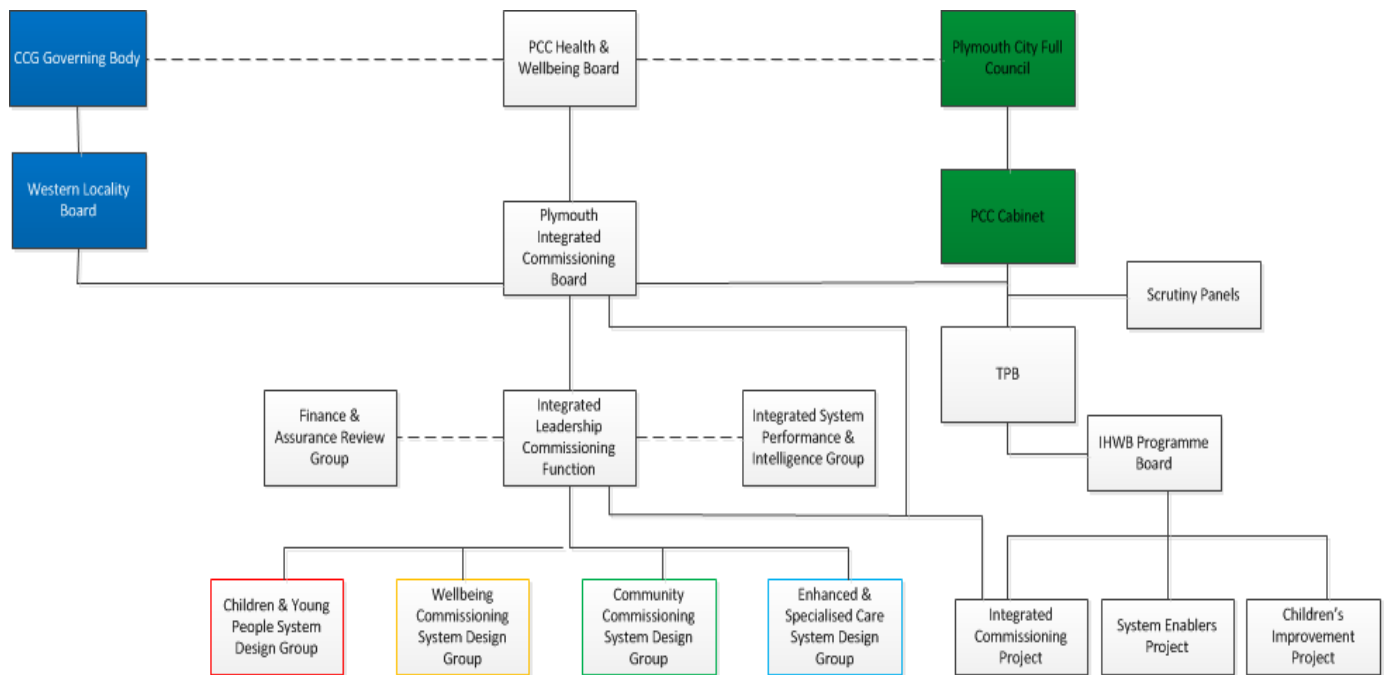
Project governance

The Integrated Commissioning project is part of the wider Integrated Health and Wellbeing programme. The outline business case was signed off in November 2014 by both NEW Devon CCG Western Locality Board and by Plymouth City Council Cabinet.

The IHWB programme has moved from a traditional governance model for a programme environment to a model embedded into business as usual. Due to the joint status of the programme, an integrated governance structure has been implemented complimenting operational needs of Plymouth City Council alongside the Strategic Commissioning needs of NEW Devon Clinical Commissioning Group.

A key component to the governance of the programme has been the implementation of a formal Finance and Assurance Review Group (FARG) which meets on a monthly basis working to the Terms of Reference, as approved by the Integrated Commissioning Board.

The relationship to the overall programme governance is represented below.



FARG terms of reference

Purpose

- Providing oversight, scrutiny and assurance of the Integrated Fund on behalf of the Plymouth Integrated Commissioning Board (PICB).
- Responsible for contributing to the overall process of financial planning, control and review. This is to be achieved through judgement, scrutiny, and independent and objective review.
- Monitoring compliance with each organisation's published standards and controls.
- Advising in the review of the section 75 agreement and financial framework.
- Reviewing financial risks by exception.

