

**Democratic Support**

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AUDIT COMMITTEE

Thursday 7 December 2017
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 R Clark
Mr I 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 14 September 2017

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. Operational Risk and Opportunity Management - Update Report (Pages 7 - 12)

The Committee will receive the Operational Risk and Opportunity Management – Update Report.

6. Mid-Year Treasury Management Report 2017/18 (Pages 13 - 26)

The Committee will receive the Mid-Year Treasury Management Report 2017/18.

7. Treasury Management Strategy 2018/19 (Pages 27 - 60)

The Committee will receive the Treasury Management Strategy 2018/19.

8. Internal Audit Half Year Report 2017/18 (Pages 61 - 86)

The Committee will receive the Internal Audit Half Year Report 2017/18.

9. External Audit Progress Report (Verbal)

Mathew Hepenstal will provide the committee with a verbal update.

10. Annual Audit Letter (Pages 87 - 96)

The Committee will receive the Annual Audit Letter.

11. Integrated Commissioning - Finance Assurance Review Group - Annual Report 2016/17 including ASW Audit Programme for CCG (Pages 97 - 126)

The Committee will receive the Integrated Commissioning – Finance Assurance

12. Analysis of Local Government Ombudsman Annual Report (Pages 127 - 150)

The Committee will receive the Analysis of Local Government Ombudsman Annual Report.

13. Review of Rolling Workplan (Pages 151 - 156)

The Committee will receive the workplan.

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Audit Committee

Thursday 14 September 2017

PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.

Councillor Dr Mahony, Vice Chair.

Councillors Ken Foster (substitute for Councillor Sam Leaves) and Mrs Pengelly.

Co-opted Representatives: Mr Clarke and Mr Stewart.

Apologies for absence: Councillors Sam Davey and Sam Leaves.

Also in attendance: Claire Cotter (Interim Head of Health, Safety and Wellbeing and Assurance), Brenda Davis (Audit Manager), John Finch (Information Governance Manager), Andrew Hardingham (Interim Joint Strategic Director for Transformation and Change), Carolyn Haynes (Financial Controller), Matthew Hepenstal (BDO), Mike Hocking (Head of Assurance Services), Julie Hosking (Corporate Risk Advisor), Paul Looby (Head of Financial Planning and Reporting), David Northey (Head of Integrated Finance) and Helen Rickman (Democratic Support Advisor).

The meeting started at 2.00 pm and finished at 3.00 pm.

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

16. **Declarations of Interest**

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

17. **Minutes**

Agreed that the minutes of the meeting held on 29 June 2017 are confirmed as a correct record.

18. **Chair's Urgent Business**

There were no items of Chair's urgent business.

19. **Appointment of the Independent Member**

Andrew Hardingham (Interim Joint Strategic Director for Transformation and Change) advised Members that Mr Ian Stewart's term as an Independent Member on the Audit Committee was due for renewal.

Agreed that Mr Ian Stewart is appointed as an Independent Member of the Audit Committee for a four year term, to be reviewed annually.

20. **Appointment of External Auditor 2018/19**

Paul Looby (Head of Financial Planning and Reporting) presented the Appointment of External Auditor 2018/19 report.

Members were advised that in 2016 Public Sector Audit Appointments (PSSA) was selected by the Secretary of State for Communities and Local Government to take on the role of Appointing Person for external auditors for local government. Plymouth City Council was therefore not required to undertake its own procurement process to appoint an external auditor; on 15 August 2017, PSSA informed the Council that they proposed Grant Thornton UK (LLP) to act as the Council's External Auditor for 2018/19. The Council's Section 151 Officer was satisfied with the appointment and confirmed if the Audit Committee endorsed the appointment, he would then write to the PSSA confirming its acceptance.

Agreed that the Committee approves the appointment of Grant Thornton UK (LLP) as Plymouth City Council's External Auditors from 2018/19.

21. **Statement of Accounts 2016/17**

Carolyn Haynes (Financial Controller) presented the Statement of Accounts 2016/17 report.

Audit Committee Members were advised that this was the second year that the Council had worked with their external auditor, BDO, to produce the Statement of Accounts and that the process had continued to improve. The draft Statement of Accounts was produced three weeks prior to the statutory deadline and the auditors had commented on the significant improvement in the quality of supporting working papers. Officers were confident that the statutory changes to the deadlines for the Statement of Accounts 2017/18 could be met despite timescales being brought forward by several weeks.

Agreed that the Audit Committee –

1. note the amendments made to the Statement of Accounts for 2016/17 as agreed with the Auditor, and outlined within the report;
2. approve the Statement of Accounts for 2016/17 as attached at Appendix A;
3. the Letter of Representation attached at Appendix B is authorised and submitted to the Auditor.

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

Mike Hocking (Head of Assurance Services) presented the Strategic Risk and Opportunity Register – Monitoring Report.

Members were advised that the register was last reported to the Audit Committee in March 2017 and that the report provided a summary of the latest position as at 31 August 2017 specifically including:

- a) Amber Risk 117 – Failing to adhere to the General Data Protection Regulation;
- b) Amber Risk 118 – Potential failure to deliver effective electoral services functions due to inadequate resourcing and processes and lack of appropriately qualified staff. Consequences could include a negative impact upon maximising registration and a risk of disenfranchising voters;
- c) Green Risk 119 – Cladding issues on buildings in Plymouth above 18m that have the potential to contain, or have been identified as containing ACM cladding that has a risk of combustion;

Agreed –

- 1. the Audit Committee note and endorse the current position with regard to the Strategic Risk and Opportunity Register;
- 2. an update on the Electoral Services report is added to the work programme for the December Audit Committee meeting.

23. **Integrated Commissioning Risk Register**

David Northey (Head of Integrated Finance) presented the Integrated Commissioning Risk Register.

Members were advised that the Integrated Risk Management Framework was overseen by the Finance and Assurance Review Group (FARG) to ensure an integrated approach to the management of risk. NEW Devon CCG's Head of Corporate Governance and Plymouth City Council's Corporate Risk Advisor undertook a review of the risks contained within Appendix A of the report. This register would continue to be reviewed by FARG on a quarterly basis.

Agreed that the Audit Committee note and endorse the current position with regard to the Integrated Commissioning Risk Register.

24. **Internal Audit - Progress Report**

Brenda Davis (Audit Manager) presented the Internal Audit Progress Report.

Members were advised that the Annual Internal Audit Report submitted to the June 2017 Audit Committee contained a summary of audits undertaken during 2016/17; where an opinion of 'improvements required' was provided, issues were identified during the audit process that required attention and management to improve. This report contained follow up reviews to provide assurance to Members specifically regarding:

- Independent Placements (Children)
- Retained Client Deprivation of Liberty Safeguards
- Statutory Compliance
- Direct Payments (pre-paid cards)
- Trade Waste

It was reported that overall good progress was made against the agreed recommendations following Devon Audit Partnership's initial work and this was shown in Appendix A of the report.

Agreed that the Internal Audit Progress Report is noted.

25. **Internal Audit Follow Up Report 2016/17**

Brenda Davis (Audit Manager) presented the Internal Audit Follow Up report 2016/17.

Members were advised that the report provided a summary in the year up to August 2017 against the internal audit plan for the 2017/18 financial year, highlighting key areas of work undertaken and summarising the main findings and audit opinions. Based on work performed to date during 2017/18, Internal Audit provided reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

Agreed that the report is noted.

26. **Annual Report to Those Charged with Governance (ISA260 Report) 2016/2017 including Value for Money**

Matthew Hepenstal (BDO) presented the Annual Report to Those Charged with Governance (ISA260 report) including Value for Money.

Members were advised that representatives from BDO had worked with Plymouth City Council's finance team to prepare for the faster close requirements that would be in place for the 2017/18 audit. As part of this process an agreement was made to bring forward the audit work deadlines; the first draft of the audit accounts was received in early June. Mr Hepenstal commented that the standard of the working papers were high which aided in the completion of the audit process.

Agreed that the report is noted.

27. **Health, Safety and Wellbeing (HSW) Annual Report 2016/17**

Claire Cotter (Interim Head of Health, Safety and Wellbeing and Assurance) presented the Health Safety and Wellbeing Annual Report 2016/17.

Members were advised that the report detailed the Council's occupational health and safety performance to the end of the financial year 2016/17, as well as the improvement plans for 2017/18.

Agreed that the Audit Committee note and endorse the HSW Annual Report 2016/17 for external publication.

28. **Review of Work Plan 2017 - 18**

Members noted the work programme for 2017/18 and agreed the inclusion of the Elections Report Update at the December 2017 Audit Committee meeting.

29. **Exempt Business**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public are excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

30. **Information Governance - Annual Report (E3)**

John Finch (Information Governance Manager) presented the Information Governance – Annual Report.

Agreed that the report is noted.

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PLYMOUTH CITY COUNCIL

Subject: Operational Risk & Opportunity Management Update Report

Committee: Audit Committee

Date: 7 December 2017

Cabinet Member: Councillor Darcy

CMT Member: Andrew Hardingham, Interim Joint 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 remains at 112, comprising of 71 medium (amber) risks and 41 low (green) risks. There are no high (red) operational risks to report.

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	pl1718.1 39	Leg	29453 DVS	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Interim Joint Strategic Director for Transformation & Change													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1.0 Introduction

- 1.1 The position with regard to Operational Risk Register monitoring was last reported to this Committee on [29 June 2017](#) and this report now provides a summary of the latest monitoring exercise covering the position as at November 2017.

2.0 Background

- 2.1 Plymouth City Council's Risk and Opportunity Management Strategy is 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.

3.0 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.

4.0 Red Risk

- 4.1 The red risk reported in June has now reduced in score, details are shown below:-

AMBER RISK (formerly red) Dept: Finance (Procurement)	Procurement resource capacity (supply) falls short of organisational demand and reduces the ability to drive value for money from new and existing contracts; stifles delivery of category management impacting delivery of Transformation Projects, Capital Programme and proactive retendering of Revenue contracts
Comments/Mitigation: Procurement Consultant recruited to and has begun working with the procurement team along with another vacancy filled and successful candidate due to start in the coming weeks.	

5.0 Integrated Assurance

- 5.1** I reported to this committee in [September](#) that joint working is underway with Siân Millard, Oversight and Governance Manager and Performance Advisors in the Chief Executive Office to enhance performance reporting with the inclusion of risk so that links between indicators and activities relating to the corporate risk registers are more explicitly identified.
- 5.2** To help achieve greater alignment of risk and performance reporting for senior managers, strategic risk information is now included in the quarterly Corporate Plan Performance Analysis Report which is presented to Corporate Management Team.
- 5.3** A joint mini-audit review of risk registers and balanced scorecards has also been undertaken to identify gaps (e.g. risk present but no key performance indicator and vice-versa).
- 5.4** This joint working will continue to be developed so that alignment of risk and performance reporting will continue to add value to understanding how the organisation is doing and help identify any potential weaknesses in assurance.

6.0 Risk and Opportunity Register Information

- 6.1** Operational Risk and Opportunity Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case.
- 6.2** 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.
- 6.3** 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.

7.0 Conclusion

- 7.1** 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.
- 7.2** 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.
- 7.3** 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.
- 7.4** 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.

- 7.5** 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.
- 7.6** The Operational Risk Management Group is continuing to work with departmental Risk Champions to maintain the good progress to date and to further develop consistent application of risk management considerations across all operations of the Council.
- 7.7** The next operational risk report will be presented to Audit Committee in June 2018.

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PLYMOUTH CITY COUNCIL

Subject:	Mid-Year Treasury Management Report 2017/18
Committee:	Audit Committee
Date:	7 December 2017
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Interim Joint Strategic Director Transformation and Change)
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 2017/18 was approved by full Council at its budget meeting on 17 February 2017. This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2017. 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 2017/18 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 2017/18 to Council 17 February 2017.

Background papers:

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

Sign off:

Fin	pl1718 .128	Leg	lt/2949 7/2811 17	Mon Off	lt/DV S/294 97	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 This report is to provide the Audit Committee and the Council with a mid-year review of the Council's treasury management activities for the first 6 months to 30 September 2017.
- 1.2 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).
- 1.3 The Council's Treasury Management Strategy for 2017/18 was approved by full Council on 17 February 2017 which is published on the Council's web site.
- 1.4 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2. External Context as at 23 October 2017

- 2.1 **Economic backdrop:** Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.
- 2.2 The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of 2017.
- 2.3 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their vote in November to raise the official interest rates to 0.5%. The Monetary Policy

Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- 2.4 In contrast, near-term global growth prospects improved. The US Federal Reserve (The fed) increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.
- 2.5 Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.
- 2.6 Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.
- 2.7 In the face of a struggling economy and Brexit-related uncertainty, The Council's TM advisors, Arlingclose, expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

3. **Market reaction:**

- 3.1 **Financial markets:** Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an

impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

- 3.2 The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.
- 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. Regulatory Updates

- 4.1 **MiFID II (European regulations):** Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. From 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria.

Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year’s relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

- 4.2 The main additional protection for retail clients is a duty on the firm to ensure that the investment is “suitable” for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council meets the conditions to opt up to professional status and intends to do so in December 2017 in order to maintain their current MiFID status.

4.3 CIPFA Consultation on Prudential and Treasury Management Codes:

In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

4.4 The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

4.5 Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

4.6 CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year.

4.7 The Department of Communities and Local Government (DCLG) consultation: the DCLG wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England.

The changes could have revenue implications for the Council because they have suggested that MRP calculations could be restricted to 40 years for properties. This could increase the cost of MRP by about £200k per year.

5. Local Context

- 5.1 At 31st March 2017 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £354m, while usable reserves and working capital was £55m. The Council had £290m of borrowing and £68m of investments.
- 5.2 The Council has an increasing CFR over the next 5 years due to the capital programme, but will maintain their investments and will therefore require borrowing of up to £624m over the forecast period.

6. Borrowing Strategy

- 6.1 At 30/9/2017 the Council held £311m of loans, (an increase of £23m from 31/3/2017), as part of its strategy in funding the capital programme.

The Council'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 Council's long-term plans change being a secondary objective.

In furtherance of these objectives, new short term borrowing was taken on to invest in the capital programme. The new borrowing has been taken at historically low interest rates so that the cost to the council tax payer is kept to a minimum.

- 6.2 Affordability and the "cost of carry" remained important influences on the Council'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 Council determined it was more cost effective in the short-term to use internal resources and borrow short-term loans.
- 6.3 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 Council with this 'cost of carry' and breakeven analysis.
- 6.4 Temporary and short term loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. The Council has £167m of such loans that were borrowed at an average life of 3 months. Arlingclose supports the Council's borrowing strategy to maintain the short term borrowing.

7. Borrowing activity in during the half year

- 7.1 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 7.2 At 30/9/2017 the Council held £311m of loans, (an increase of £23m on 31/3/2017), as part of its strategy for funding the capital programme. The 30th September 2017 borrowing position is show in the table below.

	Balance at 01/04/2017 £m	Movement £m	Balance at 30/09/2017 £m
Short Term Borrowing	144	23	167
Long Term Borrowing			
LOBO	82	-	82
Public Works Loans Board	44	-	44
Other long term loans	18	-	18
Total Borrowing	288	23	311
Long Term Investments	33	5	38
Short Term Investments	17	(1)	16
Cash and Cash Equivalents	18	(3)	15
Total Investments	68	1	69
Net Borrowing	220	22	242

7.3 PWLB Certainty Rate

The Council qualifies for borrowing from the PWLB at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2017. In April the Council submitted its application to the CLG along with the 2017/18 Capital Estimates Return to qualify for this reduced rate for a further 12 month.

7.4 Debt Rescheduling:

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

7.5 LOBO

The Council continues to hold £82m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the

interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2017/18.

It is the Council's strategy to try and renegotiate the LOBO loans with the banks and to refinance the debt without additional cost to the Council. The aim is to remove the options and remove the uncertainty of possible future interest rate rises.

7.6 Other Debt Activity

Although not classed as borrowing, the Council also raise capital finance via Private Finance Initiative / finance leases / etc. As at 30th September 2017, the total debt was £122m including PFI £111m Finance leases £2m. The Council has raised no additional PFI borrowing during the period to 30th September 2017.

8. Investment Activity

8.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

8.2 The investment position during the half year is shown in the table below.

Investment Activity

Investments	Balance on 01/04/2017 £m	Movement £m	Balance on 30/09/2017 £m
Short Term Investments			
Other Investments	17	(1)	16
Money Market Funds	18	(3)	15
Long Term Investments			
Pooled Funds	22	5	27
Other Funds	11	0	11
TOTAL INVESTMENTS	68	1	69
Increase/ (Decrease) in Investments £m			1

8.3 Both the CIPFA Code and government guidance require the Council 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 Council'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 of receiving unsuitably low investment income.

8.4 In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council has further diversified into more secure and higher yielding asset classes. £5m has been invested in the

new CCLA pooled fund called the Diversified Income Fund which should give a return of about 3.5%.

- 8.5 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council'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.

9 Other Investment Activity

- 9.1 Although not currently classed as treasury management activities and therefore not covered by the CIPFA Code, the Council also holds £61.328m of investments in directly owned property as at 30th September 2017. This represents an increase in the first six months of the year of £30.097m.
- 9.2 These non-treasury investments generated £1.591m of investment income for the Council in the first six months after taking account of direct costs and MRP, representing a rate of return of 2.6%. This is higher than the return earned on treasury investments, but reflects the additional risks to the Council of holding such investments.
- 9.3 If CIPFA's proposed amendments to the Treasury Management Code are adopted in the revised Code from 2018/19, these will henceforth be included in the expanded definition of "investments".

10 Budgeted Income and Outturn

- 10.1 The average cash balances held during the period were £18.527m. The UK Bank Rate was 0.5% from March 2009 to August 2016, when it was cut to 0.25%. On 2nd November 2017 the Bank of England raised the Bank Rate to 0.5%. Short-term money markets and the Debt Management Account Deposit Facility (DMADF) still very low rates of return.

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

11 Update on Investments with Icelandic Banks

- 11.1 In March 2017 the Icelandic Government lifted restriction on the movement of cash out of Iceland. In June 2017 the Council received the balance of its investments (£1.3m) in the Iceland banks plus interest earned since the banking crisis in Iceland in 2008.

The original amount invested in 2008 was £13.000m and the Council has received £13,392m made up of the original principal outstanding interest.

12 Compliance with Prudential Indicators

12.1 Prudential Indicators 2017/18

The Local Government Act 2003 requires the Council 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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

	30.9.17 Actual	2017/18 Limit	Complied
Any group of funds under the same management	20m	25m	✓
Investments held in a broker's nominee account	0	40m	✓
Foreign countries	0	12m	✓
Registered Providers	0	12m	✓
Unsecured investments with Building Societies	0	10m	✓
Loans to unrated corporates	0	5m	✓
Money Market Funds (maximum held)	15m	55m	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

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

Operational Boundary	30/09/17 Actual £m	2017/18 Target £m	Complied
Borrowing	311	400	✓
Other long-term liabilities	125	140	✓
Total Debt	436	540	✓

The Council confirms that during 2017/18, 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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	30/09/17 Actual £m	2017/18 Target £m	Complied
Borrowing	311	450	✓
Other long-term liabilities	125	160	✓
Total Debt	436	610	✓

Total debt at 30/9/2017 was £436m. The Council confirms that during 2017/18 the Authorised Limit was not breached at any time.

13 Treasury Management Indicators

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

13.1 Security:

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

	30.09.17 Actual	2017/18 Target	Complied
Portfolio average credit rating	A	A	✓

13.2 Liquidity

The Council 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.

In 2018/19 the Council will remove this liquidity measure from its Treasury Management Strategy because it has the ability to raise cash on a same day basis from other authorities thereby mitigating this risk.

13.3 Interest Rate Exposures:

This indicator is set to control the Council'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:

	30.09.17 Actual	2017/18 Target	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓

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

	30.09.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	54%	60%	0%	✓
12 months and within 24 months	20%	25%	0%	✓
24 months and within 5 years	19%	25%	0%	✓
5 years and within 10 years	15%	25%	0%	✓
10 years and above	11%	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.

13.5 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council'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:

	30.09.17 Actual	Target	Complied
Limit on principal invested beyond year end	£0m	£20m	✓

The Council does, however, have £20m invested in the CCLA Pooled Property Fund which although the Council is holding the investment for the long term it is classified as a short term investment because it can be call upon at any point. This is currently providing a return in excess of 3.5%.

14 Investment Training

- 14.1 During the period to 30th September 2017 officers have attended the following Treasury Management training:

Arlingclose Workshops - Principles of Treasury Management
 Arlingclose Meeting - Treasury Management Decision Making
 CIPFA – Public sector Treasury Management

15 Outlook for the remainder of 2017/18

- 15.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.
- 15.2 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 15.3 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Official Bank Rate										
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside Risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25

PLYMOUTH CITY COUNCIL

Subject:	Treasury Management Strategy 2018/19
Committee:	Audit Committee
Date:	7 December 2017
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 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 2018/19 (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	PII 71 8.128	Leg It/29 497/ 2811 17		Mon Off It/DVS /2949 7		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

2018/19

Page 31



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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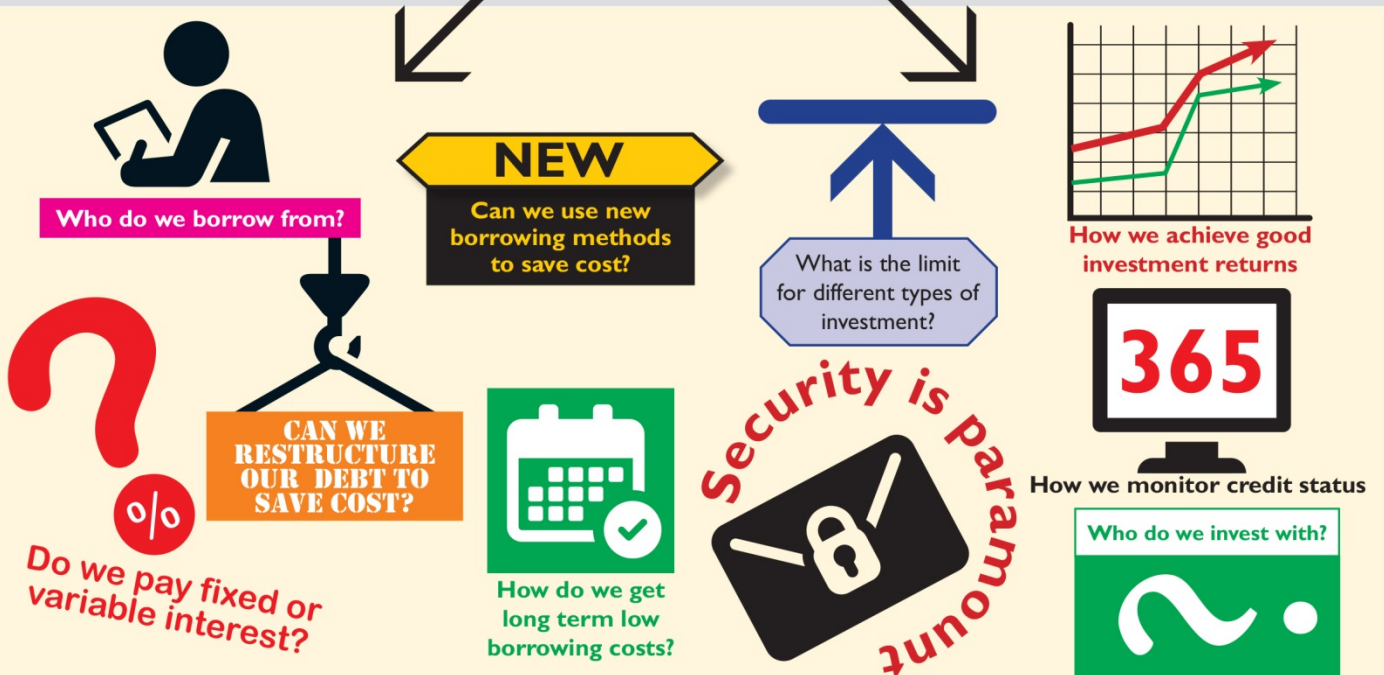
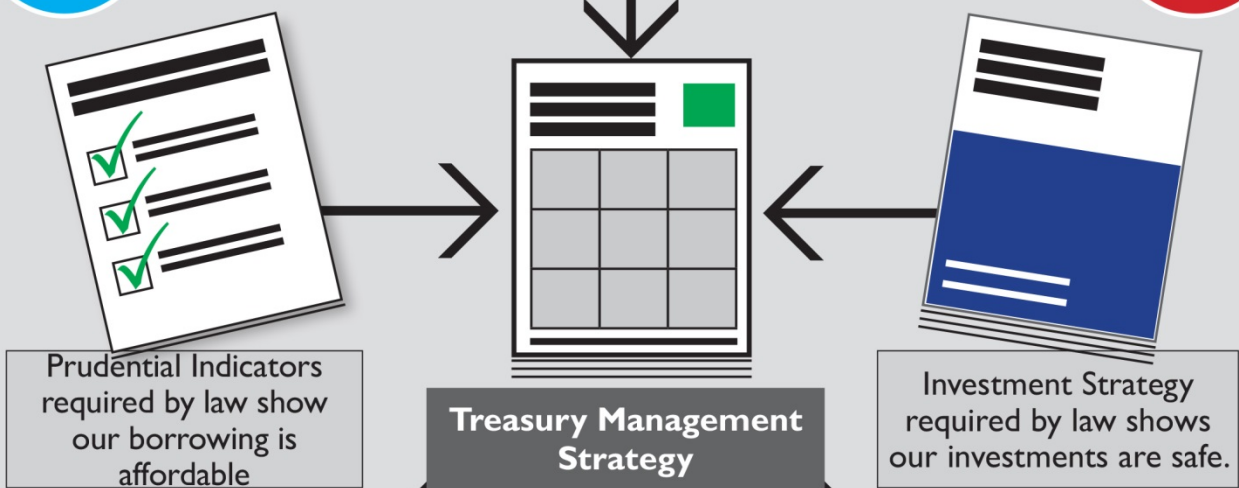
How the Treasury Management System works



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.

CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code so the Council has adopted some of the proposed changes in advance of publication.

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

- Bank of England reports
- 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 19)

Non-specified investments

- £40m max long-term
- £20m max below A-

Investment Limits – subject to credit ratings table on page 20

- **No limit** UK Government
- **£20m** any single organisation
- **£40m** any group of organisations
- **£25m** per pooled fund
- **£40m** negotiable instruments per broker
- **£10m** per foreign country
- **£25m** per registered provider
- **£10m** unsecured with Building Societies
- **£25m** unrated corporates
- **£55m** money market funds

Key Council Budget Assumption for 2018/19

- Investments make an average rate of return of 1.49%

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

- Bank of England reports
- Market Outlook by the Council's advisers Arlingclose

Statutory and Performance Framework

Rules that guide us

Borrowing

- **£215m** Total Capital Expenditure
- **£583m** Capital Finance Requirement (need to borrow)
- **£642m** Total Debt (loans and private finance initiatives)
- **£680m** Operational Boundary (practical ceiling on borrowing)
- **£835m** The Authorised limit (absolute maximum debt approved)

Prudential Indicators

- **4.88%** Ratio of finance costs to net revenue stream (borrowing costs as a proportion of total budget)
- **£6.28** Hypothetical increase in Council Tax affordability. This is a CIPFA prescribed technical measure; the Council has made no future years tax decisions

Treasury Management Indicators

- **100%** Limit on Fixed Interest Exposure
- **30%** Limit on Variable Interest Rate
- **0% to 95%** Maturity Structure of Borrowing, exposure in any duration
- **2.37%** average interest rate on loans

Minimum Revenue Provision Policy

- Annuity Method
- 50 year repayment for capitalisation directions
- PFI/Leases determined by the specific agreement
- No MRP on capital loans or investments
- Option for capital receipts to be used towards MRP

Key Council Budget Assumption for 2018/19

- Long-term loans will cost an average rate of 2.37%

Approach

Choices made within the framework

Objective - Balance low interest rates with long term certainty

Strategy – to borrow short term now and lock in long term when appropriate

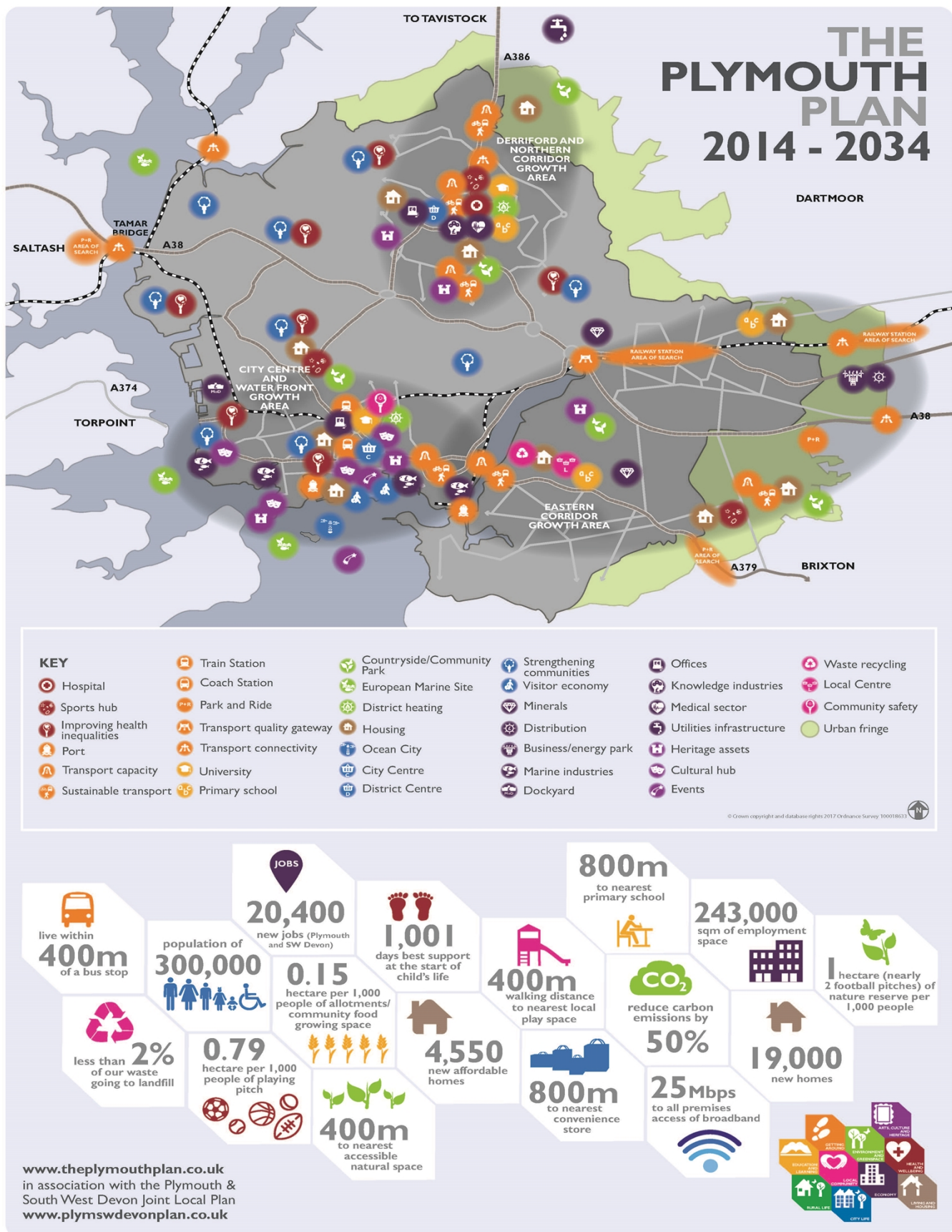
Sources Approved by Arlingclose - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back

LOBOs will be repaid at no additional cost if agreement reached with banks

Municipal Bonds Agency Council will use where appropriate

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



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

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 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remains relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

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

Credit Outlook

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic 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. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

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 remain very low.

Interest Rate Forecast

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

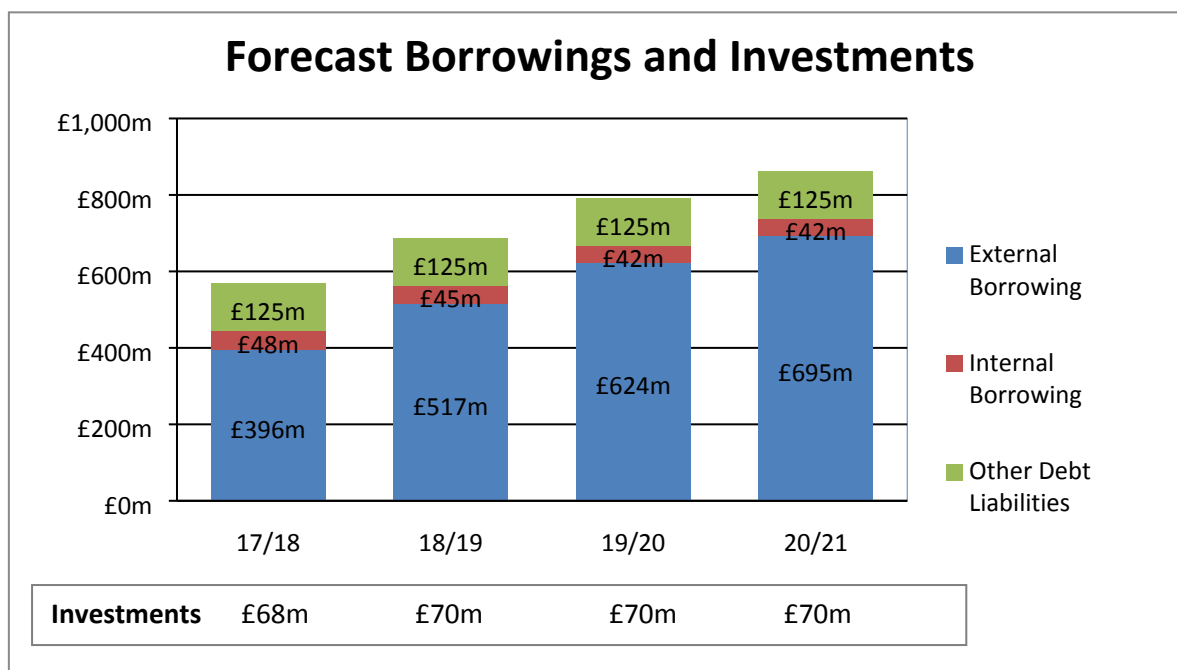
Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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 Council expects to comply with this recommendation during 2018/19.

The Council held £311 million of loans in September 2017. This was an increase of £23 million on the previous year. The increase in loans is because of funding previous years' capital programmes. The Council expects to hold borrowing up to £517m in 2018/19.

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 £575 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 2018/19

The Local Government Act 2003 requires the Council 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 Council 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 Council'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	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	199.987	215.224	153.414	76.642
Total Expenditure	199.987	215.224	153.414	76.642
Capital Receipts	9.504	3.172	4.275	0.300
Grants and Contributions	81.294	88.984	41.080	27.321
Reserves	-	-	-	-
Revenue	1.165	1.768	0.100	0.100
Borrowing	108.024	121.300	107.959	48.921
Leasing and PFI	-	-	-	-
Total Financing	199.987	215.224	153.414	76.642

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council'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 18 Revised £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m	31 Mar 21 Estimate £m
General Fund	461.938	583.238	691.197	740.118
Total CFR	461.938	583.238	691.197	740.118

The CFR is forecast to rise by £278m 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 Council 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 18 Estimate £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m
Borrowing	396.000	517.000	624.000
PFI liabilities & Finance Leases	125.000	125.000	125.000
Total Debt	521.000	642.000	749.000

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 Council'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	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	425.000	540.000	625.000
Other long-term liabilities	130.000	140.000	140.000
Total Debt	555.000	680.000	765.000

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 Council 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	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	450.000	675.000	650.000
Other long-term liabilities	160.000	160.000	160.000
Total Debt	610.000	835.000	810.000

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	2017/18 Revised	2018/19 Estimate	2019/20 Estimate
General Fund	4.32%	4.88%	6.03%

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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund - increase in annual band D Council Tax	£4.75	£9.45	£20.02

Adoption of the CIPFA Treasury Management Code

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011* edition in April 2002. It fully complies with the Codes recommendations.

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

This is how we measure our performance.

Security

The Council 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 how we ensure that we have cash available to meet unexpected payments.

Liquidity:

The Council does not keep large amounts of cash in call accounts so that it reduces the cost of carrying excess cash. To mitigate the liquidity risk of not having cash available to meet unexpected payments the Council has access to borrow additional, same day, cash from other local authorities.

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 Council'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:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	30%	30%	30%

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 Council'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	90%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	25%	0%
10 years and above	95%	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 365 days

The purpose of this indicator is to control the Council'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:

	2018/19	2019/20	2020/21
Limit on principal invested beyond one year	£20m	£20m	£20m

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 Council'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 longer-term rates. It is likely to be more cost effective to use internal resources, or to borrow short-term. This will reduce net borrowing costs in the short term but long term borrowing rates are forecast to rise modestly. The benefits of deferring long term borrowing will be monitored regularly.

Alternatively, the Council 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 Council may borrow short-term loans to cover unexpected cash flow shortages.

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

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

The Council will only borrow from approved sources.

These are the lenders we are able 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 transferred the Council'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 Council 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 Council has the option to either accept the new rate or to repay the loan at no additional cost.

The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment but there remains an element of refinancing risk.

The Council will take the option to repay any LOBO loan at no cost if it has the opportunity to do so.

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 Council 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 Council 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.

Annual Minimum Revenue Provision Statement 2018/19

Where the Council 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 Council 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 Council 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.

External Loans

For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

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 2018 (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.

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 Council 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
Pooled funds	£25m per fund				

Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£20m
Total investments with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£40m

Investment Limits

The Council's revenue reserves available to cover investment losses are forecast to be £48 million on March 31 2018. No more than 60% of available reserves will be put at risk in the case of a single organisation (other than the UK Government). 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 19) 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	£20m
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	£25m per broker
Foreign countries	£10m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£25m in total
Money Market Funds	£60m in total

Liquidity Management

The Council 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council'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 2018/19

- Investments will make an average rate of 1.49%
- Long-term loans will cost an average rate of 2.37%

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

Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council'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 Council 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 Council'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 Council 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 2018/19, 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 very low returns from short-term unsecured bank investments, the Council continues to hold its investments in more secure, lower yielding asset classes. The Council holds £25m as a longer-term investment (£20m in the CCLA Property Fund and £5m in the CCLA Diversified Fund) and these give 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, pooled funds and money market funds. The Council will continue to look for investment opportunities that give a good return whilst being a secure investment.

Approved Counterparties

The Council 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. See below for arrangements relating to operational bank accounts.

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 issued following finance due diligence, loan agreement and security assessment.

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 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 Council 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 Council's investment objectives will be monitored regularly.

Operational Bank Accounts

The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £100,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council'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 Council 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 Council 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 Council'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 Council 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.

Staff 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 £575 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 October 2017

Underlying assumptions

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

Appendix B - Existing Investment and Debt Portfolio Position

	30 Sept 2017 Actual Portfolio £m	30 Sept 2017 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	44.3	5.76
Local Authorities	167.0	0.35
LOBO Loans	82.0	4.38
Long Term Borrowing	18.0	4.37
Total External Borrowing	311.3	2.42
Other Long Term Liabilities:		
PFI	123.2	n/a
Finance Leases	1.6	n/a
Total Gross External Debt	436.1	
Investments:		
<i>Managed in-house</i>		
Short-term Money Market Funds	14.5	0.21
Other Short Term investments	16.4	0.92
<i>Managed externally</i>		
Pooled Funds	27.0	3.90
Other Funds	11.0	1.35
Total Investments	68.9	1.49
Net Debt	367.2	

Treasury Management Strategy 2018-19

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PLYMOUTH CITY COUNCIL

Subject:	Internal Audit – Half Year Report
Committee:	Audit Committee
Date:	7 December 2017
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Interim Joint Strategic Director 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 work undertaken by Devon Audit Partnership in the first half of 2017/18, reviews the performance and effectiveness of the Internal Audit service, and provides an audit opinion on the adequacy of internal control. Our work has provides objective and relevant assurance and contributes to the effectiveness and efficiency of the governance, risk management and internal control processes.

The 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? Not required.

Recommendations and Reasons for recommended action:

It is recommended that:-

1. The Audit Committee note that based on work performed in the first half of 2017/18, the internal audit opinion is that of “Significant Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.

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 2017/18 – March 2017

Background papers:

None

Sign off:

Fin	PL	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Andrew Hardingham, Interim Joint Strategic Director Transformation & Change													
Has the Cabinet Member(s) agreed the content of the report? Rec'd copy													



devon **audit** partnership

Internal Audit

Half Year Audit Report 2017-18

Plymouth City Council
Audit Committee

December 2017

Page 63

Robert Hutchins
Head of Audit Partnership

CUSTOMER
SERVICE
EXCELLENCE



Auditing for achievement

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 annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

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

The Internal Audit plan for 2017/18 was presented and approved by the Audit Committee in March 2017. The following report and appendices set out the background to audit service provision; a review of work undertaken to date in 2017/18, 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 an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides that opinion.

Expectations of the Audit Committee from this annual report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- 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 (see appendix 1) and satisfy themselves from this assurance that the internal control framework continues to be maintained at an adequate level to mitigate risks and inform the Executive for governance requirements.

Robert Hutchins
Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed to date during 2017/18 and our experience from the current year progress and 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 opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 1.

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. Heads of Service have been provided with details of Internal Audit's opinion on each audit review carried out in 2017/18 to date. If significant weaknesses have been identified in specific areas, 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 2017/18.

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 these are reviewed during subsequent audits or as part of a specific follow-up.

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. debtors, creditors, payroll & Main Accounting) or generally in the reviews undertaken in respect of directorate systems. The Council's overall internal control framework operated effectively during the year. Where internal audit work has highlighted instances of none or part compliance, none are understood to have had a material impact on the Authority's affairs.

Risk Management

Risk management is utilised widely across the Council and monitored by officers & through to members. The creation of the Integrated Assurance Service has resulted in risk management being formally aligned and working alongside other compliance functions and corporate governance processes to promote a joined-up approach to all aspects of governance.

Governance Arrangements

Work continues within Social Care / Health integration with Audit being a member of the Finance & Assurance Review Group (FARG), focussed around governance, finance and risk framework. With the changing shape of the organisation and closer partnership working, the effectiveness of governance arrangements is a key feature of our work.

Performance Management

The strategy is key to the successful delivery of services and is established for 'business as usual' and transformation programmes. Regular reporting to management, leadership team and the Council should ensure effective performance management. This is of particular importance as the Council continues to develop new ways of working.

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.	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.
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.	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.

Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can and we believe 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.

We trust that officers have found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Detailed below is some of the feedback received from those audited during 2017/18.

Transformation and Change

Delt Services say "Working with DAP on internal audits commissioned by our customer, has been a constructive and collaborative process. Our auditor took the time to fully understand our business and the assurance needs of our customer and worked with us in partnership to deliver a result that was beneficial to both organisations."

Feedback from the Service Centre was that "the provisions of suggestions that will help shape the service in the future" is particularly helpful and that the audit process added value by "highlighting areas that may need attention".

We are proud that the Council recognised our contribution to the work of the Integrated Health and Finance Team by inviting us to attend this year's "Our Stars Awards" as part of the Finance PCC/CCG Team who won the Achievement in Health and Social Care Integration category at the 2017 CIPFA Public Finance Innovation awards.

Place

We have been advised that work undertaken with the Events team during 2016/17 has helped raise the profile of the risks associated with the resilience of the service during the build up to major events as the service

strives to address increased demands relating to civil protection and public safety.

Supporting the service in the escalation to Civica of known local issues with the Tranman Fleet Management system has led to the resolution of these longstanding concerns, providing improved financial visibility and control.

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 has continued since the contract went "live" in April. This has involved attendance at Project Board and assistance in the development of a Benefits Realisation plan.

People

We received the following feedback in response to a follow-up review of Domiciliary Care. "Can you thank all the Audit team for their support in helping us turn this around. It is a clear example of Audit's role in service improvement."

Being able to discuss issues with the auditor was particularly helpful as "the whole Child Independent Payment process was new to me and it has allowed me to take the task forward with more confidence. Thank you to the auditors for their outstanding support."

The auditor "was informative and co-operative with office during his visit, an excellent service as always." VAT clarifications especially in respect of Petty Cash were highlighted as being particularly helpful with the process enabling the school to "finely tune processes already in place".

Public Health

In support of the drive towards greater commerciality, work was carried out to provide an independent opinion on how user-friendly the Council website is in relation to the Public Protection Services (PPS). Additionally, the PPS digital profile was reviewed to ascertain how prominent its services were within online searches.

Public Health (cont)

A review was undertaken to support the service in the design of a system to ensure that there are appropriate and proportionate processes and procedures in place to manage pharmacy accreditations via the PharmOutcomes web based system. The recommendations made will serve to improve business continuity and ongoing resilience in the system of internal control. Changes to payment mechanisms will enable reclamation of approximately £2,000 of VAT each year.

Schools

The Partnership has supported the School Health Check process through the provision of internal audit performance data providing a greater focus on schools causing concern in the wider control environment. The result of our input has been the intervention and review of schools by internal audit follow-up audits, governor support and school improvement to raise standards. The culmination of this work has lifted the performance of these schools with the exception of our DBS dip test on the single central record which, for the sample, showed insufficient checks and evidence maintained.

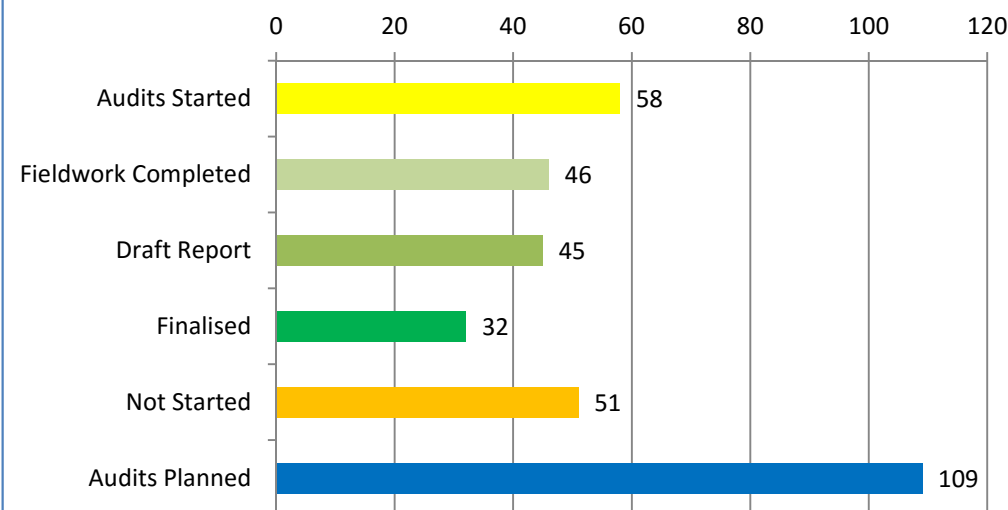
Progress Against Plan

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 to date. It gives:

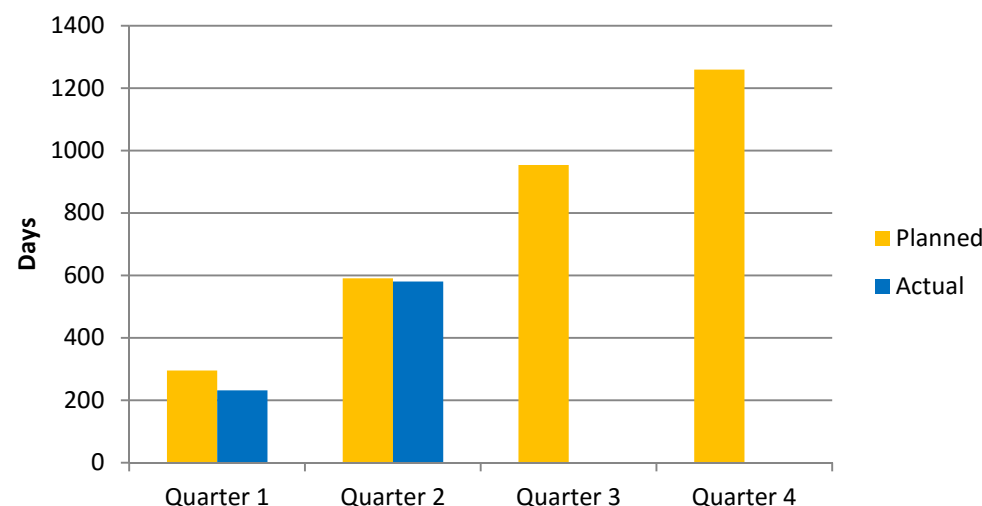
- a comparison of internal audit activity during the year to date with that planned, placed in the context of internal audit need;
- a summary of fraud and irregularity investigations carried out during the year to date and anti-fraud arrangements; and
- an indicative statement based on the effectiveness 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 level of irregularity work has been low which has not impacted on completion of the plan. 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 2017/18.