Membership

- Pooled Fund Manager
- Chief Financial Officer (Western Locality), CCG
- Head of Integrated Finance, PCC
- Lead Accountant ASC, PCC
- Contracting Accountant, CCG
- Internal Audit Representatives from Audit South West and Devon Audit Partnership (non-voting)
- Integrated Commissioning Project Manager
- Commissioning Representative, CCG
- Commissioning Representative, PCC
- Public Health Representative

In the financial year 2015/16 FARG has continued to meet on a monthly basis as scheduled. At the start of the year the defined membership included the required attendance of the Chief Finance Officer, CCG and the Assistant Director for Finance (Section 151 Officer), PCC. The Terms of reference allowed for the delegation of their duties to Chief Financial Officer (Western Locality), CCG and the Deputy Section 151 Officer.

Due to other work commitments, each meeting recorded the absence of the CFO, CCG and AD Finance, PCC. During the year the TOR were therefore amended to reflect the actual attendance.

Key progress to date

As anticipated, it has been a busy year. Any thoughts that crossing the line for the 31 March deadline to go live from 1 April was an end to the workload were soon dissipated. It was a very intense period, particularly in the three months leading up to the adoption of the Section 75 and the Financial Framework that sits behind it. However, getting the finances right was always going to be a key strand to the success of the integrated project.

During the year FARG has:

- Held monthly meetings as scheduled:
- Undertaken due diligence on each organisation's 2015/16 budget for the Fund:
- Begun operating as an integrated finance function, with teams co-located on floor 2 Windsor House:
- Allocated the Integrated Fund to the four Integrated Commissioning Strategies and whole system action plans:
- Produced a monthly finance monitoring report which captures the financial position of the Plymouth Integrated Fund. This report is used to report to the CCG Governing Body and also PCC's Directors (Corporate Management Team – CMT) and Cabinet:
- As part of the financial planning process, FARG has received, reviewed and recommended to the PICB, for formal adoption, the proposed list and arrangements of actions to meet the cost savings targets, both QIPP and Delivery Plans for the year.
- Regularly reviewed progress and performance of each of the approved schemes and, where necessary, seek reports and presentations by lead directors/project managers on progress against planned savings.
- Met on a weekly basis as the FARG Joint Working Technical Group (JTWG): this is a less formal meeting (no minutes) with action points circulated. It is an opportunity to invite other officers for discussion on issues pertinent to the finances and assurance of the Integrated Fund.
- Improved the financial controls around the Better Care Fund:
- Developed a Work Plan:
- Developed a Forward Plan:
- Improved the data capture for the monthly joint reporting, including increasing the input and awareness of more members of the finance team
- Improved the resilience of both FARG and JTWG by including the Lead Accountant ASC, PCC and the Contract Accountant, CCG as standing attendees:
- Worked with both CCG and PCC risk and assurance officers to develop an Integrated Risk Management Framework:
- Worked with both CCG Audit Committee and PCC Audit Committee to ensure the correct level of assurance is provided:
- Held two joint Audit Committee meetings, one hosted by PCC, one by CCG with attendance from respective Chair and CFO/Head of Finance at each.

Next Steps/Priorities

- In response to the Success Regime and the necessity of moving towards the next stage of developing an Integrated System of Health and Wellbeing there is a requirement to go further and faster on Integration
- A refocusing of the Integrated Commissioning Project on system wide transformational priorities such as Urgent Care and Planned Care will require
- Build on the input to the Digital Road 2020 and ensure FARG has full visibility of all IT requirements/requests
- Develop Key Performance Indicators (KPIs). We need to be regularly reviewing performance against KPIs such as;

- ✓ finance ratios,
- ✓ payments performance,
- ✓ debtor control,
- ✓ NHS England assurance framework requirements,
- ✓ regulatory compliance and payroll performance,

Where necessary, seek explanation and corrective action to meet the agreed level of performance.

- Improve our overall assurance review.
- Work with colleagues in PCC's capital programme teams, both finance and strategic planning, to ensure FARG has full visibility of all capital expenditure requests which will have a financial impact on the Fund. This includes the requirement for early engagement to help shape and develop the plans and fully model the costs and anticipated savings.
- Build on the current BCF arrangements to ensure consistency of approach when the new Improved Better Care Fund is introduced.
- Work with PICB and Internal Audit to ensure we have fully scoped the requirements of the Pooled Fund Manager.
- Ensure a timely review of the Section 75 Agreement and the Financial Framework to ensure any required changes are able to be fully scrutinised and approved for 2017/18.
- Policies: Review the financial impact of each organisation's accounting policies; review and provide recommendation for adopting other financial policies as required in line with each organisation's Scheme of Reservation and Delegation.
- "Making it Real" – designing pools within the overall Integrated Fund; for 2016/17 we are working on S117 which cover aftercare under section 117 of the Mental Health Act; also our combined spend on SEND (Special Educational Needs and Disability) to maximise resources and identify and monitor true financial efficiencies and savings.

Risks

Overall project risks have been captured and monitored through a risk log and monthly reported through the programme highlight reports to IHWB. The full risk log is maintained on the Plymouth City Council project server,

Below is an overview of the key financial risks:

Key Risks:

- Savings delivered from the integration are insufficient to meet the funding gap
- Resources required to deliver integration are not available/ funding does not exist to commission external resources
- Statutory, regulatory or political differences between Health and Social Care or partners may lead to tensions
- External factors such as the Success Regime and STP may require a change of commissioning priorities
- Change in key finance personnel
- Financial pressures within the partner organisations and between the partners and the Integrated Fund lead to threats to the on-going resilience of the Integrated Fund

Attachments:

1. FARG Forward Plan 2016/17



IC FARG Forward
Plan.xlsx

2. Month 12 (March 2016) Joint Finance Report



Finance Report
Western M12 Final.doc

3. Integrated Risk Management Framework



CCG-PCC RM Policy
Framework Draft CLE

David Northey
Head of Integrated Finance

Ben Chilcott
Chief Finance Officer, Western PDU

Audit Committee Work Plan 2016/17

Item	Lead Officer	2016							2017					
		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)	Rob Hutchings/ Dominic Measures	30						8						
Statement of Accounts 2015/16	Carolyn Haynes	30			15									
Operational Risk and Opportunity Register- Update Report	Mike Hocking	30						8						
Risk and Opportunity Management Annual Report 2015/16	Mike Hocking	30												
Annual Governance Statement 2015/16	Mike Hocking	30												
Annual Report on Treasury Management Activities for 2015/16	David Northey	30						8	❖					

Audit Committee Work Plan 2016/17

		2016							2017					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Strategic Risk and Opportunity Register Monitoring Report	Mike Hocking				15						16			
Internal Audit Plan 2016/17	Robert Hutchins / Dominic Measures										16			
Internal Audit – Progress Report	Robert Hutchins / Dominic Measures				15									
Internal Audit – Follow Up Work	Robert Hutchins / Dominic Measures				15									
External Audit Plan Progress Report 2015/2016	External Auditor BDO	30			15									
Audit Committee Update	External Auditor BDO							8			16			

Audit Committee Work Plan 2016/17

		2016							2017					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Annual Report to Those Charged with Governance (ISA260 Report) 2015/2016 including Value for Money (VFM)	External Auditor BDO				15									
Annual Audit Letter 2015/2016	External Auditor BDO							8						
Certification Plan	External Auditor BDO							8						
Certification Work Report 2015/2016	External Auditor BDO							8						
Audit Plan 2016/17	External Auditor BDO										16			
Audit Fee Letter 2016/2017	External Auditor BDO													
Review of Rolling Work Plan	Lead Officer/DSO	30			15			8			16			

Audit Committee Work Plan 2016/17

Audit Committee Work Plan 2016/17														
Item	Lead Officer	2016							2017					
		J	J	A	S	O	N	D	J	F	M	A	M	J
NEW Devon CCG Audit Committee	David Northey							8			16			
Treasury Management Practices, Principles and Schedules 2016/17	Chris Flower										16			
Treasury Management Strategy	Chris Flower							8						
Internal Audit Charter and Strategy 2016/17	Robert Hutchins / Dominic Measures										16			
Information Governance Annual Report	John Finch	30												
Surveillance, Covert Activities and the Regulation of Investigatory Powers Act 2000 (RIPA)	John Finch	30												
Treasury Management – Impact of Leaving the EU	Chris Flower				15			8*			16			
Staff Sickness Report	Dawn Aunger							8						

Audit Committee Work Plan 2016/17

		2016							2017					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Update on Lender Option, Borrower Option (LOBO) (TBC)	Chris Flower													
Protecting the Public Purse – Counter Fraud Annual Report	Mike Hocking / Ken Johnson										16			
Director of Children’s Services Local Assurant Test Review	Carole Burgoyne							8						

* The Audit Committee agree that approval of the Treasury Management Strategy and Annual Investment Strategy 2016/17 is delegated to the Head of Corporate Strategy in consultation with the Chair and Vice Chair of the Audit Committee to agree a final version.

*The Audit Committee noted that the Treasury Management Strategy and Annual Investment Strategy 2016/17 will be submitted to Cabinet and Full Council for authorisation in February 2016.

*Brexit to be included in the mid-year Treasury Management report.

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