Audit Progress Against Plan 2017-18



Audit Plan Days



Summary Audit Results

In our opinion, and based upon our audit work completed during 2017/18 and direct advice provided as 'Trusted Advisor' 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.

Transformation and Change

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.

As financing of local government reduces year on year the Council continues to explore solutions which will improve service delivery and drive efficiency and innovation. In support of these objectives and in addition to providing assurance on the adequacy of internal controls, the audit team consider in the course of each review if there are opportunities for service delivery and processes to be streamlined and delivered more effectively.

The audit review of Legal Care Proceedings is currently at draft stage and is a joint piece of work in reviewing legal care proceedings practice at Plymouth City Council, Devon County Council and Torbay Council. A final report will be issued following completion of work at all three authorities highlighting examples of good practice.

Work undertaken to review the process for establishment controls and restructures within the iTrent HR/Payroll system found the overall control framework, processes and procedures to be effective. Opportunities to reduce manual processes around updating the system following restructures could be achieved by making better use of bulk uploads and a further look at inheritance functionality.

Place

A follow-up of the 2016/17 audit of Trade Waste has provided assurance that significant weaknesses previously identified with the service's invoicing arrangements have greatly improved and are now operating effectively. Risks identified in respect of the Council's commercial relationship with a

third party contractor have also been addressed and the relationship has now been terminated.

Longstanding and ongoing issues with the Tranman fleet management system, particularly the interface with Civica Financials and discrepancies with charge-runs were impeding the efficiency and financial control that the system was intended to deliver. DAP have worked alongside officers to document known issues and escalate with Civica. The review also identified areas where the system could be used more fully to provide greater efficiency and robustness to current procedures and processes.

People

Last year we rated the systems for the financial administration within Child Independent Placements as improvements required. We are pleased to report that following the appointment of a new Admin Support Manager, good progress has been made in implementing the action plan and we have upgraded the assurance opinion to "Good Standard".

The Care Act 2014 requires all Councils in England, from April 2015, to provide a deferred payment scheme for local residents who go to live in a Residential/Nursing home, own a property and have other assets below a certain threshold. Prior to April '15 the Council offered a deferred payment scheme under Section 55 of the Health and Social Care Act 2001. There is a framework for the post April '15 scheme which clearly identifies the roles and responsibilities of the departments involved but incorporating the debt recovery process / lines of responsibility would strengthen it further.

Public Health

A review is in progress to ensure that the Council has appropriate policies and procedures in place to manage key supply chains in terms of Business Continuity. These should provide assurance that the suppliers have appropriate Business Continuity Plans (BCP's) in place to deal with disruption to their operations which in turn minimises disruption to the Council. Internal Audit aim to provide added value through considering and reporting on the adequacy of existing processes in relation to key supplier business continuity plans and intended potential improvement changes to current processes.

Public Health (continued)

To test the optimisation of the Public Protection Services (PPS) commercial services 'google' searches were made using a range of key words relevant to pest control and food hygiene services. We can confirm that that reference to the Council featured highly in each of the searches undertaken providing a good level of assurance that there is sufficient information to enable potential customers to identify that the Council does provide services in these areas.

Furthermore, the relevant pages within the Council website provide a thorough level of information and guidance in relation to the services on offer including price details. It is recognised that work is ongoing in relation to providing customers with the ability to book and pay for services online which will create additional efficiencies within the service and further enhance the customer experience.

Schools

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.

The overall assurance from schools audit is of good standard. The risk and control framework is of a good standard and recommendations made serve to strengthen what are reasonably reliable procedures.

Key Risks / Issues

The introduction of the Data Protection Act 2017 (DPA 2017) on May 25th 2018 represents both a significant risk and an opportunity to improve the Council's information governance. This applies to information assets across the whole organisation. The DPA (2017) introduces new requirements for compliance, creating challenges to the way we collect and manage our data. Resources will be required to both comply with these new requirements and, address areas of existing weaknesses that may be exposed as an effective corporate Information Asset Register is established.

Fraud Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise, The National Fraud Initiative (NFI), every two years. For the 2016/17 exercise, DAP co-ordinated the extract of relevant datasets, as defined by the Cabinet Office, from a range of Council systems. Departments supplied their datasets and these were uploaded onto the NFI secure website. The subsequent matching reports were received back from the Cabinet Office in February 2017 and these are currently being reviewed, either by DAP, or provided to relevant departments for their investigation. The review process is timetabled to be complete by the end of the calendar year. The datasets relate to:

- Council Tax,
- Creditor Payments,
- Housing Benefits,
- Insurance Payments,
- Payroll / Pensions.
- Housing Waiting Lists,
- Payment to Residential Care Homes,
- Personal Budgets – Direct Payments,
- Licencing (including taxi licences)
- Market Traders, and
- Transport Passes (including blue badges and concessionary bus passes).

DAP have continued to liaise with the Council's Corporate Fraud Team, to exchange information and knowledge.

Irregularities - During the first half of the 2017/18 financial year, Internal Audit has carried out or assisted in 2 investigations. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
Financial irregularities	1
IT Misuse	1

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.

Appendix 1 – Assurance Opinion and extract Executive Summaries – Up to 31 October 2017

Risk Assessment Key

SRR /ORR – Local Authority Strategic or Operational Risk Register reference

ANA - Audit Needs Assessment risk level



Client Request - no risk assessment information available

Assurance / Direction of Travel

Green – Good standard / progressing well



Amber – Continuing to progress but some issues to address


Red –Significant delays or issues to address

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Transformation and Change			
Core Assurance – Key Financial System			
Treasury Management ANA - Medium	Good Standard Status: Draft	The overall control environment continues to be sufficiently robust in relation to the inherent risks present. Approved procedures are in place, and our review found that these had been adhered to in terms of both investment and borrowing. Performance is monitored and reported to senior management and the Audit Committee on a regular basis.	
Work on the following key financial system audits has recently commenced			
<ul style="list-style-type: none"> ➤ Housing Benefits ANA - High ➤ Council Tax ANA - Medium ➤ Business Rates NNDR ANA – Medium ➤ Payroll – ANA – Medium 			
It is anticipated that the reports will be issued & agreed in the third quarter of 2017/18. No issues of major concern have been identified from our fieldwork to date.			
The following reviews will commence in the second half of 17/18			
<ul style="list-style-type: none"> ➤ Creditors ANA - High ➤ Main Accounting ANA - High ➤ Debtors ANA - Medium ➤ I.T.Systems ANA – High 			
Core Assurance - Other			
Corp Information Management • ILOG, FoI, DPA, Policies & P's, EDRMS, End User Computing SRR - Amber	Status: On-going	DAP continues to provide “trusted advisor” support to the Information Lead Officers Group (ILOG) and Management Information Security Forum (MISF) and has regular and ongoing contact with both the Council’s Corporate Information Manager and Corporate Records Manager. DAP also participate on the newly formed “Better Information” working group	


Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
ANA – High		<p>responsible for the information work strand of the Way We Work project.</p> <p>The Council is facing many challenges in the form of ever increasing cyber security threats, managing its data effectively and compliantly and, the pending Data Protection Act 2017 Management should support the cultural change required to embed effective information asset ownership within the Council, without which the benefits of any technical and procedural improvements that may be delivered by the Records Management and Better Information initiatives, will not be fully realised.</p>	
Information Governance	Status: Final Improvements Required	<p>Excellent work continues to be conducted by ILOG, the Information Governance Manager and the Corporate Records Manager in helping the Council meet these challenges. It is worthy of note that the Information Commissioners Office (ICO) has recently communicated that they “did not have any concerns about the Council as a Data Controller”. This is a reflection of the hard work that has been undertaken to raise the Council’s standing with the ICO. However, the Council must continue to improve in areas of existing weakness, and continually evolve areas of current strength in order to keep pace with the ever changing strategic and technical landscape. Particular, attention is drawn to the following areas:</p> <ul style="list-style-type: none"> • Corporate Records Management; • Active Directory & Logical Access Management; • Information Security (including ‘Cyber’); • Data Protection Act 2017 (Replacing the DPA 1998 and updating to embrace the EU General Data Protection Regulation, referred to as the GDPR). <p>The introduction of the DPA 2017 next year should be embraced as an opportunity to make significant improvements to the way the Council manages its information assets and not be seen as a necessary evil or, be seen as a compliance ‘tick box’ exercise.</p>	
HR/Payroll System ANA – High	Value Added Status: Complete	<p>Work has been conducted to support the HR/ Payroll Service in their efforts to improve system performance and in confirming key control requirements for the implementation of Schools Self Service functionality. The introduction of increased system memory in an attempt to improve system performance did not produce satisfactory results. Consequently, a meeting was held with senior managers from the software suppliers (Midland HR), with discussions to continue with a view to finally resolving the system performance issue. Risks are understood and are being appropriately managed and the Transformation Architecture Manager is now directly involved in the ongoing discussions with Midland HR. The ‘hosted service’ option is being considered as a possible way to resolve this ongoing issue.</p>	



Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following reviews will be commenced in the second half of 17/18			
<ul style="list-style-type: none"> ➤ ICT – Cyber Security SRR – Amber, ANA - High ➤ Retained Functions - IT Service Strategy & Design ANA – Medium 			
Strategic and Operational			
Housing Benefits Overpayments ORR – Amber ANA – High Client Request	Improvements Required Status: Draft	<p>Housing Benefit debt recovery and write off procedures exist and are adhered to. In the cases subject to audit testing debt had been pursued in accordance with defined procedures and utilised appropriate recovery methods.</p> <p>A diary date system is in use to monitor and review holds on recovery. Whilst this appears to be working well for recent debt but does not appear to have addressed the volume of holds on aged debt and this needs to be addressed.</p> <p>Comprehensive debt management reports are produced on a monthly basis but details were not included within the wider performance reports for senior management.</p> <p>Responsibility for the recovery of overpaid housing benefit has recently moved to the Corporate Service Centre and we are pleased to report that the new Service Manager is already in the process of reviewing inherited procedures and processes and the findings from this review will help to inform that process.</p>	
Organisational Structure ORR – Amber ANA – High Client Request	Good Standard Status: Complete	The move to a hierarchical organisational structure within the iTrent HR/Payroll system has been well managed, with appropriate validation exercises to confirm the accuracy of the new structure. Organisational structure maintenance procedures are robust with changes appropriately authorised and checked for accuracy. Developing the use of Firmstep to manage organisational structure workflow is risk managed and opportunities to further utilise Firmstep are being explored. Controls and processes around service area restructures are effective with the restructure processes in respect of making changes to the iTrent system well documented.	
Libraries Transformation ANA – High Client Request	Value Added Status: Final	Reported to Audit Committee September 2017	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Academy System (Revenues & Benefits) ANA – Medium Client Request	Status: On-going	Trusted advisor support will be provided as the service looks to deploy system changes / more automated functionality in delivery of the services within Revenues and Benefits.	N/A
Purchasing Cards ANA – Medium Client Request	Status: In Progress	Areas being considered as part of this review include: <ul style="list-style-type: none"> Compliance with Contract Standing Orders, policies and procedures; and Review of card use and supporting evidence including consideration of the appropriateness of purchases, approval process and monitoring. 	N/A
Finance Fit ORR – Amber ANA – Medium Client Request	Status: On-going	DAP continues to provide “trusted advisor” support, working co-operatively with officers involved in the Finance Fit work stream as they continue to develop finance and procurement systems to streamline processes and deliver efficiencies. Most recently this has included participation in the Contract Standing Orders working group.	N/A
Schools Financial Value Standards (SFVS) Statutory ANA – Low	Good Standard Status: Final	Reported to Audit Committee September 2017	
The following reviews will be commenced in the second half of 17/18 <ul style="list-style-type: none"> ➤ Contract Management ORR – Amber, ANA – High ➤ Risk Management ANA – High ➤ Customer Feedback ANA – Medium, Client Request ➤ Plymouth Community Homes Contract ANA - Medium 			
Transformation & Change and People – Cross Cutting Assurance			
Legal Care Proceedings (Children’s) SRR – Amber ANA – High Client Request	Improvements Required Status: Draft	Casework is managed or overseen by professionally qualified and experienced staff. On the legal side, by qualified lawyers supported by paralegals and for social care, by qualified social workers. Whilst the experience level of social workers varies widely, all are subject to regular supervision meetings with line managers where cases are discussed and reviewed. Supplementary training opportunities were identified as offering the potential to improve services further. Both in Plymouth City Council and Devon County Council, additional training in 'Parent Assessment Manual Software' (PAMS) was seen as highly desirable and is known to be valued by the judiciary who see it as providing assurance that assessments	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>for disabled parents have been properly conducted.</p> <p>Whilst court 'bundles' were generally presented well and in the format required by the judiciary, questions exist around the quality and timeliness of documentation prepared during and prior to proceedings. Untimely, missing or low quality assessments, statements and other supporting paperwork increase the risk of the courts requesting further assessments or reports resulting in additional costs and delays in proceedings being concluded.</p>	
Lessons Learned From Schools in Deficit ANA – Medium Client Request	Value Added Status: Draft	Our work involved reviewing the processes employed by Plymouth City Council for the approval of licensed deficits in respect of maintained schools. Consideration has also been given to the communication channels between a school, the Council and Plymouth Learning Partnership in the management of the annual budget process and the subsequent monitoring of progress in delivery of any recovery plan.	N/A
Finance & Assurance Review Group (FARG) SRR - Red ANA – High Client Request	Status: On-going	DAP continues to monitor and support the actions of the Integrated Fund (IF). Assurance has been sought, and support provided through attendance and input at the Finance and Assurance Review Group which is tasked with coordinating assurance, financial reporting and risk management for the Integrated Commissioning Board.	N/A
People			
Core Assurance – Key Financial System			
CareFirst - Income Collection (Adults – Deferred Payments) Risk / ANA: ANA – High	Improvements Required Status: Final	<p>Whilst the Deferred Payments Policy clearly sets out the framework for the Council's Deferred Payments Scheme from April 2015, it does not make reference to debt recovery. Unless clear processes and lines of responsibility are defined, there is a risk that debt may not be effectively recovered which is a concern, should the uptake of deferred payments increase in proportion with local demographics.</p> <p>Deferred payment prior to 2015 are recorded on a spreadsheet but as there was no requirement to maintain a record of deferred payments under the pre Care Act scheme it cannot be guaranteed that this is a complete record. With a significant number of manual, resource intensive processes the current system is inefficient. Plans to implement specialist software have, to date, been frustrated due to the complexity of the scheme and the module's inability to accommodate the pre Care Act cases.</p>	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		Debt collection in relation to Adult Social Care, with its high number of vulnerable clients is particularly difficult and sensitive but we can advise that early intervention work is now being undertaken to help prevent debt accruing. It has been agreed that Livewell will nominate a Team Manager to coordinate a care and support review for anyone accruing significant debt relating to the non-payment of client contributions. There are also discussions under way to consider the merits of setting up a debtor case review panel.	
CareFirst - Care Leavers (Payments) ANA – Medium	Good Standard Status: Draft	<p>The 'Leaving Care' pages on the Council's website, explains the rationale for the pathway plan, living arrangements and money but the main leaving care document is dated 2013 and could benefit from being reviewed and refreshed. Under the 'Your Money' section there are links to other websites that provide further information on this subject.</p> <p>Sample testing of leaving care payments, allowances and grants found them to be well managed. With regard to cash payments, every effort is made to make payments direct to bank accounts but the individual needs of a young person are taken into account. The team responsible have established two weekly reimbursement claims, one for the regular weekly payments and the second for the 'one off payments'.</p>	
Follow-Up of 2016/17 Children Independent Placements (Payments)	Good Standard Status: Final	Reported to Audit Committee September 2017	
<p>The following review will be commenced in the second half of 17/18:</p> <p>➤ CareFirst - Fostering (Payments) ANA – Medium</p>			
Core Assurance - Other			
Adult & Community Learning Contract Client Request	Value Added Status: Final	<p>The former Plymouth Adults & Community Learning Service (PACLS) is a "spun out" company funded by a contract held by the City Council to deliver learning opportunities to adults. The focus of the audit was delivery against the contract and included review of the evidence to support learner engagement. Although two sub-contractors were underperforming, we can provide assurance that the officers responsible for monitoring of the contract had identified the situation and appropriate action was taken.</p> <p>A set monthly amount has been retained by the Council to cover any underspend by the main contractor with 25% of sub-contractors contract values also being retained. In our opinion this is a prudent approach and should be more than sufficient to cover any</p>	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		"clawback" for the Skills Funding Agency resulting from any underperformance.	
Pre-Paid Cards - Direct Payments Delivery Method SRR – Amber ANA – High Client Request	Status: In Progress	<p>The objective of this review is to evaluate and report on the adequacy of the controls operating for Adult Social Care Direct Payments, including the:</p> <ul style="list-style-type: none"> Processing, issuing and monitoring of direct payments/prepaid cards; Reclamation of excessive balances; Processes and guidance for dealing with suspected misuse and fraud. <p>Work has commenced on this area with initial meetings with key staff having taken place.</p>	N/A
Deprivation of Liberty Safeguards (DOLS) Follow-Up ANA - Medium	Improvements Required Status: Final	Reported to Audit Committee September 2017	
<p>The following review will be commenced in the second half of 17/18:</p> <ul style="list-style-type: none"> ➤ Social Care Business Solutions ANA – High, Client Request ➤ Community Connections ORR – Amber, ANA – Amber 			
One System One Aim			
Plymouth & Western System Development Board SRR - Red ANA - High	Status: On-going	The Council and New Devon CCG have pooled and aligned budgets for health integration of circa £460m and the knowledge which DAP gains through attending these meetings is used to inform strategic audit work within People.	N/A
Multi-Agency Hub SRR - Amber ANA – High Client Request	Status: In Progress	The Multi Agency Hub went live in June 2016 with the aim of providing effective, dynamic, timely, joint decision making based on effective information sharing to ensure better outcomes for Children, Young People and families. This objective of this review is to evaluate the Multi Agency Hub and provide Plymouth City Council with an independent audit opinion on the effectiveness of the process, highlighting opportunities for further development as appropriate.	N/A
Early Help Gateway (CSC) SRR - Amber	Status: In Progress	The Early Help Gateway went live in Dec 2015 with the aim of providing intervention, care and support at the earliest point to help the child and prevent the escalation or need. Initial	N/A

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
ANA – High Client Request		findings to date indicate that the objectives of the Early Help Gateway have been realised, there is ongoing development of processes and procedures to improve recognised operational weaknesses.	
The following reviews will be commenced in the second half of 17/18:			
<ul style="list-style-type: none"> ➤ One System One Aim, The Seven Priorities ➤ Livewell South West ANA – High, Client Request 			
Public Health			
Business Continuity Planning SRR - Amber ANA – High Client Request	Status: In Progress	<p>The focus of our work is on the adequacy of existing processes to ensure that key suppliers have appropriate Business Continuity Plans (BCPs) in place to deal with disruption to their operations; which in turn minimises any potential disruption to the Council.</p> <p>In order to identify a sample of the Council's key suppliers, we reviewed the Corporate Contract Register but found that it has not been maintained and is therefore incomplete. In particular, it does not identify all of the Council's key suppliers or those responsible for monitoring a suppliers' business continuity arrangement. For People contracts, there is a Commissioning Contract Register which was found to be better maintained and contained more detailed information.</p>	N/A
Public Protection Service SRR – Amber ANA – Medium Client Request	Good Standard Status: Final	Management have recognised and embraced the key role that digital technology can play in the delivery of customer focused services which are more accessible for all citizens. Implementation of online customer self-service is progressing well within PPS and should improve efficiency, reduce costs and provide opportunities to grow income streams, thereby reducing the funding gap. Any recommendations made serve to enhance current and future digital offerings.	
Management of Commissioned Pharmaceutical Services Client Request	Value Added Status: Final	PharmOutcomes is a web-based system that facilitates the provision, invoicing and management of locally commissioned pharmacy services. Currently there is only one Officer, based within Public Health, who is able to make changes on the system to the service provider information and service accreditations for the Plymouth area. The recommendations should serve to improve business continuity and ongoing resilience in the system of internal control. Changes to payment mechanisms will enable reclamation of approximately £2,000 of VAT each year.	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Place			
Review of Major Contracts SRR - Amber ANA - High	Status: On-going	Supporting officers in the early management of the new Highways Term Maintenance contract with a review of the works ordering processes around the new highways management system planned for later in the year.	
Trade Waste Follow-Up ANA – Medium Client Request	Improvements Required Status: Draft	<p>We are pleased to report that the current invoicing arrangements in operation have greatly improved. A fresh sample of new accounts were tested as part of our work and in all cases it was found that invoices were raised in a timely manner. In respect of the third party contractor (Alpha Logic), all outstanding invoices were found to have been raised and settled and the commercial relationship terminated.</p> <p>The service still lacks documented procedures and the systems in operation to manage workloads and record information are inefficient with information needing to be duplicated across a series of databases and spreadsheets.</p> <p>However the planned implementation of a new structure should enable these matters to be addressed and ensure that performance measures are set and reported upon, and data is captured and analysed, in order to drive performance and service improvement.</p>	
Waste PFI ORR – Amber ANA – Medium Client Request	Status: On-going	Audit continues its participation with the South West Devon Waste Partnership, attending meetings of the Project Executive, providing support and advice on contract management issues.	
TranMan Fleet Management System ANA – Medium Client Request	Improvements Required Status: Final	<p>Longstanding issues with the Tranman system, particularly in respect of the interface with Civica Financials and discrepancies with charge-runs, have been escalated with Civica and both Fleet & Garage and Finance have reported that these issues have now been resolved.</p> <p>A stock take of the garage stores has been completed but consideration is now required as to how to appropriately dispose of the surplus stock identified.</p> <p>Historically, compliance checking of driver licences has not used the capabilities within the Tranman system, but Management have confirmed that this task will migrate to a Tranman based process.</p> <p>There is a lack of clarity with the process staff should follow to hire vehicles for work</p>	

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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:

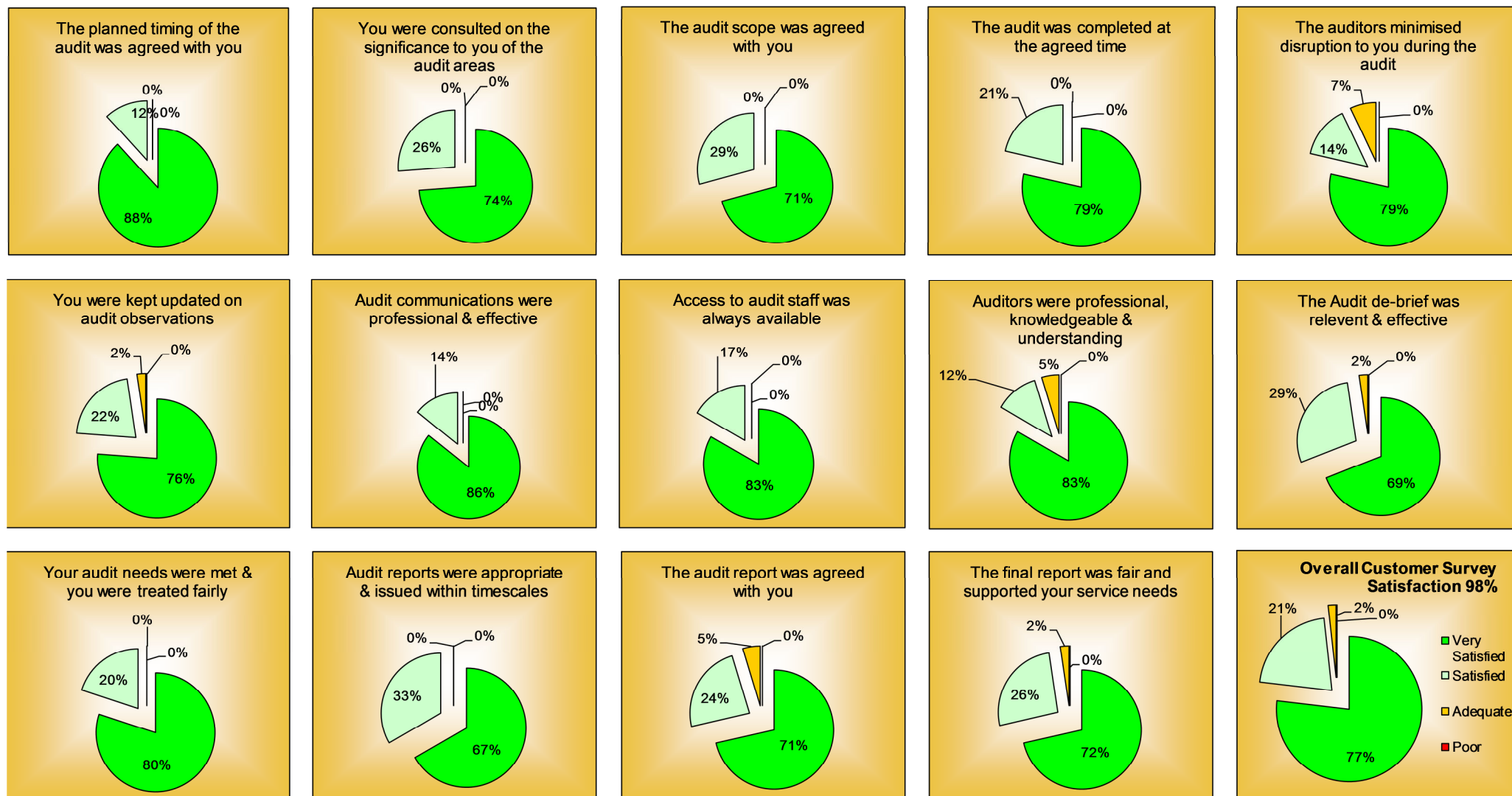
Local Performance Indicator (LPI)	2015/16	2015/16	2016/17	2016/17	2017/18	2017/18
	Target	Actual	Target	Actual	Full Year Target	Six Month Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	99%	100%	53.2%
Percentage of Audit plan Completed (Inc. Schools)	93%	97%	93%	95%	93%	42.2%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	101%	95%	82%	95%	47%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On Target
Percentage of chargeable time	65%	69%	65%	71.4%	65%	66%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	99%	90%	98%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	87%	90%	95%	90%	97.6%
Final reports produced within target number of days (currently 10 days)	90%	94%	90%	98%	90%	100.0%
Average level of sickness absence (DAP as a whole)	2%	2%	2%	3.2%	2%	3.2% *
Percentage of staff turnover (DAP as a whole)	5%	5%	5%	21%	5%	7% **
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

* Sickness relates to DAP overall and is higher than our target. We have had one member of staff signed-off for more than 6 weeks following eye surgery and another following the bereavement of a close family member and was signed-off sick for 3 weeks with stress.

** Staff turnover relates to 2 starters and 2 leavers.

Appendix 3 - Customer Service Excellence

Customer Survey Results April – September 2017



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Devon Audit Partnership

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.

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.

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PLYMOUTH CITY COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
31 October 2017



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 year ended 31 March 2017. 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 TRUST

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 (NAO'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 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
31 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 29 September 2017.

We reported our detailed findings in our ISA 260 report which we presented to the Council's Audit Committee on 14 September 2017.

The ISA 260 report contained details of uncorrected misstatements which management and the Audit Committee concluded were immaterial. Our overall conclusion was that the working papers to support the financial statements were of a high standard and there were very few changes to the draft accounts that had been prepared at the beginning of June 2017.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinion on the financial statements on 29 September 2017.

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 the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>Our response to this risk included:</p> <ul style="list-style-type: none">• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements• reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud• obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	<p>Our audit work in relation to journals did not identify any significant issues.</p> <p>We did not find any indication of management bias in accounting estimates and no unusual transactions outside of the normal course of business were identified.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of fraud for income recognition.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance criteria and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>In addressing this audit risk, we tested a sample of grants subject to performance criteria and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p>	<p>No issues noted.</p>
<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.</p> <p>The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.</p>	<p>We reviewed the revaluation instructions issued and confirmed the valuer's qualifications and experience in order to determine whether we could rely on the management expert.</p> <p>We confirmed that the bases of valuation for assets valued in year were appropriate for the type of asset and how they were being used.</p> <p>We reviewed the valuation performed and tested a sample of assets to confirm the valuation has been correctly accounted for.</p>	<p>We are satisfied that the basis of the valuation for the Council's property, plant and equipment and its investment properties are appropriate and the revaluation movements have been correctly accounted for.</p> <p>The Tamar Bridge has been valued on depreciated replacement cost (DRC) basis (most recent valuation was in 2015) and this valuation has been used to support the value of the bridge in the Council's accounts.</p> <p>The accounting Code under which the Council prepares its accounts stipulates that historic cost (HC) (rather than DRC) is to form the basis of the valuation of highways assets including bridges.</p> <p>The Council has identified DRC as the better basis of valuation for the Tamar Bridge and the resultant depreciation charge is based on a current value which is more appropriate in assessing financial performance where tolls are expected to cover costs.</p> <p>To address the departure from the Code, the Council has provided additional disclosure as to why DRC is the appropriate basis and also confirmed that accurate historic cost information is not available.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The Council's pension liability comprises of its share of the market value of assets held in the Devon Pension Fund less the estimated future liability to pay pensions.</p> <p>The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We contacted the Devon Pension Fund auditor and request confirmation of the controls in place for providing accurate information to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We obtained a confirmation from the Devon Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities and agreed the disclosures to the report received from the actuary.</p> <p>The NAO commissioned PwC to review the assumptions used by Barnett Waddingham, the actuary for the Devon Pension Fund. PwC reported that certain assumptions used by Barnett Waddingham were out of line with their expected range. Specifically, PwC reported as follows:</p> <p><i>"For employers advised by Barnett Waddingham, the discount rates proposed fall outside of our expected ranges as the methodology is not as robust as we would expect, particularly under market conditions at 31 March 2017."</i></p> <p>To address this matter, we commissioned a specialist actuary, Broadstone, to undertake additional work to assess the potential impact upon the Council's accounts where the value of the liability at 31 March 2017 had been calculated at £1,017 million.</p>	<p>The Broadstone review concluded that bringing the discount rate into line with general expectations (as well as adjusting the other assumptions appropriately) would not lead to materially different liability calculation. They concluded that the impact of the higher discount rate and inflation rates counteracted each other and the overall liability calculation is reasonable.</p> <p>We have therefore been able to conclude that the amount is not materially misstated.</p>

FINANCIAL STATEMENTS

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 £10.1 million.

This was determined with reference to a benchmark of gross expenditure (of which it represents less than 2 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of more than £203,000.

AUDIT DIFFERENCES

Our audit did not identify any material audit differences that needed to be corrected.

We did identify three audit differences that were not material and were not corrected in the final financial statements as follows:

- £333,000 - Investment Property omitted
- £718,000 - Reclassification of Plympton Guildhall as other land and buildings rather than as a heritage asset
- £542,000 - release of revaluation reserve balance in connection with an asset disposal.

We also identified a small number of disclosure points. The correction of these differences would only have affected the Council's balance sheet with no impact on the income and expenditure account.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance ‘Delivering Good Governance in Local Government: Framework’ (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that we obtained during our audit.

INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

We have commenced but not completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires 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 counter party transactions and balances, and provide an assurance statement to the National Audit Office.

Technical issues with the software have contributed towards a delay in completing this work and we anticipate concluding our work shortly.

CONCLUSION

We issued our unmodified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

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:

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.

In all significant respects, the audited body had proper arrangements to ensure it

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The Council’s Medium Term Financial Strategy (MTFS) which covers the period from 2016 to 2020 has identified that financial resources will reduce significantly. To illustrate, the MTFS identified a need to reduce net expenditure by £23.9 million in 2016/17 with further reductions amounting to £39 million in the period from 1 April, 2017 to 31 March 2020 (i.e. approximately £63 million in total).</p> <p>Delivering the savings in the early years of the MTFS will be very important in creating a financially sustainable Council and meeting the MTFS target.</p>	<p>In addressing this audit risk, we reviewed the assumptions used in the Medium Term Financial Strategy including the delivery of the budgeted savings in 2016/17. We also reviewed the outline plans to achieve further savings in the period to 31 March 2020 to help assess their achievability.</p> <p>In ensuring a balanced budget, the Council identified a savings programme designed to reduce net spending by £23.9 million in 2016/17.</p> <p>To ensure a balanced budget at year end was achieved, £1 million was transferred from the Housing Stock Transfer Reserve and £350,000 of capital receipts were applied to the General Fund. At 31 March 2017 the General Fund balance was £9.35 million representing approximately 5% of the Council’s annual net expenditure.</p> <p>The Council has identified further savings for 2017/18 which are factored into its budget and forecast to generate reductions in net expenditure with a value of £18.23 million. For each item an officer is accountable for delivering the saving and reporting progress to the Council’s senior management group overseeing the transformation programme.</p>	<p>In assessing the robustness of the arrangements for overseeing the reductions in net expenditure we reviewed the 2017/18 list of schemes and discussed with management the process for delivering the net expenditure reductions. We have concluded that the Council’s approach has been reasonable and that the planned savings are the result of extensive work to ensure that they are realistic. We also note at quarter 1 (the period to 30 June 2017) the Council is behind with its planned level of savings and is forecasting an over spend against budget of approximately £4.3 million. It is therefore important that this position remains closely monitored.</p>

took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

APPENDIX

REPORTS ISSUED

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan and update	June 2017
Audit completion report	September 2017
Annual audit letter	October 2017

FEES

We reported our original fee proposals in our audit plan.

Our work in connection with the Council’s grant claims and which forms part of our non-audit services is currently in progress and estimated for completion by the end of November 2017.

The additional work relates to certifying the pension contributions relating to Teachers’ Pensions and the work we are required to do in connection with the Council’s benefits grant claim. Both of these areas of work are still in progress at the date of this report and we will provide full detail to the Council’s Audit Committee when the work is completed.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	136,874	136,874
Council audit - additional fees	nil	nil
Total audit fees	136,874	136,874
Fees for non-audit services	tbc	22,077
Total fees for all assurance services	tbc	158,951

FOR MORE INFORMATION:

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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 2016/17

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 Western Locality Board.

On an Integrated Fund of £495m 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 £0.026m payable from the CCG to Plymouth City Council. The Section 75 sets out the methodology for the application of the risk share.

This is another 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. This is the second year of the Fund and the financial outturn is closer to budget than the result for year one.

FARG continues to provide oversight, scrutiny and assurance of the Integrated Fund on behalf of Plymouth's Integrated Commissioning and is responsible for contributing to the overall process of financial planning, control and review. The group meets monthly and amongst other agenda items reviews financial risks of the Integrated Fund by exception.



Northern, Eastern and Western Devon
Clinical Commissioning Group



Membership

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

In the financial year 2016/17 FARG has continued to meet on a monthly basis as scheduled. At the start of the year, the Plymouth Integrated Commissioning Board (PICB) agreed the appointment of the Chief Finance Officer (Western Locality) CCG as the Interim Pooled Fund Manager, and the creation of a Deputy Pooled Fund Manager with the interim appointment of the Head of Integrated Finance PCC. These interim arrangements will continue through 2017/18 with further review early in the calendar year 2018.

Attendance outside of the core members from finance and audit has been limited and the Terms of Reference should again be reviewed and agreed.

Key progress to date

During the year FARG has:

- Held monthly meetings as scheduled:
- Undertaken due diligence on each organisation's 2016/17 budget for the Fund:
- Built on the 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:
- Improved the content and timing of the now Business as Usual 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:
- Regularly reviewed progress and performance of each of the approved savings schemes and, where necessary, seek reports and presentations by lead directors/project managers on progress against planned savings.
- Moved from a weekly to a fortnightly basis for the FARG Joint Working Technical Group (JTWG): this is a less formal meeting (no minutes) with action points circulated. We continue to use the 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:

- Refined the Work Plan and Forward Plan:
- Improved the data capture for the monthly joint reporting, including increasing the input and awareness of more members of the finance team:
- Worked with both CCG and PCC risk and assurance officers and developed an Integrated Risk Management Framework:
- Worked with both CCG Audit Committee and PCC Audit Committee to ensure the correct level of assurance is provided:
- Continue to hold joint Audit Committee meetings.
- Worked on developing joint KPIs for the Fund which include:
 - ✓ finance ratios,
 - ✓ payments performance,
 - ✓ debtor control,
 - ✓ NHS England assurance framework requirements,
- Where necessary, seek explanation and corrective action to meet the agreed level of performance.
- Enhanced our overall assurance review, with regular contributions from officers.
- Worked 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.
- Continue to build on the current BCF arrangements to encompass the new iBCF (Improved Better Care Fund) in 2017/18.
- Ensured 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.

National Recognition

Plymouth City Council and the Western Locality Devon CCG were honoured with a national Public Finance Innovation Award, sponsored by CIPFA, the Chartered Institute of Public Finance & Accountancy. The award was for the pooling of all wellbeing resources into a single integrated finance fund of £483m. They were impressed by the risk-sharing approach, which can be shared by others. The team's ambitious integration Programme included an important role for financial leadership and solutions.

Next Steps/Priorities

- “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.
- Ensuring the local work streams are aligned with the wider Sustainable Transformation Plan (STP) for Devon.

Risks

The joint integrated framework is the first of its kind in the country and is the result of 18 months collaboration between both partners. The framework provides a common infrastructure for delivering, maintaining and governing risk management within the integrated commissioning function.

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 - V6.docx

David Northey
Head of Integrated Finance &
Deputy Pooled Fund Manager

Ben Chilcott
Chief Finance Officer, Western PDU
& Pooled Fund Manager

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STP Partnership Governance Arrangements February 2017

Final Report - July 2017



OVERALL CONCLUSION

We looked to provide assurance to the Programme Delivery Executive Group (PDEG) as to the overall high level governance arrangements for the Devon STP Partnership. We can conclude that these governance arrangements as at the end of February 2017 are, overall, fit for purpose. We have made the following key recommendations:

1.The Devon STP Memorandum of Understanding (MOU) meets good practice expectations and has been signed by the main constituent health providers and commissioners, and we understand that other parties are to sign including NHSI and NHSE. If, as per its intent, the MOU is to provide a mechanism for securing parties' agreement and commitment to sustained engagement with and delivery of the STP to realise a transformed model of care in Devon, the MOU needs to be both signed by all parties, and be supported by explicit formal confirmation that all partner boards have ratified the MOU. Members of the Devon STP Partnership remain accountable for achieving their own statutory responsibilities.

2.To ensure that it can be demonstrated that any recommendations for changes to services and models of care, have been discussed by all appropriate, relevant partners of the Devon STP Partnership at PDEG and recommended to and ratified by partner boards, thus avoiding legal challenge:

- A log of decisions recommended to partner boards by PDEG and their subsequent ratification by all partner boards should be maintained.
- PDEG should set a quorum for their meetings and decide when meetings will be stood down.
- Every PDEG meeting should include an agenda item for declaration of interests.

3.Consideration should be given to how the partnership wide approach to strategic risks to the Devon STP Partnership's objectives, and risk appetite, is considered, evaluated and managed so that partner boards can be appropriately assured.

4.The overall governance arrangements for the Devon STP Partnership need to be regularly reviewed to ensure they remain fit for purpose, are effective and enable delivery of the STP plan supported by appropriate capacity.

Key Findings

The general conclusion from the interviews we held was that PDEG is moving forward in its role, though progress has not been as quick as it perhaps could have been. The nature of the transformation from the Success Regime to the Devon STP Partnership has meant, however, that it is has been ever evolving.

Accountability

Health and care organisations as well as local authorities across Devon have come together to meet the increasing health and care needs of the population while ensuring services are sustainable and affordable and, through the Devon STP Partnership, have built sound arrangements which underpin that commitment to work collaboratively to transform the model of care in Devon. That commitment needs to be demonstrated by the ratification of the Devon STP MOU by all parties.

Through interviews we were told that the Devon STP MOU has not been tested to assess whether the commitment to collaborative working can be sustained. This is key, especially when decisions around organisational design and development and, ultimately, delivery of services are considered and recommended. It was suggested to us that the MOU could be tested using scenario planning and that this is undertaken within the next three months.

The MOU should be kept under regular review to ensure it remains fit for purpose. Alternative, more enforceable arrangements may be needed once organisational design becomes delivery.

Governance

Our review of the key elements of the governance architecture were assessed to be in the main fit for purpose:

The partnership recognises that this governance architecture will need to be reviewed to ensure it remains fit for purpose. This falls to the Collaborative Board.

Our review of PDEG confirmed both a strategic and operational form, with appropriate membership, good attendance at meetings, good challenge of papers and actions that are monitored for completion.

The Devon STP Partnership should be able to demonstrate that any recommendations for changes to services and models of care, have been recommended by PDEG and ratified by all partner boards.

We have suggested that a Work Plan for PDEG, the Collaborative Board and PDEG's subordinate groups is put in place to set out the priorities, for a three month period at a time, to give purpose and structure to all the groups' meetings.

The Collaborative Board is the key forum for Non Executives Directors and Lay Members to get involved in the collaboration of and development of system transformation. It provides the opportunity for partner board members to voice their views and concerns on the future organisational design and delivery of care in Devon. It has met three times since its inception. The Collaborative Board workshop held in January 2017 enabled a key step forward in exercising its role, asking for commitment to strengthening collaborative working, and looked for support for a proposed commissioning framework and early objectives for taking forward organisational form and development. Its Terms of Reference state no quorum for its meetings nor its decision making, accountability and reporting arrangements.

Significant levels of 'Executive' resource, including CEOs, form the membership of PDEG, its subordinate groups and the Collaborative Board. Reviewing the governance arrangements at staged intervals during the design and delivery of the work programmes should ensure the effective use of such resources supported by appropriate capacity. A high level set of KPIs could be developed for measuring the performance and success of the Devon STP Partnership at key milestones in the design and delivery process.

The approach taken to date is that formal risk management arrangements remain with each partner body of the Devon STP Partnership. The consideration of risk management at an operational level was not within the scope of this review, however we have seen that risk is considered at an operational level as part of the detailed management and review of each work programme and in developing work programme mandates.

We have not seen how the overarching progress and status of the overall risk profile in terms of delivery and achievement of the Devon STP Partnership objectives is reported to PDEG, such that partner boards can be appropriately assured and have a clear, consistent and transparent view of the risk profile.

Reporting

Reporting arrangements to PDEG continue to develop as expectations of PDEG are being realised, in terms of both strategic and operational needs.

PDEG receives regular reports covering both the performance and financial position of the Devon STP Partnership supported by data at partner level, along with an overview report on many of the work programmes, rag rated with achievements to date, risks and next steps. Reporting for some work programmes is in development.

Although there are regular reports to PDEG from the Finance Working Group and the Clinical Cabinet, there is no standard reporting from these groups and it can be verbal. The Terms of Reference for these groups do not set out the reporting arrangements, although they do make it clear that they are accountable to PDEG. The Work Plan we have suggested for PDEG should set out the responses needed from these groups at each meeting.

Papers received by PDEG and subordinate groups should continue to be reviewed to ensure best use of CEO and Executive resource, to avoid duplication of working between groups and aid making decisions for recommending to partner boards.

The above key messages on the areas reviewed have been derived from the detailed findings and conclusions set out on the pages below.

AUDIT BACKGROUND, SCOPE AND OBJECTIVES

Background

On 22nd December 2015, the NHS published 'Delivering the Forward View: NHS planning guidance 2016/17 – 2020/21'. This set out the requirement for five year Sustainability and Transformation Plans alongside one year Operational Plans for 2016/17. The Devon STP covers the areas of the NEW Devon CCG and South Devon and Torbay health economies. Health and care organisations as well as local authorities across Devon worked together to create the shared five-year vision to meet the increasing health and care needs of the population - while ensuring services are sustainable and affordable.' The STP built upon work undertaken through the Success Regime and the South Devon and Torbay economy. The Draft Devon STP was published on 4th November 2016.

The arrangements through which Devon developed and will deliver its STP have evolved over the last year. Devon STP MOU covering the working arrangements was due to be approved by the boards of the constituent organisations in January 2017. Given that the STP is moving from development to design, through consultation and into delivery, it is timely to review the governance and reporting arrangements to determine whether they are suitable to take the Devon STP Partnership forwards.

The MOU lists the following as parties to the Devon STP Partnership:

- North East and West Devon CCG
- South Devon and Torbay CCG
- Devon County Council
- Plymouth City Council
- Torbay Council
- Devon Partnership NHS Trust
- Livewell Southwest
- Northern Devon Healthcare NHS Trust
- Plymouth Hospitals NHS Trust
- Royal Devon and Exeter NHS Foundation Trust
- Torbay and South Devon NHS Foundation Trust
- NHS England
- NHS Improvement
- South Western Ambulance Service NHS Foundation Trust (not listed as party to the MOU but eligible to attend PDEG)

The advent of the Devon STP Partnership and Plan significantly changes the risk profiles of member organisations. New and changed risks could lead to failure of individual organisations to deliver safe, high quality services within the available resources in 2016/17, and sustainably into the future.

The consequent assurance needs of the Devon STP Partnership's member organisations are similar:

They need to be assured that the new arrangements do not place them at risk of breaching their statutory responsibilities.

Objectives and Scope of the Audit

The aim of the Devon STP Partnership is to facilitate the '*creation of a clinically socially and financially sustainable health and care system that will improve health, wellbeing and care of the population*' across Devon. Our review focused on the developing governance and reporting arrangements in place at the level of the Devon STP Partnership to progress this aim. We looked to provide assurance of the governance and reporting arrangements at the level of the STP Partnership to PDEG, established to act as a forum for recommending decisions made affecting more than one and maybe all members of the Devon STP Partnership which are then ratified by each STP Partnership partner's board, as follows.

Objective One

To provide assurance that appropriate governance arrangements are in place covering the Devon STP Partnership and that these are working as intended. This covered:

Accountability

- Arrangements for decision making covering the Devon STP Partnership and its constituent member organisations including mechanisms to manage any conflict or inability of an individual member to agree to or meet its commitment to the Partnership.
- Arrangements which underpin the commitment of the organisations of the Devon STP Partnership to work collaboratively and adhere to the principles and behaviours critical to its success.
- Roles and responsibilities in respect of the Devon STP Partnership of its Senior Leadership Team and Programme Office.

Governance

- Governance architecture, membership, meeting arrangements etc. covering groups instated for the Devon STP Partnership.
- The Devon STP Partnership's arrangements for risk management.

Objective Two

To provide assurance that reporting mechanisms and arrangements are in place, adequate and working as intended:

Reporting

We focused on reporting to PDEG as per its Terms of Reference covering the following key areas:

- Guidance from the Collaborative Board.
- Assurances, exception reports and recommendations from subordinate groups.
- Assurances and updates from member organisations.
- Progress in delivery of the STP plan and outcomes at high level.
- Business cases for approval.
- Risk status.

How we Conducted the Review

We conducted the review through:

- Interviews with the System Lead Chief Executive, System Lead Director of Finance, Director of Strategy, NHSI and NHSE and the STP Leadership Team.
- Review of relevant documents provided to us, including the MOU, papers, minutes, action logs and presentations to meetings of the following groups:
 - PDEG.
 - Collaborative Board.
 - Clinical Cabinet.
 - Finance Working Group.
 - System Plan Delivery Group.
- We observed the PDEG meeting held in January 2017.

What was not Included in the Review

The following was not included within this audit:

- Delivery arrangements for the Devon STP and associated savings plans.
- Arrangements in place at member organisations to implement the Devon STP.
- Arrangements in place at member organisations to report on the progress of the Devon STP Partnership's work.
- A detailed review of the analysis (including financial) underpinning the Devon STP, the STP document and associated consultation activity.
- The role of consultants appointed to support the Success Regime and/or the Devon STP Partnership.

We would like to acknowledge the help and assistance given by the System Lead Chief Executive, System Lead Director of Finance, System Leadership Team, NHSI and NHSE during the course of this review.



Jenny McCall, Director of Audit

REPORT DATA

Date Work Undertaken	January to February 2017
Date of Issue of Draft Report	8 th March 2017
Date of Return of Draft Report	31 st July 2017
Date of Approval of Final Report	31 st July 2017
Lead Auditor	Caroline Andrews, Senior Auditor /Jenny McCall, Director of Audit
Client Lead Manager(s)	Andy Robinson, Lead Director of Finance
Client Lead Director	Angela Pedder, Lead Chief Executive

Rec No	Recommendation	Management Response	Manager Responsible	Action Date
1	If, as per its intent, the Devon STP MOU is to provide a mechanism for securing parties agreement and commitment to sustained engagement with and delivery of the STP to realise a transformed model of care in Devon, the MOU needs to be both signed by all parties and be supported by explicit formal confirmation that all partner boards have ratified the MOU.	Agreed. Partners have confirmed via PDEG that the MOU has been ratified by boards. Partner board papers will be collated to augment record of minutes. Action EM to request board minutes.	STP Transformation Director	July 2017
2	It was suggested to us that the MOU be tested using scenario planning and that this is undertaken within the next three months.	Disagree. Formal scenario planning is not required in the context that is continually changing. PDEG has evidenced its ability to keep elements under review) (during June Clinical Cabinet TOR are being reviewed and signed off at July PDEG for example).	N/A	N/A
3	The MOU should be kept under regular review to ensure it remains fit for purpose. Alternative, more enforceable arrangements may be needed once organisational design becomes delivery.	Following response above. The MOU is under review. The work to define the role of the strategic commissioner and the possible implementation in shadow form will drive a review. The MOU is unlikely to become more enforceable before the creation of other structures (such as ACOs) are developed.	STP Finance Lead Director	Ongoing
4	The roles of all the STP Partnership Team should be set out in job descriptions.	Agree. The roles of the Partnership team are: Lead CEO Lead Director of Finance STP Director of communications STP Delivery Director STP Transformation Director The Lead CEO role is set out in the STP. The others all have job descriptions available on request.	STP Transformation Director	Done
5	To ensure that it can be demonstrated that any recommendations for changes to services, including models of care, have been discussed by all appropriate, relevant partners at PDEG and recommended to and ratified by partner boards, thus avoiding legal challenge: <ul style="list-style-type: none"> A log of decisions recommended to partner boards by PDEG and their subsequent ratification by all partner boards should be maintained. PDEG should set a quorum for their meetings and decide when meetings will be stood down. Every PDEG meeting should include an agenda item for the declaration of interests. 	PDEG minutes are clear when a recommendation to partner boards is being made. A log of these will be maintained which will include a log of items ratified in prior month. As PDEG is a recommendation board, not a decision making function a Quorum is not required. Agree – Agenda to be updated with standing item to ascertain declarations of interest pertaining to that particular agenda. The ToR will be updated (Action – VG to update ToR, EM to update agenda)	STP Transformation Director	July 2017

Rec No	Recommendation	Management Response	Manager Responsible	Action Date
6	A Work Plan for PDEG, the Collaborative Board and PDEG's subordinate groups is prepared to set out the priorities, for a three month period at a time, to give purpose and structure to all the groups' meetings.	Agree. A work plan exists for PDEG, and Clinical Cabinet. This could be developed for Collaborative Board and FWG. A periodic review will take place of their 3 month forward plan.	Head of PMO	July 2017
7	Collaborative Board Terms of Reference to include the quorum for meetings, decision making, accountability and reporting arrangements.	ToR to be updated although as not a decision making board query the need for quorate meetings.	Associate Director Transformation	July 2017
8	There is a significant amount of senior resource committed to transforming care in Devon. Significant levels of 'Executive' resource, including CEOs, form the membership of PDEG, its subordinate groups and the Collaborative Board. The effectiveness of these groups and forums should be reviewed at staged intervals during the design and delivery of the work programmes to ensure the effective use of such resources supported by appropriate capacity. A high level set of KPIs could be developed for measuring the performance and success of the STP Partnership at key milestones in the design and delivery process.	Not agreed. KPIs are not an appropriate measurement given the context. The relationships and forums for steering the STP are under constant review. Work at a programme level to ensure we are getting maximum value from meetings is ongoing.	NA	NA
9	The Collaborative Board should look to review on-going governance structures of STP partnership in line with its Terms of Reference.	Not agreed. This is already within the PDEG ToR.	NA	NA
10	We have not seen how the overarching progress and status of the overall risk profile in terms of delivery and achievement of the Devon STP Partnership objectives is reported to PDEG, such that partner boards can be appropriately assured and have a clear, consistent and transparent view of the risk profile. Consideration should be given to how the partnership wide approach to strategic risks to the Devon STP Partnership objectives, and risk appetite, is considered, evaluated and managed.	Partially agree: The STP is not superior to sovereign bodies. Therefore risks falling from the system are managed at a trust level where the accountability sits. STP exists to facilitate solution changes. An additional programme risk log will be created that includes the high rated risks from STP sub programmes. Action: SW to create programme risk log summary.	STP Transformation Director	Sept 2017
11	Although there are regular reports to PDEG from the FWG and the Clinical Cabinet, there is no standard reporting from these groups and it can be verbal. The Terms of Reference for these groups do not set out the reporting arrangements, although they do make it clear that they are accountable to PDEG. The Work Plan we have suggested for PDEG should set out the responses needed from these groups at each meeting.	Partially agreed: FWG and SPDG both report to PDEG in an agreed format. This includes verbal updates. CC ToR is being updated that will make reporting to PDEG clear.	Associate Director Transformation	Complete
12	Papers received by PDEG and subordinate groups should continue to be reviewed to ensure best use of CEO and Executive resource, to avoid duplication of working between groups and aid making decisions for recommending to partner boards.	Agreed and in place. Evidenced by front sheet on PDEG reports.	NA	N/A

1. Accountability

- Arrangements are in place for decision making covering the Devon STP Partnership and its constituent member organisations including mechanisms to manage any conflict or inability of an individual member to agree to or meet its commitment to the Partnership.
- Arrangements underpin the commitment of the organisations of the Devon STP Partnership to work collaboratively and adhere to the principles and behaviours critical to its success.
- Roles and responsibilities in respect of the Devon STP Partnership, its Senior Leadership Team and the Programme Office.

Conclusion

The Devon STP MOU meets good practice expectations.

The Devon STP MOU has been signed by the constituent health providers and commissioners and we understand that other parties are to sign including NHSI and NHSE. A number of partner boards we understand are still to ratify this MOU. Without the explicit formal ratification of the MOU by all partners, that full commitment to partnership working is not assured. This is particularly important given that the Devon STP Partnership has no legal standing; decision making powers remain with the statutory parties to the MOU.

Through interviews we were told that the MOU has not been tested to assess whether the commitment to collaborative working can be sustained. This is key, especially when decisions around organisational design and development and, ultimately, delivery of services are considered and recommended. It was suggested to us that the MOU could be tested using scenario planning and that this is undertaken within the next three months.

The MOU should be kept under regular review to ensure it remains fit for purpose. Alternative, more enforceable arrangements may be needed once organisational design becomes delivery.

MOU

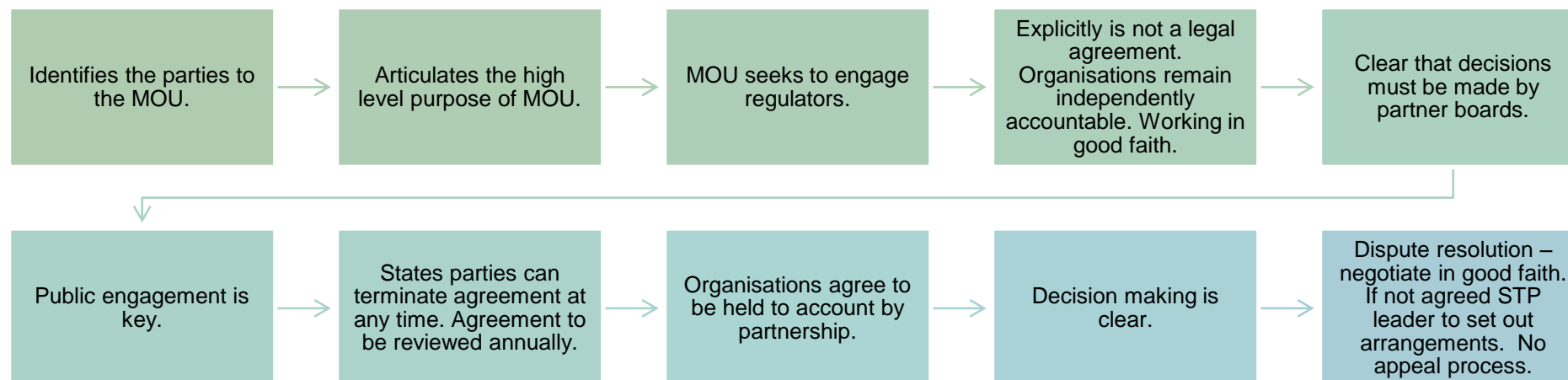
A MOU sets out the broad principles to be followed to regulate the relationship between the statutory bodies, support decision making and joint working and offers sufficient clarity of roles and responsibility.

Good practice suggests that a MOU should include:

- Purpose.
- Membership.
- Governance processes.
- Roles and responsibilities.
- Engagement principles and partnership arrangements:
 - Partners will work together towards effective delivery and improvement of the services and will support planning, development, service redesign and improvement in collaboration.
 - A specified review mechanism will monitor quality standards and performance and will support any interventions required to respond to service pressures and demands and to improve performance.
- Information sharing and data management.
- Risk Management.
- Dispute resolution procedure.

The Devon STP MOU dated December 2016 meets these good practice expectations and has been signed by the constituent health providers and commissioners and we understand that other parties are to sign including NHSI and NHSE. A number of partner boards we understand are still to ratify this MOU.

The Devon STP MOU, dated December 2016:



The Devon STP MOU states that partners will:

- Share information, experience and resource, to work collaboratively to identify solutions, eliminate duplication of effort, mitigate risk and reduce cost.
- Demonstrate transparent communications in terms of delivery of STP plans and notification of any quality or financial organisational concerns, including mitigation planning.
- Identify where it is mutually beneficial to share information to advance an evidenced individual and/or system benefit, and to do so on the basis that the information requested is reasonable for the purpose only, and not excessive. Where information is shared, it is agreed that it will be used for the stated purpose only.

Performance management and risk management arrangements are covered in the MOU and are included in more detail in the Governance section of the report.

The Devon STP MOU could be enhanced as follows:

Areas for Enhancement

- If, as per its intent, the Devon STP MOU is to provide a mechanism for securing parties agreement and commitment to sustained engagement with and delivery of the STP to realise a transformed model of care in Devon, the MOU needs to be both signed by all parties and be supported by explicit formal confirmation that all partner boards have ratified the MOU.
- It was suggested to us that the MOU be tested using scenario planning and that this is undertaken within the next three months.
- The MOU should be kept under regular review to ensure it remains fit for purpose. Alternative, more enforceable arrangements may be needed once organisational design becomes delivery.

Roles and Responsibilities in respect of the Devon STP Partnership, its Senior Leadership Team and Programme Office

The Devon STP MOU identifies the role of the Lead Chief Executive as if it is for the Success Regime. Executive lead for the development for the STP as required by NHSI and NHSE was added as at January 2016. We understand that job descriptions are held by both the System Lead Chief Executive and System Lead Director of Finance and that other key roles of the STP Team have been in development as the STP Partnership has developed.

Areas for Enhancement

- The roles of all the STP Partnership Team should be set out in the job descriptions.

2. Governance

- Governance architecture covers, membership, meeting arrangements etc. covering groups instated for the Devon STP Partnership.
- The Devon STP Partnership's arrangements include risk management.

Conclusion

Our review of the key elements of the governance architecture were assessed as to be in the main fit for purpose:

The partnership recognises that this governance architecture will need to be reviewed to ensure it remains fit for purpose. This falls to the Collaborative Board.

Our review of PDEG confirmed both a strategic and operational form, with appropriate membership, good attendance at meetings, good challenge of papers and actions that are monitored for completion.

The Devon STP Partnership should be able to demonstrate that any recommendations for changes to services and models of care, have been recommended by PDEG and ratified by all partner boards.

We have suggested that a Work Plan for PDEG, the Collaborative Board and PDEG's subordinate groups is put in place to set out the priorities, for a three month period at a time, to give purpose and structure to all the groups' meetings.

The Collaborative Board is the key forum for Non Executive Directors and Lay Members to get involved in the collaboration of and development of system transformation. It provides the opportunity for partner board members to voice their views and concerns on the future organisational design and delivery of care in Devon. The Collaborative Board has met three times since its inception. The workshop held in January 2017 enabled a key step forward in exercising its role, asking for commitment to strengthening collaborative working, and looked for support for a proposed commissioning framework and early objectives for taking forward organisational form and development. Its Terms of Reference state no quorum for its meetings nor its decision making, accountability and reporting arrangements.

Significant levels of 'Executive' resource, including CEOs, form the membership of PDEG, its subordinate groups and the Collaborative Board. Reviewing the governance arrangements at staged intervals during the design and delivery of the work programmes should ensure the effective use of such resources supported by appropriate capacity. A high level set of KPIs could be developed for measuring the performance and success of the Devon STP Partnership at key milestones in the design and delivery process.

The approach taken to date is that formal risk management arrangements remain with each partner body of the Devon STP Partnership. The consideration of risk management at an operational level was not within the scope of this review, however we have seen that risk is considered at an operational level as part of the detailed management and review of each work programme and in developing work programme mandates.

We have not seen how the overarching progress and status of the overall risk profile in terms of delivery and achievement of the Devon STP Partnership objectives is reported to PDEG, such that partner boards can be appropriately assured and have a clear, consistent and transparent view of the risk profile. Consideration should be given to how the partnership wide approach to strategic risks to the Devon STP Partnership objectives, and risk appetite, is considered, evaluated and managed.

Programme Architecture to design and develop system wide activity

The diagram opposite sets out the overall governance architecture of the Devon STP partnership, including accountability for reporting, as set out in the Sustainability and Transformation Plan document.

The governance arrangements in place at present reflect the design phase of devon systemwide working.

We have reviewed the key elements of the governance architecture to assess their fitness for purpose. This has covered the:

- PDEG.
- Collaborative Board.
- Subordinate Groups; System Plan Delivery Group, Clinical Cabinet and Finance Working Group.
- Risk Management Arrangements.

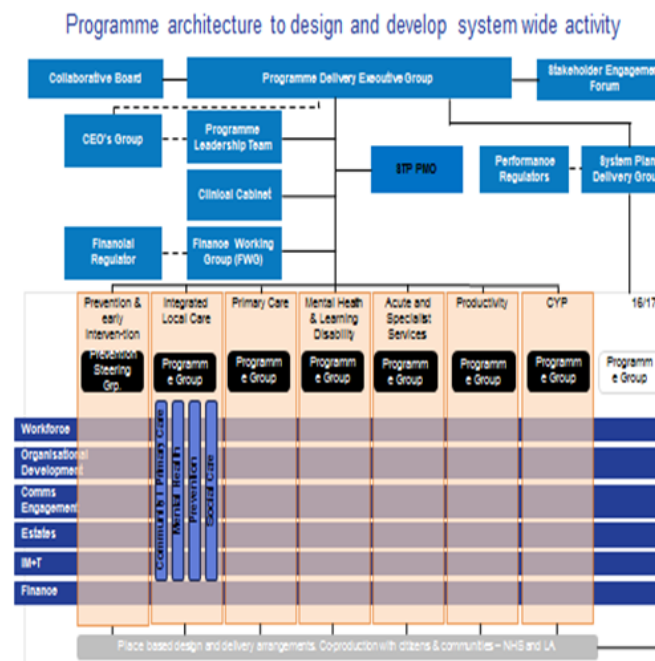
Overall, at this point in time, we consider that these arrangements are in the main fit for purpose.

The sections on the pages below outline the results of our review of these elements.

PDEG

PDEG meets monthly and is well attended by its membership. Meetings are supported by an appropriate Agenda. Comprehensive minutes of meetings and actions logs are maintained which are reviewed at each meeting focused on completion. The Agenda does not require the membership to declare any interests.

PDEG has Terms of Reference that sets out its key responsibilities, including to develop a clinical strategy, review shape and approve projects, review and approve budgets and hold programme groups to account. Membership includes the Chief Executive or equivalent of the parties to the Devon STP MOU, NHSI and NHSE and the System Lead Chief Executive and System Lead Director of Finance. As described in the Devon STP MOU, during transition from Success Regime to STP architecture and whilst supported by Carnall Farrar, PDEG fulfils two roles both at a strategic and operational level, with its meetings split into Part One - Strategic, and Part Two – Operational, as set out below. Over time, and as the system becomes more self-sustaining, this agenda is expected to merge to become a single agenda, supported by the system itself. The Group will continue to be chaired by the Independent Chair until such time as the system becomes self-sustaining and formally exits the Success Regime, at which time the chair will be appointed by such process as agreed by PDEG.



Strategic - Part One purpose

- To provide the overall “Programme Board” function for the system.
- To propose the strategy for the system for approval by statutory bodies.
- To provide the system leadership and co-ordination for programmes requiring a system response.

Operational - Part Two purpose

- To receive assurances from its subordinate groups.
- To receive assurances from member organisations.
- To drive delivery within the system, via each attendant CEO.
- To monitor delivery of the system plan at the strategic level and agree corrective measure proposals from subordinate groups.
- To delegate tasks to subordinate groups in furtherance of STP objectives.
- To receive and approve recommendations and/or business cases from sub- committees or member organisations in furtherance of STP objectives.

Our observations from our attendance at the PDEG meeting in January 2017 are set out below:

Strategic Part One

- Well run by the Chair, who pushed the membership to pin down actions at pace. Responsibility for action was clear.
- Challenged membership on signing of MOU.
- NHSE applied appropriate challenge around finance delivery.
- Challenge over content of papers received.
- Evidence of the group holding each other to account /peer pressure v performance management.
- Good strategic challenge.
- Appropriate discussion taken off line.

Operational Part Two

- Challenge on finance and performance update received and debate around how much and what info was needed from System Plan Delivery Group.
- Discussion about need for focused deep dives on data presented at future meetings.

Collaborative Board

The Collaborative Board is a forum for Senior Leaders to work together to develop and deliver the Devon STP and meets quarterly. This is the key forum for Non Executive Directors and Lay Members to get involved in the collaboration of and development of system transformation. It provides the opportunity for partner board members to voice their views and concerns on the future organisational design and delivery of care in Devon. Review of its governance arrangements suggests they could be enhanced as its Terms of Reference do not include a quorum or make reference to its decision making, accountability and reporting arrangements.

Its Terms of Reference state that the Collaborative Board will plan for Devon as a whole and will evaluate any areas that are out of the control of the individual organisations. Ultimately, each organisation is accountable for their own delivery and nothing actioned at Collaborative Board exempts the organisations from their own statutory responsibilities. Its membership includes the Chairs and CEOs as parties to the Devon STP MOU and locality chairs.

The Collaborative Board's responsibilities are:

- Ensure that all organisations are involved in the development of the STP and there is clarity on the contribution of individual organisations to the delivery of this plan.
- Act as a system-wide forum to hold organisations to account for delivery of the plan.
- Hold the Lead Chief Executive and Independent Chair to account for system-wide leadership.
- Ensure that all organisations play their agreed role in delivery monitoring and reporting of progress.
- Ensure there is appropriate public engagement throughout the development and delivery of the STP.
- Work effectively with the Independent Chair to help drive system transformational change.
- Reinforce the current statutory roles of organisations.
- In collaboration with the Independent Chair, partner CEOs and Chairs design, and keep under review, the overall governance structures for the STP.

The Collaborative Board is clearly considering strategic issues for the future, notably future organisational form and the future shape of commissioning. Actions logs from meetings are maintained.

The Workshop held in January 2017 looked to define the framework, working assumptions, design principles, possible governance and early objectives for taking forward both organisational form and development.

Feedback from workshop considered at PDEG in February 2017 provided key messages about commitment to strengthening collaborative working, support for a proposed commissioning framework and thoughts on organisational form and development, and included the receipt of specific responses to workshop, provided by individual members of PDEG.

PDEG Subordinate Groups

PDEG has four subordinate groups, as shown opposite, as described in the Devon STP MOU:



The roles of these subordinate groups are set out in the Devon STP MOU which also includes the responsibilities of the SPDG. We reviewed the underpinning governance arrangements for the following groups through the MOU and their Terms of Reference. The Terms of Reference for these groups do not set out the reporting arrangements, although they do make it clear that they are accountable to PDEG.

FWG

The FWG meets fortnightly. Its membership consists of Chief Finance Officers of CCGs, Finance Directors from the appropriate providers, NHSE and Local Authority Finance Leads.

Its responsibilities include:

- Work with the Clinical Cabinet to ensure changes will deliver £ sustainability.
- Sign off financials for programmes to ensure they are costed, modelled and will deliver, making recommendations to PDEG.
- Review in year savings and performance.

SPDG

The SPDG meets monthly with the following responsibilities:

- Reviewing monthly delivery and financial validation reports from each work stream/patch.
- Provide a platform for teams to escalate risks and their mitigation proposals for approval.
- Holding to account the work-stream SROs and Control Centres in supporting consistent approaches to delivery and development of new schemes.
- Oversee the development of business cases for investment prior to submission for decision making.

Clinical Cabinet

The Clinical Cabinet meets fortnightly and provides clinical leadership to the programme, ensuring that the programme develops robust proposals that are safe and effective as well as clinically and financially sustainable, making recommendations to PDEG for decision where these require a system response.

Its membership includes:

- Clinical Chair and locality chairs, NEW Devon CCG.
- Clinical Accountable Officer South Devon & Torbay CCG.
- Medical Directors of provider organisations.
- A number of Directors of Nursing from the STP Partnership membership.
- Director of public health (by consensus).
- An executive from the local authority sector.

Our review of meetings and papers of the subordinate groups sampled demonstrated that meetings are appropriately minuted and that actions from the meetings are followed through. The diagram below highlights the key points from this review, highlighting the effectiveness of meetings.

- SPDG is well attended by senior managers.
- Reviews performance and delivery of key KPIs at STP, CCG and provider level.
- Meetings are in the process of bedding down.

- Clinical Cabinet has strong focus on getting engagement and the right management.
- Has a work programme and an action plan that is actively maintained.
- Scrutinises work programme mandates.

- FWG meets to understand and address the system wide financial position.
- Is a working group supporting STP work programmes.
- There is clear follow through of actions.

Areas for Enhancement

To ensure that it can be demonstrated that any recommendations for changes to services, including models of care, have been discussed by all appropriate, relevant partners at PDEG and recommended to and ratified by partner boards, thus avoiding legal challenge:

- A log of decisions recommended to partner boards by PDEG and their subsequent ratification by all partner boards should be maintained.
- PDEG should set a quorum for their meetings and decide when meetings will be stood down.
- Every PDEG meeting should include an agenda item for the declaration of interests.

A Work Plan for PDEG, the Collaborative Board and PDEG's subordinate groups is prepared to set out the priorities, for a three month period at a time, to give purpose and structure to all the groups' meetings.

Collaborative Board Terms of Reference to include the quorum for meetings, decision making, accountability and reporting arrangements.

Areas for review within the next three to six months:

- There is a significant amount of senior resource committed to transforming care in Devon. Significant levels of 'Executive' resource, including CEOs, form the membership of PDEG, its subordinate groups and the Collaborative Board. The effectiveness of these groups and forums should be reviewed at staged intervals during the design and delivery of the work programmes to ensure the effective use of such resources supported by appropriate capacity. A high level set of KPIs could be developed for measuring the performance and success of the STP Partnership at key milestones in the design and delivery process.
- The Collaborative Board should look to review ongoing governance structures of STP partnership in line with its Terms of Reference.

Risk Management Arrangements

The Devon STP MOU states that detailed risk management arrangements differ for the constituent parts of the system at the time of setting out the MOU.

- For the NEW Devon Health part of the system are set out in Schedule 7 of the MOU.
- Arrangements between Plymouth City Council and the relevant part of the NEW Devon system are set out in the section 75 agreement.
- Arrangements between Devon County Council and the relevant parts of the NEW Devon system are set out in the section 75 agreement.
- Arrangements for the South Devon and Torbay part of the system are set out in their contract which also incorporates the relationship with Torbay Council.

The approach taken to date is that formal risk management of the delivery of savings plans sits with each partner body of the Devon STP Partnership. The consideration of risk management at an operational level was not within the scope of this review, however we have seen that risk is considered at an operational level as part of the detailed management and review of each work programme and in developing work programme mandates.

We have not seen how the overarching progress and status of the overall risk profile in terms of delivery and achievement of Devon STP Partnership objectives is reported to PDEG, such that partner boards can be appropriately assured and have a clear and consistent view of the risk profile. Consideration should be given to how the partnership wide approach to strategic risks to the Devon STP Partnership objectives, and risk appetite, is considered, evaluated and managed to ensure transparency among partner organisations and ensure that this is considered at staged intervals.

Areas for Enhancement

We have not seen how the overarching progress and status of the overall risk profile in terms of delivery and achievement of the Devon STP Partnership objectives is reported to PDEG, such that partner boards can be appropriately assured and have a clear, consistent and transparent view of the risk profile. Consideration should be given to how the partnership wide approach to strategic risks to the Devon STP Partnership objectives, and risk appetite, is considered, evaluated and managed.

3. Reporting

- Reporting mechanisms and arrangements for reporting to PDEG are in place, adequate and working as intended.

Conclusion

Reporting arrangements to PDEG continue to develop as expectations of PDEG are being realised, in terms of both strategic and operational needs.

PDEG receives regular reports covering both the performance and financial position of the Devon STP Partnership supported by data at partner level, along with an overview report on many of the work programmes, rag rated with achievements to date, risks and next steps. Reporting for some work programmes is in development.

Although there are regular reports to PDEG from the Finance Working Group and the Clinical Cabinet, there is no standard reporting from these groups and it can be verbal. The Terms of Reference for these groups do not set out the reporting arrangements, although they do make it clear that they are accountable to PDEG. The Work Plan we have suggested for PDEG should set out the responses needed from these groups at each meeting.

Papers received by PDEG and subordinate groups should continue to be reviewed to ensure best use of CEO and Executive resource, to avoid duplication of working between groups and aid making decisions for recommending to partner boards.

Reporting arrangements have been developed over the year to meet the needs of PDEG.

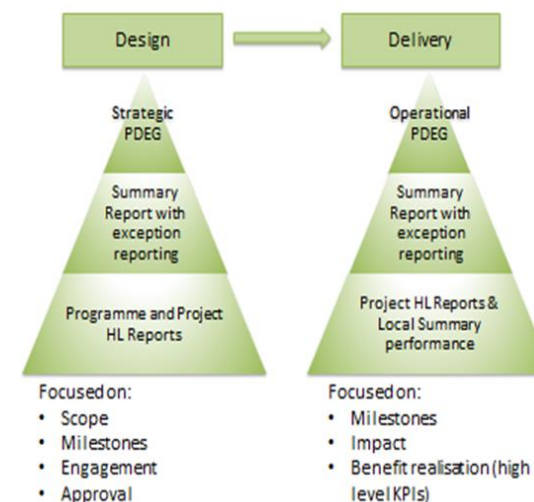
We did not review the reports provided to PDEG in terms of data quality and accuracy and completeness, but looked to assess whether their content would assist PDEG in delivering its duties.

Our review of examples of reporting to PDEG suggests that it is ever evolving and is being challenged to be more timely and informative for carrying out its duties.

A presentation to the PDEG meeting in February set out the overall proposed reporting structure to be put in place for 2017/18, as summarised in the diagram opposite.

The table overleaf sets out current examples of reporting to PDEG for February 2017.

STP performance management reporting



Reports Source	Reports
Reporting from Collaborative Board	<ul style="list-style-type: none"> PDEG received a report feeding back on the Collaborative Board workshop held in January 2017 and recommendations. The report was supported by individual responses on the report from partner organisations.
Assurances, exception reports and recommendations from subordinate groups	<ul style="list-style-type: none"> Operational PDEG received a regular performance report from SPDG. Report provides key performance summary on the latest month and year to date position on RTT, Diagnostic, cancer 62, A&E acute, A&E Acute & MIU, IAPT Access and IAPT Recovery at Devon STP and provider level. Refinements requested at PDEG to include more timely data, national comparator, additional mental health indicators and indicators for local authorities. Strategic PDEG receives STP Implementation - items for Action. Sub Group Updates. Programme Updates.
Progress in delivery of the STP plan and outcomes at high level	<ul style="list-style-type: none"> SPDG report covering PMO Overview and Exception Report. (Full report that is received by the SPDG is to go as an appendix in future). System wide Savings Plan Financial Summary at STP Partnership level and partner level, and the same at work programme level, and exceptions reports on key performance indicators. System wide update report provides overview of progress with STP programmes, including rag rating of delivery, what has been achieved, risks and next steps. Some programme not yet reporting.
Business cases for approval	<ul style="list-style-type: none"> Updates on Mandates for STP Programmes provided at each meeting. Programme structure governance arrangement paper covering planned governance enhancements around decision making and approval of programme mandate.

Areas for Enhancement

- Although there are regular reports to PDEG from the FWG and the Clinical Cabinet, there is no standard reporting from these groups and it can be verbal. The Terms of Reference for these groups do not set out the reporting arrangements, although they do make it clear that they are accountable to PDEG. The Work Plan we have suggested for PDEG should set out the responses needed from these groups at each meeting.
- Papers received by PDEG and subordinate groups should continue to be reviewed to ensure best use of CEO and Executive resource, to avoid duplication of working between groups and aid making decisions for recommending to partner boards.

Appendix 1: Interviews with STP Senior Leadership Team and NHSI and NHSE conducted in February 2017

Audit South West

Internal Audit, Counter Fraud and Consultancy Services

The general conclusion from the interviews we held was that PDEG is moving forward in its role, though progress has not been as quick as it perhaps could have been. The nature of the transformation from the Success Regime to the STP Partnership has meant, however, that it is has been ever evolving. The table below captures the comments received from interviews.

Accountability	
	<ul style="list-style-type: none"> • Clear that statutory accountability remains with statutory bodies and PDEG recommends. • MOU has been signed or in the process of being signed by partners and ratified by boards and there is agreement for NHSI and NHSE to sign. • MOU has yet to be tested for commitment from partner organisations.
Governance	
	<ul style="list-style-type: none"> • PDEG is evolving and provides a continued reminder of stronger together. • Value of PDEG can be affected if deputies attend. • PDEG provides opportunity to take concerns forward for discussion and comment and then endorsement of actions. • Collaborative Board forum to develop and deliver STP. • PDEG could be more structured. • PDEG is being appropriately challenged and held to account. • Actions identified and followed up. • Opportunity to receive additional assurance if needed. • It is the intention of NHSI and NHSE to use PDEG as the assurance vehicle for its performance management role, reinforcing the message of system management. • System recognises that it is stronger together • Responsibilities within the STP Partnership team have been evolving looking to have job descriptions for April. • An OD piece needs to be undertaken with organisations executives re design and delivery of programmes of care. • Risk management sits with statutory organisations. • Managing risk associated with new work programmes sits with PMO. • STP work prioritised through work programmes in the STP. • Small number of system focused KPIs for measuring success would be an enhancement. • Governance architecture will need to be updated at appropriate times; in design moving to delivery. May need to something more enforceable. • Public health not at the table.
Reporting	
	<ul style="list-style-type: none"> • Reporting to PDEG is in development, being refined and is an improving position. • Reporting could be enhanced through bringing together finances and new clinical models.

AUDIT SOUTH WEST – ABOUT US

Audit South West is the largest provider of internal audit, counter fraud and consultancy services in the South West. We maintain a local presence and close engagement within each health community, with audit teams based in Bristol, Exeter, North Devon, Plymouth, Torquay and Cornwall, linked by shared networks and systems.

More information about us, including the services we offer, our client base, our office locations and key people can be found on our website at www.auditsouthwest.co.uk.

Audit South West is a member of TIAN; a group of NHS internal audit and counter fraud providers from across England and Wales. Its purpose is to facilitate collaboration, share best practice information, knowledge and resources in order to support the success and quality of our client's services.

CONFIDENTIALITY

This report is issued under strict confidentiality and, whilst it is accepted that issues raised may need to be discussed with officers not shown on the distribution list, the report itself must not be copied/circulated/disclosed to anyone outside of the organisation without prior approval from the Director of Audit.

INHERENT LIMITATIONS OF THE AUDIT

There are inherent limitations as to what can be achieved by systems of internal control and consequently limitations to the conclusions that can be drawn from this review. These limitations include the possibility of faulty judgment in decision-making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that controls will continue to operate effectively in future periods or that the controls will mitigate all significant risks which may arise in future. Accordingly, unless specifically stated, we express no opinion about the adequacy of the systems of internal control to mitigate unidentified future risk.

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PLYMOUTH CITY COUNCIL

Subject:	Analysis of Local Government Ombudsman Annual Report
Committee:	Audit Committee
Date:	7 December 2017
Cabinet Member:	Councillor Glenn Jordan
CMT Member:	Andrew Hardingham (Interim Joint Strategic Director for Transformation and Change)
Author:	Hannah Daw, Performance Advisor
Contact details	Tel: 01752 307335 email: Hannah.daw@plymouth.gov.uk
Ref:	
Key Decision:	No
Part:	I

Purpose of the report:

Each year the Local Government Ombudsman (LGO) sends each council an annual review letter which outlines the Ombudsman's position in relation to complaints monitoring. The 2017 LGO annual report provides an opportunity to review and discuss complaints that have been received about Plymouth.

After investigation, the LGO has found that for 2017, only 15 complaints out of 102 (14.7%) were upheld, this is an improvement on the rate upheld in 2016 (17.6%).

This briefing provides analysis of the LGO annual review data and presents an annual summary for Plymouth comparing our local statistics with the relative benchmarks. It also highlights the lessons learned, how individual teams and services have responded to the LGO complaint and what our council has done differently following LGO intervention.

The Corporate Plan 2016 - 19:

This report contributes towards the priority activity within the Corporate Plan 2016-19 in relation to improving customer standards. The analysis and organisational learning contained within this paper also contributes towards the corporate performance indicator: Maintain a high percentage of complaints responded to within timeframe. This indicator sits within the Pioneering theme and supports the council to deliver services that are more accountable, flexible and efficient.

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

No specific financial implications result from the LGO report.

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

Customer 'Standards' are being developed with service areas as part of broader work on:

- Customer Service Strategy (to support the work around new Customer Standards)
 - Risk Management (to identify any risk management issues)
-

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

To review the recommendations provided in the report and the activity updates that have occurred since.

Alternative options considered and rejected:

Published work / information:

[Local Government Ombudsman Annual Review Report 2017](#)

Background papers:

None

Sign off:

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Originating SMT Member Andrew Hardingham, Interim Joint Director for Transformation & Change													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

I. BACKGROUND INFORMATION

The Local Government Ombudsman (LGO) publishes annual complaint statistics for each of the authorities within England. This report in part provides an analysis of those statistics for Plymouth. This report also attempts to capture the lessons learned from the complaints.

Complaint Statistics

Peer group benchmarking is provided for each of the service area sections. However, care is required in interpreting the data information in this report as the number of complaints against an authority do not prove that it is a 'poor' or 'good' performing council; the larger the population an authority serves, the higher the number of complaints and enquiries. Also a significant uplift in complaint numbers does not necessarily show that a council has become worse at what it does. The LGO may have received several complaints about the same issue from different residents, for example a controversial planning decision or application.

Organisational Learning

Currently, the LGO sends complaints to a contact point within the Transformation and Change Directorate. The complaint is then monitored to ensure that the LGO receives the required responses. Once a complaint is received it is disseminated into the relevant service area, where the response is created and remedial action undertaken. There is no formal corporate process for undertaking tasks in relation to LGO complaints.

Once the LGO has concluded its involvement, responsibility for this is held locally within each team/service where the complaint was upheld.

2 SUMMARY OF COMPLAINTS UPHELD, KEY MESSAGES AND RECOMMENDATIONS

2.1 Complaints upheld summary

The table below provides summarised details for all LGO upheld complaints

Service		Complaint Description	Remedial Action	Changes and Learning
Adult Social Care	1	Complaint received about a transfer between care homes, perceived victimisation and the care provided by the old care home. No fault found that led to a significant injustice.	No Further Action Required	PCC accepts responsibility for poor communication as the Social Worker relied on Home A to update complainant which was admitted as an error. Apology that Home A response to complaint wasn't up to standard.
	2	Complaint received around perceived failure of care provided contributing to death. There is no evidence that the Council or the commissioned care provider failed to give appropriate care contributing to death. At times, there was poor recording of fluid and diet intake.	Apology, Training, Procedures	Record Keeping Policy reviewed, training days on diet and fluid chart record keeping provided and Attendance at Dignity Forum by the care provider
	3	The Council did not provide timely information about debts secured against a property. It also failed to reassess her clients' needs when it should have done. The Council has already taken steps to put things right and it has agreed to take the actions recommended to remedy the remaining injustice.	Apology, Procedure changes, Financial Redress and Training.	Procedures have now been changed in accordance with the Care Act so that debts against properties are now monitored. Staff training has been carried out.
	4	Complaint received about a Deprivation of Liberty Safeguard decision. The Council should have sought further advice about whether the continued use of a cot bed constituted a deprivation of liberty.	No Further Action	The Council accepts it did not fully investigate the situation in 2014 when it removed the bed. The decision to stop using the cot bed was based on professional advice provided. However, injustice was caused through not investigating the situation properly at the time and for not consulting with the complainant.
Tax and Benefits	5	The complaint is about how Council Tax payments were dealt with. There is some evidence of fault in how the Council has dealt with the complainants council tax payments.	Apology	Following this complaint, there has been a staff communication around care to be taken when updating or amending customer accounts. This account was closely monitored to ensure that there were no further process issues.
	6	Complaint received about the process for Council Tax	Apology	The Council withdrew the two summons and apologised to Mr B for

		non-payment recovery. The Council issued two summons for non-payment for Council tax when the complainant had asked for recovery action on hold. The Council also failed to tell the complainant that it withdrew another summons so he attended court when he did not need to.		not writing to him about the cancelled court date. This remedied the injustice caused to the complainant. This account was closely monitored to ensure that there were no further process issues.
	7	Complaint received about timely reply to the complainants queries about council tax support and bill. The council withdrew the summons it had issued during this period, thereby putting matters right. The complainant was not caused any further injustice because his bill has remained the same. The Council has offered a new payment plan to prevent any further recovery action.	No Further Action	Following this complaint, there has been a staff communication around care to be taken when updating or amending customer accounts. This account was closely monitored to ensure that there were no further process issues.
	8	The Council failed to post council tax documents to the proper address and wrongly took enforcement action, including a visit by enforcement agents. The Council has already removed the costs of the enforcement action. The Council will also post new bills to the correct address; pay the complainant £400 for upset and distress and apologise to him.	Apology, Financial Redress,	The final complainant received an apology as well as financial redress and the department has corrected the account issues which were created by user error. Following this complaint, there has been a staff communication around care to be taken when updating or amending customer accounts. This account was closely monitored to ensure that there were no further process issues.
Education and Children's Services	9	Complaint received about the de-registration of Foster Cares from Devon County Council who had children from Plymouth placed with them. Plymouth City Council and Council X have properly considered the complaint and responded appropriately. The outcome of the complaint does not undermine Council X's decision to de-register them as foster carers.	No Further Action	As a result of this complaint, it has been recognised internally that stronger communication between authorities within these circumstances is not only required but essential. It is unclear whether any formal communication processes have been altered as a result.
Environmental Services and Public Protection & Regulation	10	Complaint received in relation to failure to deliver a bin to the complainant's house. This meant the complainant had nowhere to store her household waste. The Council has agreed to take the actions recommended to put things right.	Apology, Financial Redress, Procedure Change	It has not been possible to locate the details of this complaint internally. Therefore to evidence organisation learning has not been possible.
Highways &	11	Complaint received about perceived failure to place	Apology,	Complainant wrote to her councillor complaining and this was not

Transport		parking restrictions in a lane. There was no fault found in the Council's not introducing these parking restrictions. The Council recognises fault for not replying to the complainant's letter.	Procedure Change	received by the council. No formal record exists. An apology was sent and we had made a commitment to review our communications. Between April 2016 and May 2017 it is unclear that any review had occurred. Member complaints are not recorded in Firmstep and a formal log was only created from May 2017.
Planning and Development	12	The Council did not properly respond to all the complaints received by one complainant received about anti-social behaviour experienced on a Gypsy/Traveller Site. The Council failed to ensure a response reached him due to an error in the email address it used for him and failed to properly manage the large number of diverse complaints submitted by the complainant on several occasions. This caused him injustice as he remained unclear whether the Council would look into his concerns or take any action to resolve the problems he was reporting.	Apology, Financial Redress, Procedure Change	Following this complaint it was recognised that there was lack of co-ordination of multiple complaints when received across different. This learning was fed into a transformation programme and included in new complaints Policy/Process Guide which had been approved by a project board and achieved Cabinet Member sign off.
	13 & 14	Complaint received from a couple and their neighbour that the council did not tell them about a major planning application which affected their homes. This denied them the opportunity to have their objections and their amenity considered. By retrospectively changing plans on the decision notice, the council denied them the opportunity to apply for judicial review.	Financial Redress Training	Another complaint relates to a major planning application which affected homes. This complaint is well document and resulted in additional recommendations following an internal audit report which went to scrutiny. Following this complaint independent training has been given to the planning Committee and changes in procedures have occurred.
	15	Complaint received following inadequate advice given to the complainant about his planning application refusal. The Council failed to provide all its reasons for refusal in pre-application discussions which then led to its refusal of a second application. There was fault by the Council because it did not properly consider the planning advice it initially gave. The Council agreed to remedy the injustice through a refund of the planning application fee he paid in addition to a payment of £100 for his time and trouble.	Financial Redress,	Following this complaint the council now identifies all the reasons for refusing a planning application rather than just the principle reason. This allows the applicant to address all the issues before resubmitting a planning application.

2.2 Key Messages

The key messages from the analysis of the 2016/17 LGO Annual Report data are as follows:

- Plymouth has seen an annual decrease in the total number of complaints received by the LGO. However this is 21% higher than it was four years ago.
- There has been a drop in complaints seen in Planning and Development and Education and Children's Services since the 2015/16 report.
- There has been an increase in complaints for Adult Social Care since 2014/15.
- Adult Social Care and Benefits and Tax received the most complaints, followed by Highways and Transport and Environmental and Public Protection and Regulation Services. The data reveals that for the latter two service areas, complaints are rarely upheld.
- Many of the complaints upheld related to an unsatisfactory initial response provided by the council.
- There is no process around member complaints and there is also no apparent link to casework tracking and LGO complaints.

2.3 Recommendations

1. Implement an improved corporate approach to all LGO complaints.
2. Resolve issues regarding corporate ownership to address issues that have been identified around the future organisational learning and service improvements from all escalated service complaints including LGO complaints.
3. Implement a two stage complaints process with responses coordinated via a central point which will also ensure overall standards are raised such quality and timeliness of response.
4. Develop and disseminate response standards for member enquiries and develop and implement a digital solution early 2018.

2.4 Progress update

The following activity has occurred to support delivery of the agreed recommendations:

Recommendation 1 - Currently, the LGO sends complaints to two separate contact points within the Transformation and Change Directorate. Both contact points monitor the complaint and ensure that the LGO receives the required responses. Historically, there has been no formal process for undertaking tasks in relation to LGO complaints nor has there been a consistent approach to ensure that lessons are learned centrally.

The Customer Experience Lead role, currently being reviewed for grading, will undertake a Quality Assurance role for contact with customers in relation to complaint responses and ensure consistent practice across Council departments in relation to all aspects of customer feedback including complaints including complaints received from MP casework, councillor casework, contact with the LGO, comments and compliments.

Recommendation 2 - The Assistant Director for Customer Services is now the lead officer for LGO complaint monitoring and organisational learning. This will ensure that a consistent approach to administration and monitoring.

Recommendation 3 - The Assistant Director for Customer Services has led a consultation process across the Council's directorate management teams regarding the introduction of a two stage complaint process: The two stage process will mean that complaints will be handled by the relevant officer in the first instance. Complaint responses from officers will include the contact

details of a Senior Manager, to be determined within each department, so that the customer can contact them should they be unhappy with the response and wish their complaint to be reviewed again. The complaint will be reviewed at this second stage and issued with a response which includes the LGO contact details so that the customer can contact them should they remain unhappy.

Comments and suggestions arising from the consultation are now being reviewed and incorporated into the processes being designed in Firmstep to accommodate a two stage process.

Responses will be coordinated using the Firmstep system and reviewed by a Customer Experience Lead role which is being developed within the Transformation and Change directorate. The role will have responsibility for the corporate customer experience and will seek to ensure overall standards are raised as well as ensure learning is used to develop customer insight and service improvement.

Recommendation 4

New Member Enquiry Response Standards (including casework) were developed and agreed by Leader of the Council in September. These were then disseminated by the Chief Executive on 20 September 2017 to all Council staff and Councillors. The aim of the refreshed Member Enquiry Response Standards policy is to promote consistency and quality in how officers respond to Member enquiries/casework.

To support the new standards, a more consistent method of recording, monitoring and reporting against Member enquiries is also being determined. Work is underway to develop a digital solution through Firmstep. User testing on the new solution has been completed and piloting is taking place towards the end of November. It is anticipated roll-out of the new solution will take place during December 2017 and January 2018. The work on Member response standards is being taken forward as part of a broader approach to improving customer service across the Council, including clarifying our complaints process.

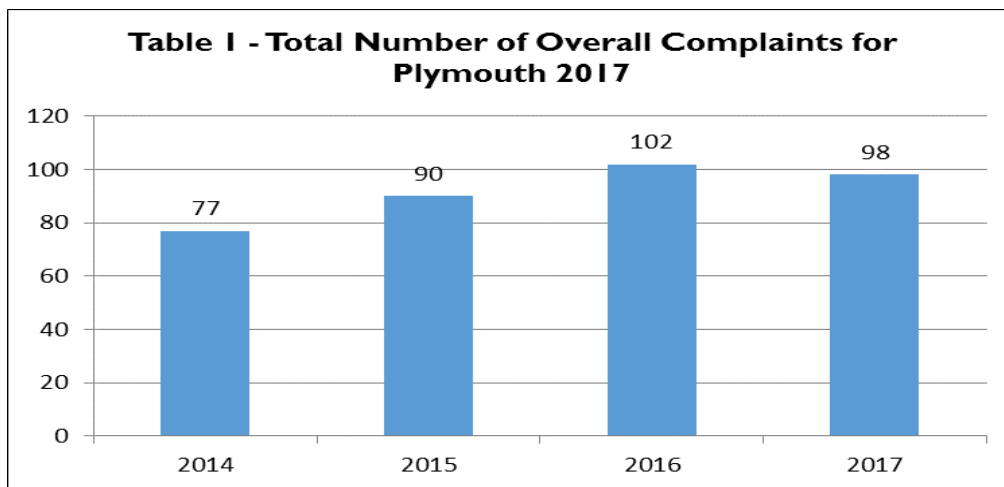
3. COMPLAINT STATISTICS 2017 OVERALL PLYMOUTH RESULTS

3.1 Complaints received

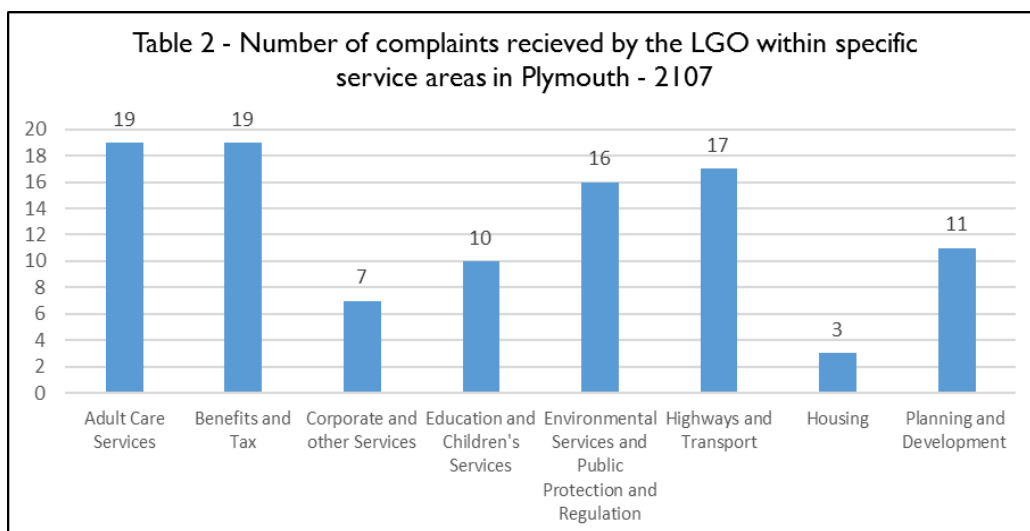
It is important to note that not all complaints are decided in the same year that they are received. The number of complaints received by the LGO for Plymouth in 2017 was 98. However figures in this briefing also include four complaints that were carried over from the previous year. Therefore 102 decisions were made by the LGO for Plymouth in 2017.

In 2017, the LGO received for England 19077 (slightly up from the year before) complaints at a rate of 0.35 per 1000. In 2017, 98 complaints and enquiries were received by the LGO for Plymouth. This is at a rate of 0.37 per 1000. Plymouth therefore received slightly more than the national average.

Following a rise in complaints over the last four years Plymouth has seen a slight reduction in the number of complaints received in 2016/17.



The table below shows distribution of the complaints received by the LGO for Plymouth within each of the specific service areas.

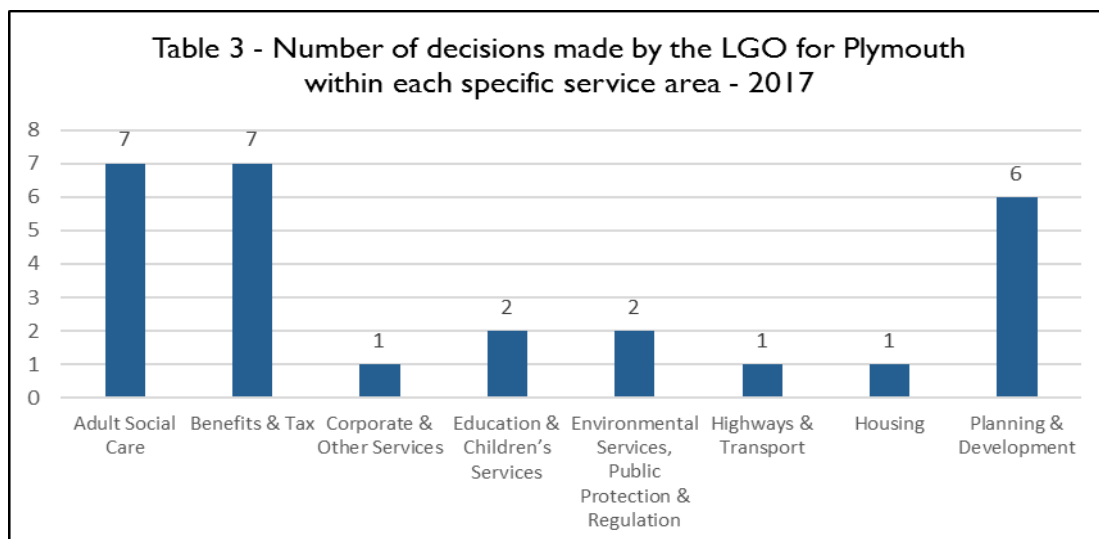


- Adult Social Care and Benefits and Tax received the most complaints, followed by Highways and Transport and Environmental and Public Protection and Regulation Services.
- Housing Services received the least complaints.

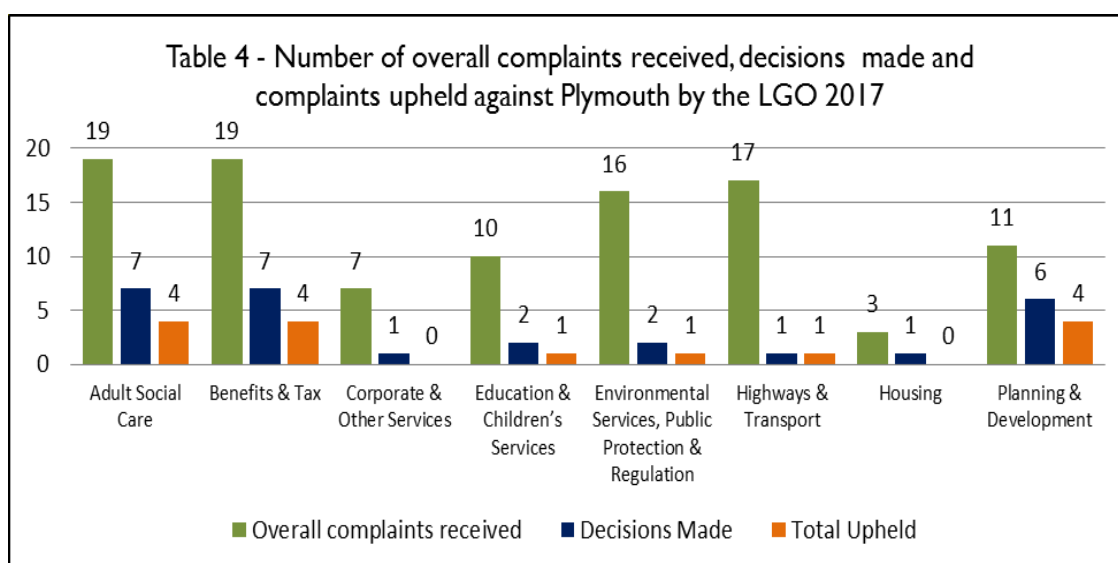
3.2 Complaint Decisions

A further four complaints were carried over from the previous year, therefore a total of 102 decisions were made by the LGO for Plymouth; this is fewer than the previous year when 108 decisions were made.

In 2017 of the complaints received for England, where a detailed investigation occurred, 53% were upheld. In Plymouth, the LGO conducted a detailed investigation into 27 complaints, of those 15 (56%) were upheld. This equates to 14.7% of the 102 total decisions made. The table below shows in which specific service areas complaints were subject to further investigation.



The number of complaints upheld against Plymouth has reduced this year by 2.9 percentage points.

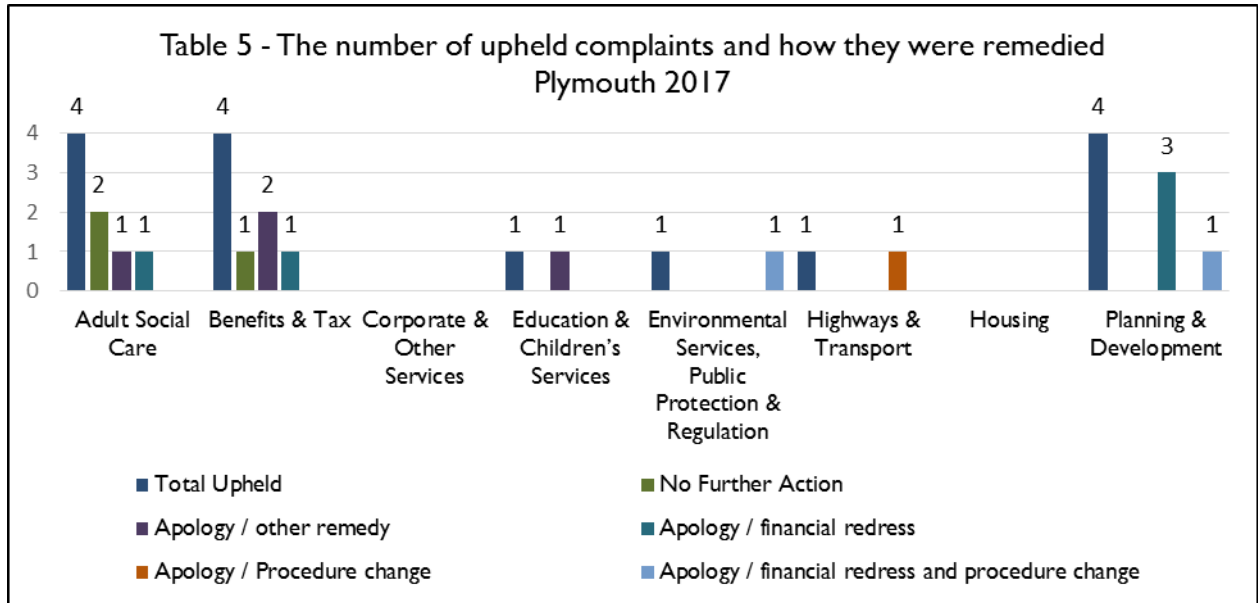


Appendix I provides information around the 102 decisions made and how they were remedied. Clarification around the categories of decisions can be found in appendix 2.

Remedial action for each of these complaints can be in the form of:

- Apology / Financial Redress
- Apology / Financial Redress and procedure change
- Apology / Procedure change
- Apology / other remedy
- No Further Action required

The chart below illustrates the remedial action that has occurred within each service area.

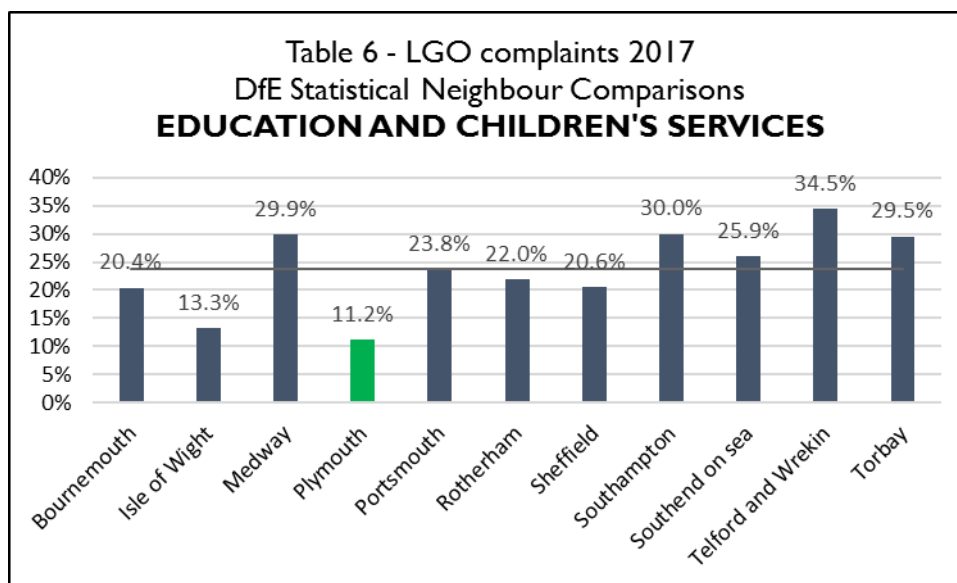


Appendix 3 illustrates the remedial action recommended by the LGO following their detailed investigations. Lessons learned from each of the upheld complaints can be found in the next section within each of the service area headings.

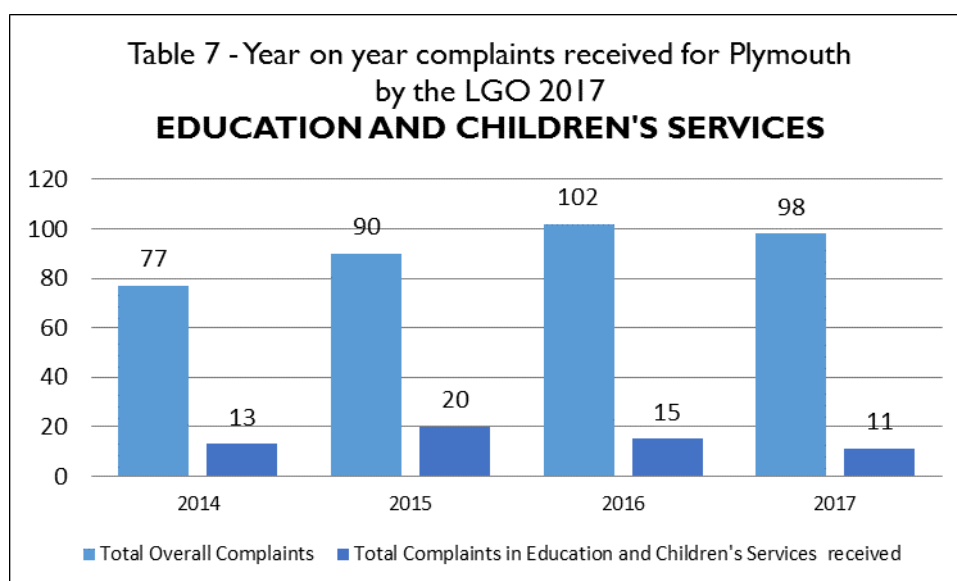
4. ANALYSIS OF COMPLAINTS RECEIVED FOR PLYMOUTH BY THE LGO

4.1 Education and Children's Services

The average amount of complaints received about Education and Children's Services within the DfE benchmarking group is 15.5 (23.7% of total overall complaints received). Plymouth performs favourably with less than the statistical neighbour average.



In total the LGO received 11 complaints and enquiries relating to Education and Children's Services in Plymouth. This is the lowest seen over recent years.

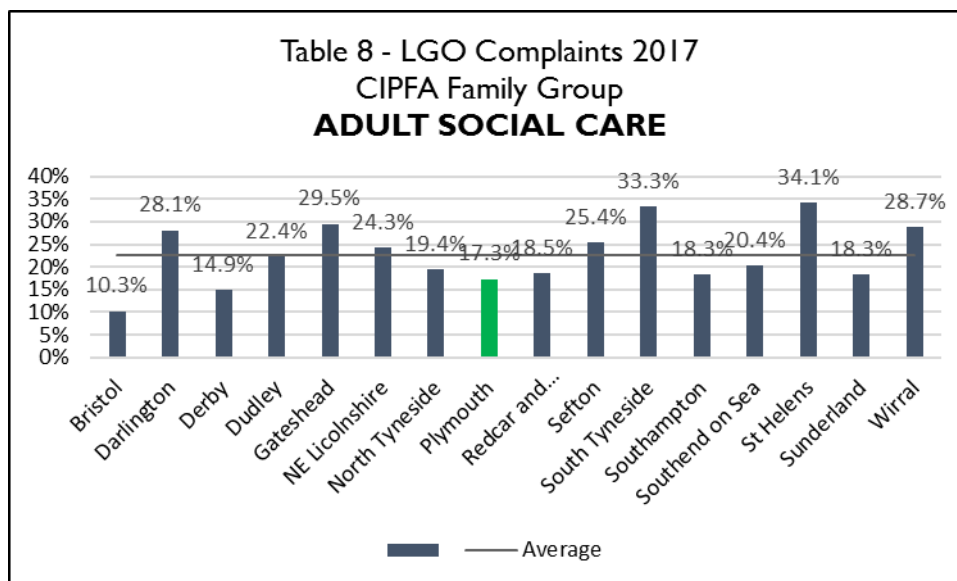


UPHELD COMPLAINTS AND LESSONS LEARNED

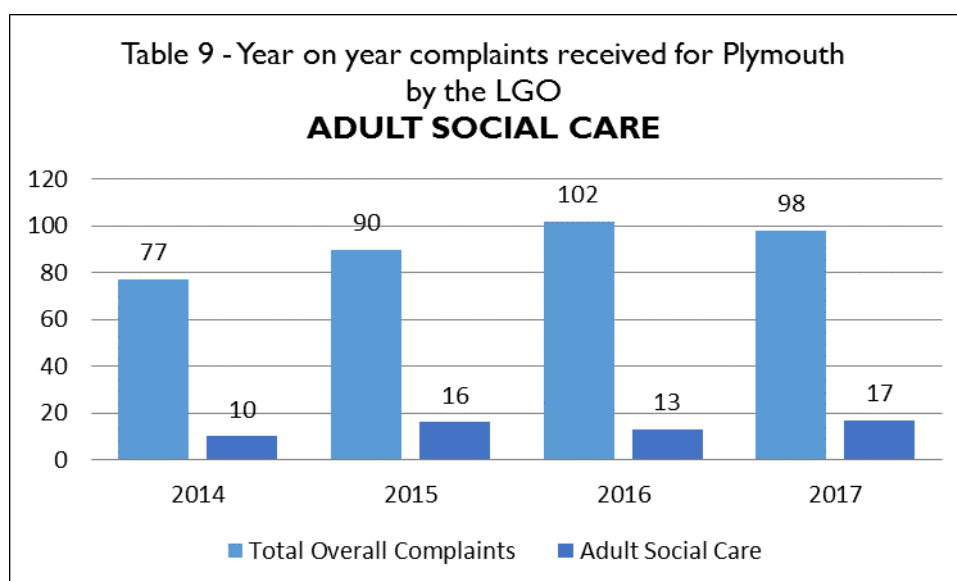
Of the 11 complaints received by the LGO, one was upheld. This complaint was in relation to the de-registration of Foster Carers by Devon County Council. The complainants escalated to the LGO in order to obtain reconsideration of their de-registration. Plymouth City Council was included within the complaint because the children in placement were under the care of Plymouth. As a result of this complaint, it has been recognised internally that stronger communication between authorities within these circumstances is not only required but essential. It is unclear whether any formal communication processes have been altered as a result.

4.2 Adult Social Care Services

The average amount of complaints received about Adult Social Care Services within the CIPFA Family Group is 23.7% of total overall complaints received. Plymouth performs favourably against the family group average.



In total Plymouth received 17 complaints and enquiries relating to Adult Social Care Services in 2017. This is the highest seen over recent years.



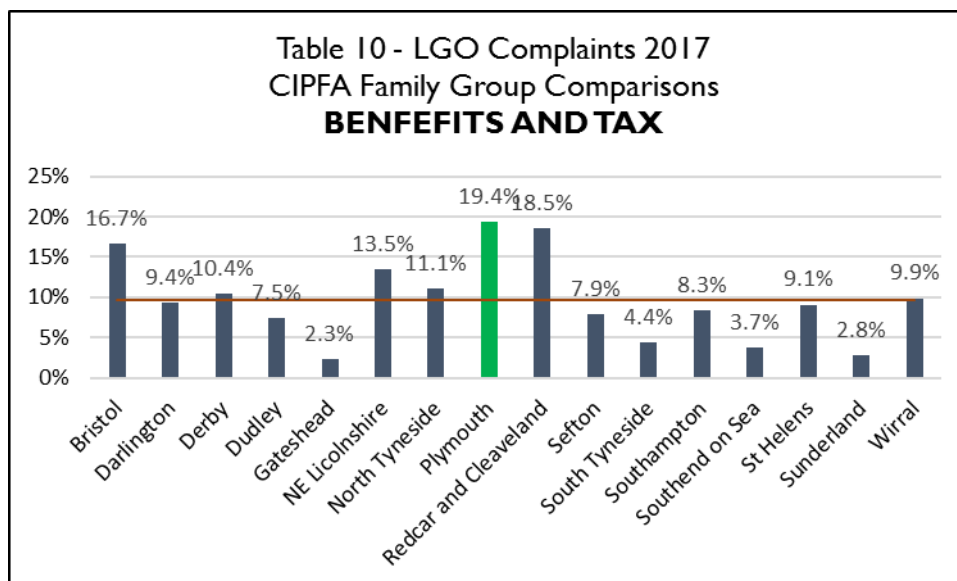
UPHELD COMPLAINTS AND LESSONS LEARNED

Of the 17 complaints received by the LGO, four were upheld; one identifies that the initial response to the complaint was not to the standard and tone expected from a PCC commissioned care home; another was in relation to inconsistent care recordings. A third complaint was in relation to ground rent debt at a care home, since this complaint process had changed regarding monitoring debts against properties in line with the Care Act 2014. A final complaint is in relation to communication with a service user around Deprivation of Liberty Safeguards but warranted No Further Action.

There are processes in place within the Quality Audit Improvement Team to ensure that lessons are learned and fed into commissioned services. In these cases provider training was undertaken on diet and chart record keeping alongside the review of record keeping policies.

4.3 Benefits and Tax Services

The average amount of complaints received about Benefits and Tax Services within the CIPFA Family Group is 9.7% of total overall complaints. Plymouth does not perform favourably against the family group average.



In total Plymouth received 19 complaints and enquiries relating to Benefits and Tax Services in 2017. This is the highest seen over recent years.

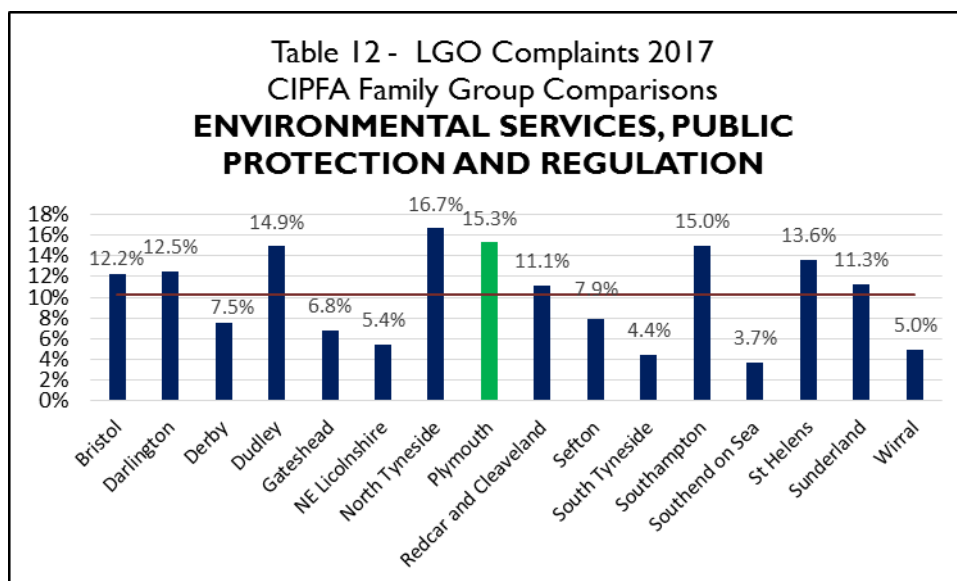
UPHELD COMPLAINTS AND LESSONS LEARNED

Of the 19 complaints received, four complaints were upheld by the LGO. These were all in relation to the handling of Council Tax. Of the four upheld complaints, one was fully resolved by the department before it reached the LGO and two complainants received a letter of apology. The final complainant received an apology as well as financial redress and the department has corrected the account issues which were created by user error. All accounts were closely monitored to ensure that there were no further process issues.

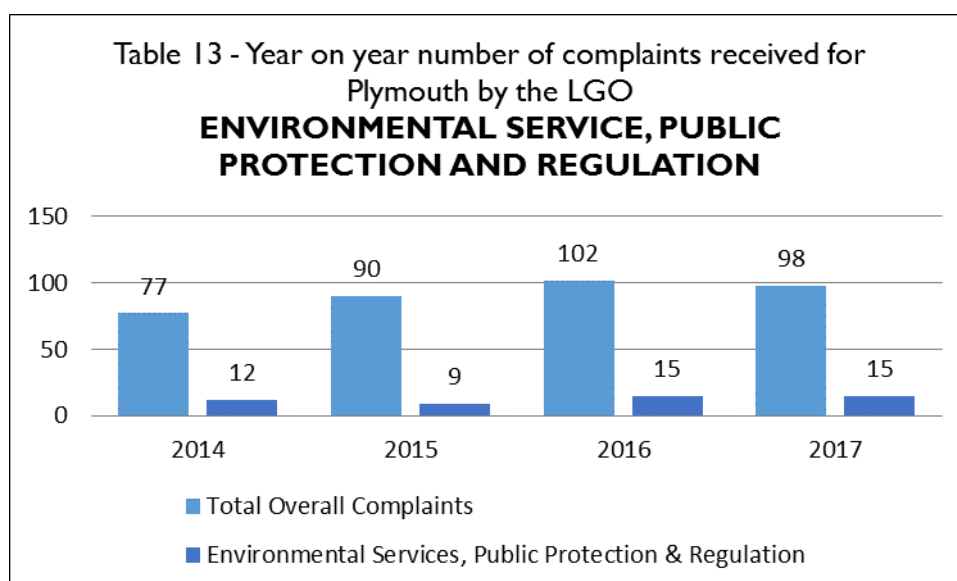
Following these complaints, there has been a staff communication around care to be taken when updating or amending customer accounts.

4.4 Environmental Services and Public Health and Regulation

The average amount of complaints received about Environmental Service and Public Health and Regulation Services within the CIPFA Family Group is 10.2% of total overall complaints received. Plymouth does not perform favourably against the family group average.



In total Plymouth received 15 complaints and enquiries relating to Environmental Services, Public Protection and Regulation Services in 2017. This is a sustained position from the previous year and an increase on the previous two year prior.

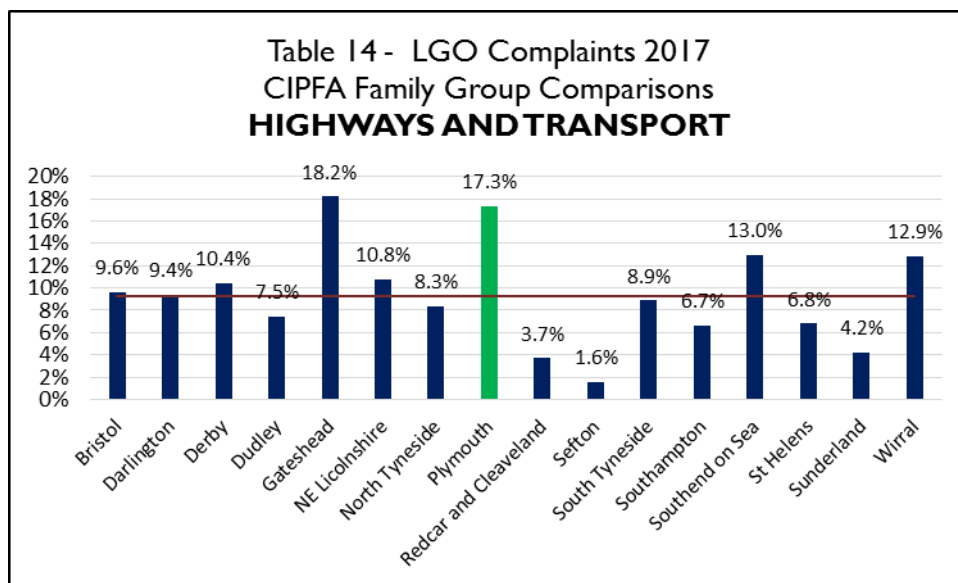


UPHELD COMPLAINTS AND LESSONS LEARNED

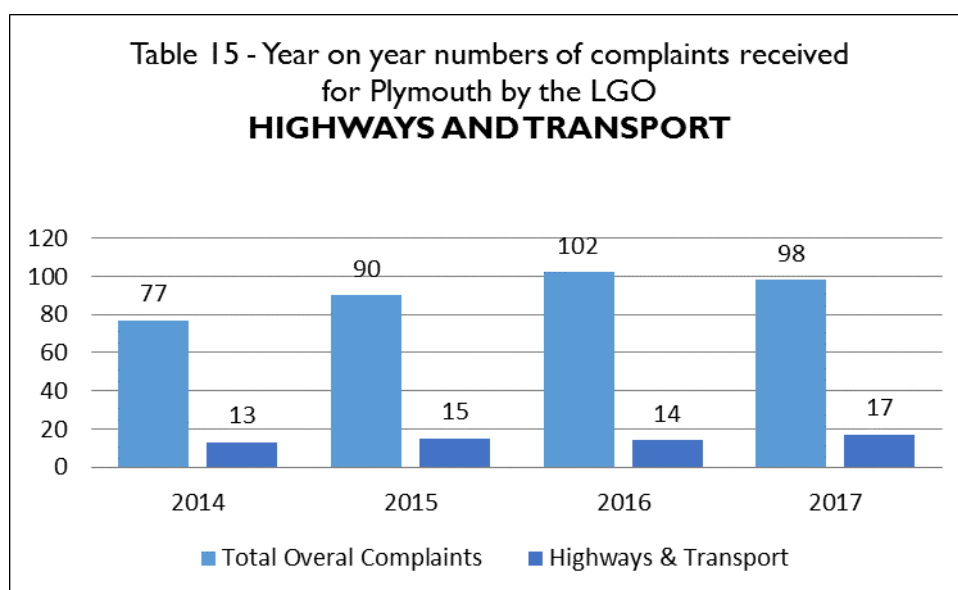
Of the 15 complaints received one was upheld. This was in relation to failure of a bin being delivered. It has not been possible to locate the details of this complaint internally. Therefore to evidence organisation learning has not been possible.

4.5 Highways and Transport Services

The average amount of complaints received about Highways and Transport Services within the CIPFA Family Group is 9.3% of total overall complaints received. Plymouth does not perform favourably against the family group average.



In total Plymouth received 17 complaints and enquiries relating to Highways and Transport Services in 2017. This is the highest seen over recent years.

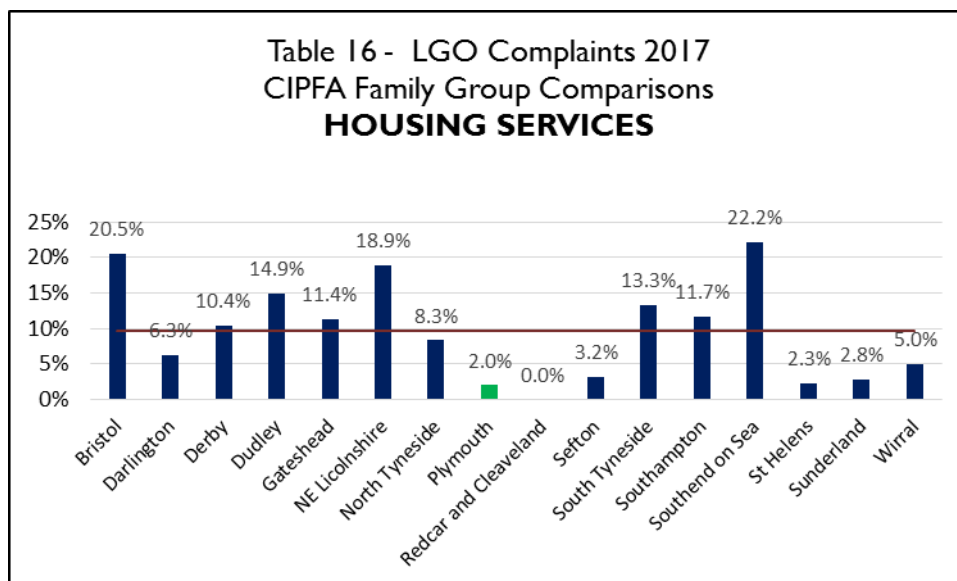


UPHELD COMPLAINTS AND LESSONS LEARNED

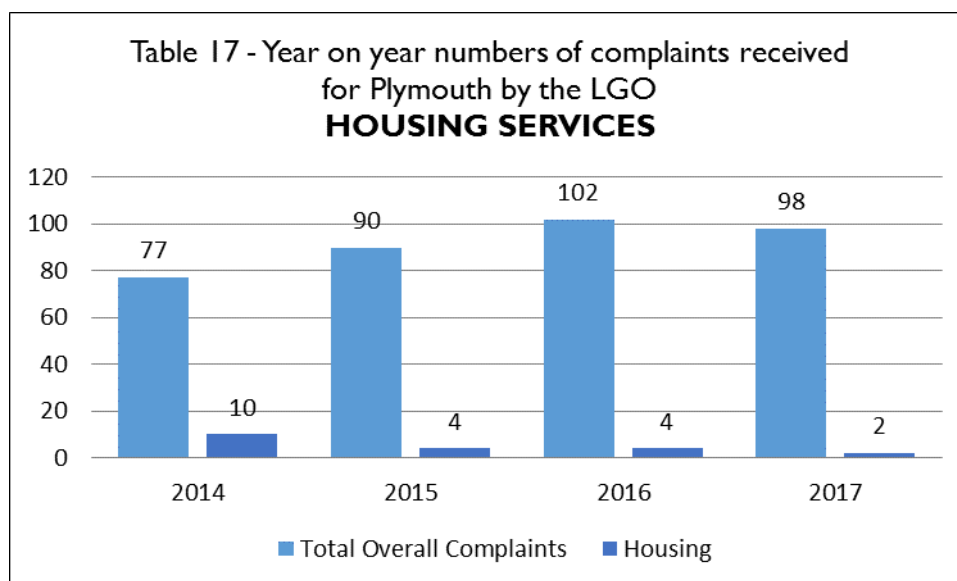
One complaint was upheld by the LGO. This was in relation to parking. A complaint raised with a local councillor was not received by the council. No formal record exists of this complaint. An apology was sent and a commitment to review our communications was made. Between April 2016 and May 2017 it is unclear that any review had occurred. A formal log of member complaints in this specific service area was created from May 2017. No member complaints across the council are logged within the corporate platform for recording complaints – ‘Firmstep’.

4.6 Housing Services

The average amount of complaints received about Housing Services within the CIPFA Family Group is 9.6% of total overall complaints received. Plymouth performs favourably against the family group average.



In total Plymouth received two complaints and enquiries relating to Housing Services in 2017. This is the lowest seen over recent years.

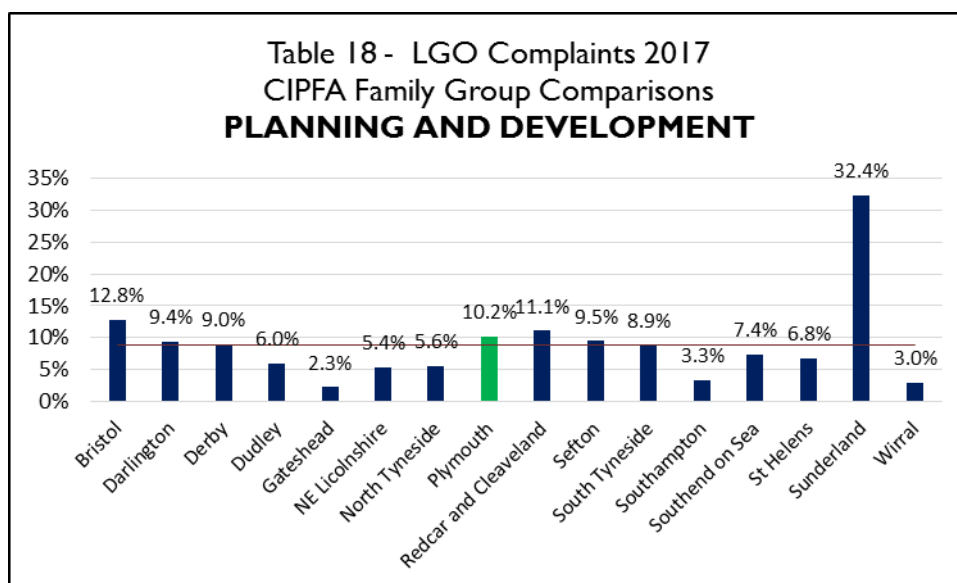


UPHELD COMPLAINTS AND LESSONS LEARNED

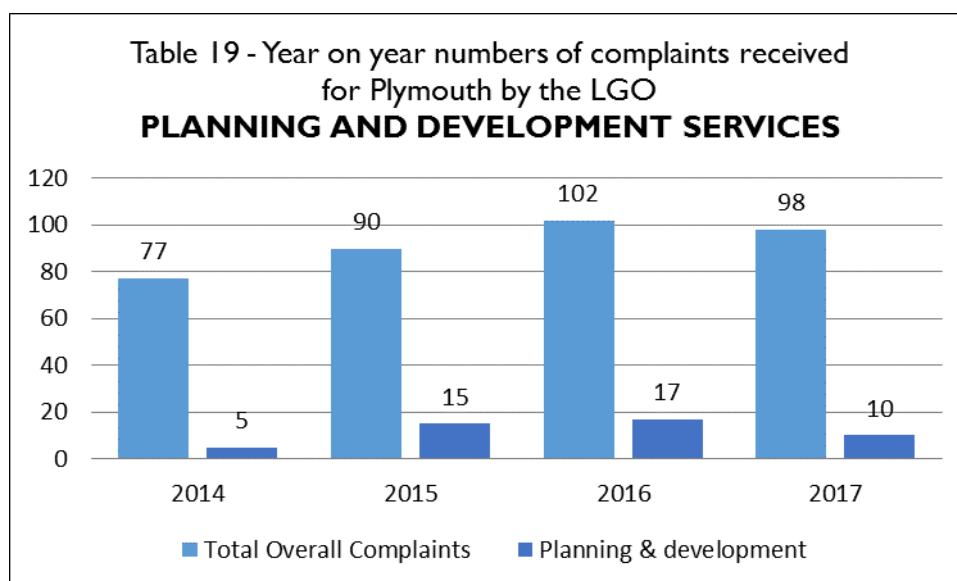
Of the two complaints received, none were upheld. However please see section 4.7 – Planning and Development - where one complaint was upheld in relation to Gypsy and Travellers, which may be of interest.

4.7 Planning and Development Services

The average amount of complaints received about Planning and Development Services within the CIPFA Family Group is 8.9% of total overall complaints received. Plymouth performs slightly above the family group average.



In total Plymouth received 11 complaints and enquiries relating to Planning and Development Services in 2017. This is the lowest seen over recent years.



UPHELD COMPLAINTS AND LESSONS LEARNED

Of the 10 complaints received, four were upheld; one in relation to a large number of complaints from one complainant sent across different council departments about anti-social behaviour from a Gypsy/Traveller community. Following this complaint it was recognised that there was lack of co-ordination of multiple complaints when received across different departments. This learning was fed into a transformation programme and included in a new Complaint Policy/Process Guide that had been approved by a project board and achieved Cabinet Member sign off.

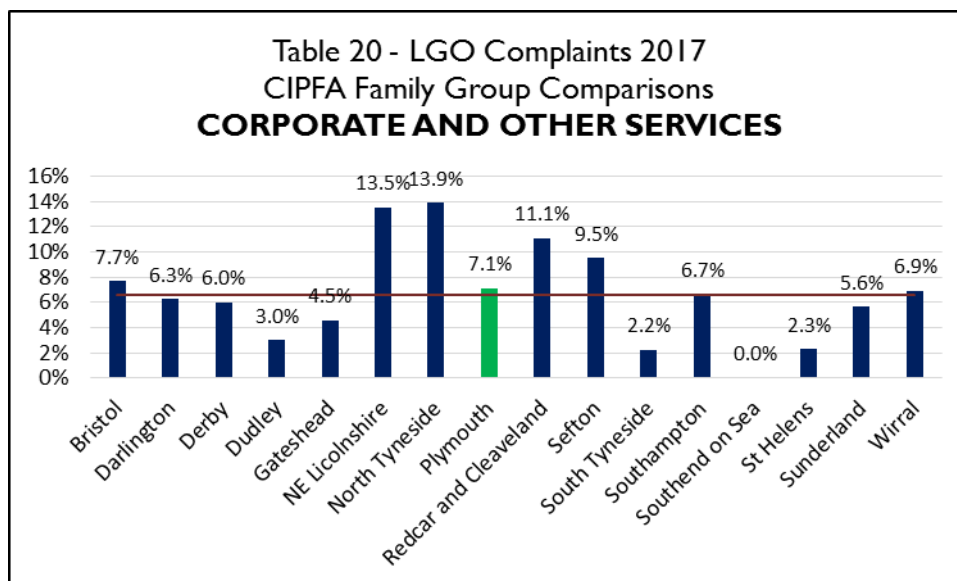
Another complaint, was received by two different members of the public and relates to a major planning application which affected homes. This complaint is well document and resulted in additional recommendations following an internal audit report which went to Scrutiny. Following

this complaint, independent training has been given to the Planning Committee and changes in procedures have occurred.

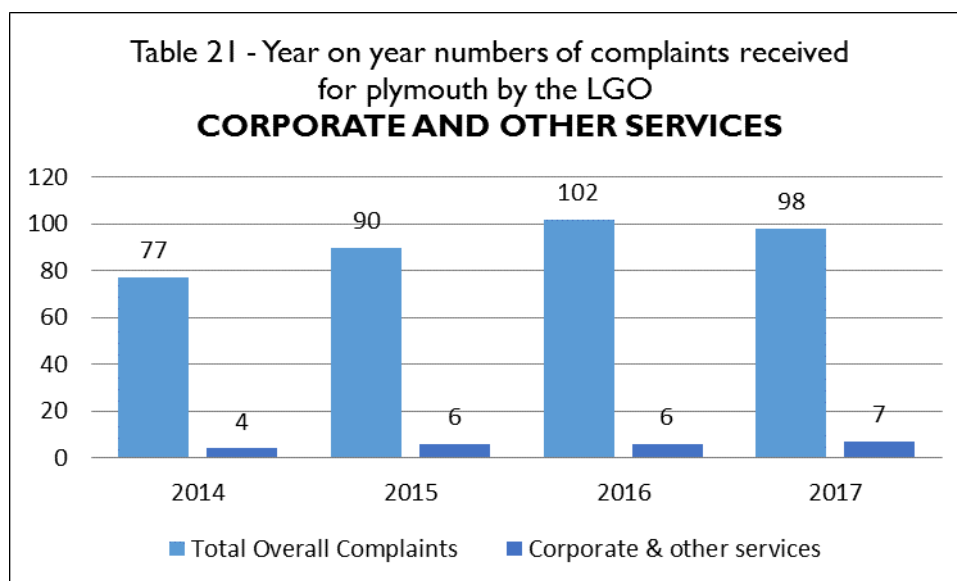
A final complaint relates to advice provided around minor planning permission. The complainant wrote to the Ombudsman after receiving the Council's complaint response. Following this complaint the Council now identifies all the reasons for refusing a planning application rather than just the principle reason. This allows the applicant to address all the issues before resubmitting a planning application.

4.8 Corporate Services

The average amount of complaints received about Corporate and Other Services within the CIPFA Family Group is 6.6% of total overall complaints received. Plymouth does not perform favourable against the family group average.



In total Plymouth received 7 complaints and enquiries relating to Corporate and Other Services in 2017. This is a slight increase on previous years.



UPHELD COMPLAINTS AND LESSONS LEARNED

Of the seven complaints received, none were upheld.

Appendix 1 – Decisions made by the Ombudsman for Plymouth

	Total	Decisions				Detailed investigations		
		Invalid or incomplete	Referred back for local resolution	Advice given	Closed after initial enquiries	Not upheld	Upheld	Uphold rate (%)
Adult Social Care	19	3	8	0	1	3	4	21.05%
Benefits & tax	19	1	5	0	6	3	4	21.05%
Corporate & other services	7	0	3	0	3	1	0	0.00%
Education & children's services	10	0	4	0	4	1	1	10.00%
Environmental services, public protection & regulation	16	0	5	0	9	1	1	6.25%
Highways & transport	17	0	8	0	7	0	1	5.88%
Housing	3	0	2	0	0	1	0	0.00%
Planning & development	11	1	2	0	2	2	4	36.36%
2016/17 Totals	102	5	37	0	32	12	15	55.56%
2015/16 Totals	108	4	46	1	26	12	19	61.29%

Appendix 2 – How to understand the categories in the breakdown tables on the Ombudsman's Annual Review Letter 2017

Upheld: These are complaints where we have decided that an authority has been at fault in how it acted and that this fault may or may not have caused an injustice to the complainant, or where an authority has accepted that it needs to remedy the complaint before we make a finding on fault. If we have decided there was fault and it caused an injustice to the complainant, usually we will have recommended the authority take some action to address it.

Not upheld: Where we have investigated a complaint and decided that a Council has not acted with fault, we classify these complaints as not upheld.

Advice given: These are cases where we give advice about why LGO would not look at a complaint because the body complained about was not within the LGO's scope or we had previously looked at the same complaint from the complainant, or another complaints handling organisation or advice agency was best placed to help them.

Closed after initial enquiries: These complaints are where we have made an early decision that we could not or should not investigate the complaint, usually because the complaint is outside LGO's jurisdiction and we either cannot lawfully investigate it or we decide that it would not be appropriate in the circumstances of the case to do so. Our early assessment of a complaint may also show there was little injustice to a complainant that would need an LGO investigation of the matter, or that an investigation could not achieve anything, either because the evidence we see shows at an early stage there was no fault, or the outcome a complainant wants is not one we could achieve, for example overturning a court order.

Incomplete/invalid: These are complaints where the complainant has not provided us with enough information to be able to decide what should happen with their complaint, or where the complainant tells us at a very early stage that they no longer wish to pursue their complaint.

Referred back for local resolution: We work on the principle that it is always best for complaints to be resolved by the service provider wherever possible. Furthermore, the Local Government Act 1974 requires LGO to give authorities an opportunity to try and resolve a complaint before we will get involved. Usually we tell complainants how to complain to an authority and ask them to contact it directly. In many instances, authorities are successful in resolving the complaint and the complainant does not re-contact us.

APPENDIX 3 - Plymouth Complaints upheld following detailed investigation

	Total	Decisions				Detailed investigations			Of those upheld				
		Invalid or incomplete	Referred back for local resolution	Advice given	Closed after initial enquiries	Not upheld	Upheld	Uphold rate (%)	Null	Apology / other remedy	Apology / financial redress	Apology / Procedure change	Apology / financial redress and procedure change
Adult Social Care	19	3	8	0	1	3	4	21.05%	2	1	1	0	0
Benefits & tax	19	1	5	0	6	3	4	21.05%	1	2	1	0	0
Corporate & other services	7	0	3	0	3	1	0	0.00%	0	0	0	0	0
Education & children's services	10	0	4	0	4	1	1	10.00%	0	1	0	0	0
Environmental services, public protection & regulation	16	0	5	0	9	1	1	6.25%	0	0	0	0	1
Highways & transport	17	0	8	0	7	0	1	5.88%	0	0	0	1	0
Housing	3	0	2	0	0	1	0	0.00%	0	0	0	0	0
Planning & development	11	1	2	0	2	2	4	36.36%	0	0	3	0	1
2016/17 Totals	102	5	37	0	32	12	15	55.56%	3	4	5	1	2
2015/16 Totals	108	4	46	1	26	12	19	61.29%					

Audit Committee Work Plan 2017/18

		2017							2018					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Draft Statement of Accounts 2016/17 and Annual Governance Statement	Carolyn Haynes	29			14									
Strategic Risk and Opportunity Register Monitoring Report and the Integrated Commissioning Risk Register	Mike Hocking				14						15			
Operational Risk and Opportunity Management - Update Report	Mike Hocking	29						7						
Risk and Opportunity Management Annual Report 2016/17	Mike Hocking	29												
Information Annual Governance Report	Mike Hocking / John Finch				14									
Annual Report on Treasury Management Activities for 2016/17	Chris Flower	29												

Audit Committee Work Plan 2017/18

Item	Lead Officer	2017							2018					
		J	J	A	S	O	N	D	J	F	M	A	M	J
Treasury Management Practices, Principles and Schedules 2018/19	Chris Flower										15			
Mid-Year Treasury Management Report 2017/18	Chris Flower							7						
Treasury Management Strategy 2018/19	Chris Flower							7						
Counter Fraud Annual Report	Mike Hocking / Ken Johnson	29												
Health and Safety Annual Report	Clare Cotter				14									
Internal Audit Annual Report 2016/17	David Curnow / Brenda Davis	29												

Audit Committee Work Plan 2017/18

		2017							2018					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Internal Audit Half Year Report 2017/18	David Curnow / Brenda Davis							7						
Internal Audit – Progress Report	David Curnow / Brenda Davis				14									
Internal Audit Follow Up Report 2016/17	David Curnow / Brenda Davis				14									
Internal Audit Charter and Strategy 2018/19	David Curnow / Brenda Davis										15			
Internal Audit Plan 2018/19	David Curnow / Brenda Davis										15			
Annual Report to Those Charged with Governance (ISA260 Report) 2016/2017 including Value for Money (VFM) (External Auditor)	External Auditor BDO				14									

Audit Committee Work Plan 2017/18

		2017							2018					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
External Audit Progress Report	External Auditor BDO	29						7						
Planning Report (March 2018) (External Auditor)	External Auditor BCO										15			
Annual Audit Letter	External Auditor BDO							7						
Planning Letter (External Auditor)	External Auditor BDO	29									15			
Grant Claims and Returns Certification (External Auditor)	External Auditor BDO										15			
Integrated Commissioning – Finance Assurance Review Group – Annual Report 2016/17 including ASW Audit Programme for CCG	David Northey							7						

Audit Committee Work Plan 2017/18														
		2017							2018					
Item	Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Surveillance, Covert Activities and the Regulation of Investigatory Powers Act 2000 (RIPA)	Alexander Fry	29												
Protecting the Public Purse – Counter Fraud Annual Report	Mike Hocking / Ken Johnson													
Review of Rolling Work Plan	Lead Officer/DSO	29			14			7			15			
Items to be Scheduled 2017/18														
Director of Children's Services Local Assurance Test Review	Carole Burgoyne	29												

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