



**Oversight and Governance**

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Published 22 May 2018

## **AUDIT AND GOVERNANCE COMMITTEE**

Thursday 31 May 2018

10.00 am

Council House, Plymouth

**Members:**

Councillor Kate Taylor, Chair

Councillors Dr Mahony, Mrs Pengelly, Pete Smith and Stevens.

**Independent Members:**

Mr R Clarke

Mr I Stewart

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

For further information on attending Council meetings and how to engage in the democratic process please follow this link - [Get Involved](#)

**Tracey Lee**

Chief Executive

## **Audit and Governance Committee**

### **Agenda**

**1. To Note the Appointment of the Chair and appoint a Vice Chair**

The Committee will be asked to note the appointment of the Chair for the municipal year 2018/19 and appoint a Vice Chair.

**2. Apologies**

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

**3. Declarations of Interest**

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

**4. Minutes (Pages 1 - 4)**

To confirm the minutes of the meeting held on 15 March 2018.

**5. Chair's Urgent Business**

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

**6. Terms of Reference (Pages 5 - 8)**

The committee will receive the terms of reference for the Audit & Governance Committee.

**7. Independent Remuneration Panel Review - to follow**

The committee will receive the Independent Remuneration Panel Review update.

**8. Elections Debrief**

The committee will receive a verbal update on the Elections Debrief.

**9. Internal Audit Annual Report 2017/18 (Pages 9 - 38)**

The committee will receive the Internal Audit Annual Report 2017/18.

**10. Annual Governance Statement 2017/18 (Pages 39 - 68)**

The committee will receive the Annual Governance Statement 2017/18.

**11. Draft Statement of Accounts 2017/18 (Pages 69 - 76)**

The committee will receive the Draft Statement of Accounts 2017/18.

**12. Annual Report on Treasury Management Activities 2017/18 (Pages 77 - 96)**

The committee will receive the Annual Report on Treasury Management Activities 2017/18.

**13. BDO Verbal Update**

The committee will receive a verbal update from BDO.

**14. Work Programme (Pages 97 - 102)**

The committee will receive the draft work programme for 2018/19.

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**Audit Committee****Thursday 15 March 2018****PRESENT:**

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

Co-opted Representatives: Mr Clarke and Mr Stewart.

Apologies for absence: Mr Curnow

Also in attendance: Jamie Sheldon (Democratic Advisor), Andrew Hardingham (Interim Joint Strategic Director Transformation and Change), Brenda Davis (Audit Manager), Mike Hocking (Head of Assurance Services), Chris Flower (Finance Business Partner), Robert Hutchins (Head of Devon Audit Partnership), Mathew Hepenstal (External auditor), Simon Arthurs (Senior Financial Analyst) and Jonney Steven (Head of Commercial Enterprise).

The meeting started at 2.00 pm and finished at 3.40 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.*

43. **Declarations of Interest**

The following declaration of interest was made in accordance with the Code of Conduct –

<b>Name</b>	<b>Subject</b>	<b>Reason</b>	<b>Interest</b>
Councillor Sam Leaves	NEW Devon CCG	Employee of NEW Devon CCG	Personal

44. **Minutes**

Agreed the minutes of the meeting held on 7 December 2017 as an accurate record subject to the following change:

Under attendance David Curno to be changed to David Curnow.

45. **Chair's Urgent Business**

There were no items of Chair's urgent business.

46. **Strategic Risk and Opportunity Register - Monitoring Report**

Mike Hocking (Head of Assurance Services) presented the report to the committee.

Members agreed –

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

47. **Integrated Commissioning Risk Register Report**

Mike Hocking (Head of Assurance Services) presented the report to the committee.

Members agreed –

To note and endorse the current position with regard to the integrated commissioning risk register.

48. **Insurance Claims Handling Audit**

Mike Hocking (Head of Assurance Services) presented the report to the committee.

Members agreed –

To note and endorse the current position with regard to the claims audit report.

49. **Treasury Management Practices, Principles and Schedules 2018/19**

Chris Flower (Finance Business Partner) presented the report to the committee.

Members agreed –

To approve the Treasury Management Practices, Principles and Schedules for 2018/19 as set out in this report to ensure compliance with the CIPFA Code of Practice for Treasury Management.

50. **Internal Audit Charter and Strategy 2018/19**

Brenda Davis (Audit Manager) presented the report to the committee.

Members agreed –

The Internal Audit Charter & Strategy for the year 2018/19

51. **Internal Audit Plan 2018/19**

Robert Hutchins (Head of Devon Audit Partnership) presented this report to the committee.

Members agreed –

The report to be noted and the proposed Internal Audit Plan for 2018/19 be approved.

52. **Planning Report (March 2018) (External Auditor)**

Mathew Hepenstal (External auditor) presented the report to the committee.

Members agreed –

To note the report.

53. **Grant Claims and Returns Certification (External Auditor)**

Mathew Hepenstal (External auditor) presented the report to the committee.

Members agreed –

To note the report.

54. **Contract Standing Orders**

Simon Arthurs (Senior Financial Analyst) presented the report to the committee.

Members agreed –

To support the amendments to the constitution and to endorse this through to Constitutional Review Group and Council. This will devolve the low level spend below £25,000 to front line staff from the go live date - 1st Aug 2018.

This will enable the Procurement Service Function operate more strategically and deliver a fit for purpose service.

55. **Transfer of Corporate Fraud Team to Devon Audit Partnership**

Jonney Steven (Head of Commercial Enterprise) introduced the report to the committee.

Members agreed -

1. To approve the transfer of the seven members of the PCC Corporate Fraud Team (CFT) to Devon Audit Partnership, with a contract put in place for DAP to continue to deliver these services.
2. To delegate the negotiation and signing of the aforementioned contract to the Joint Interim Strategic Director for Transformation and Change.

56. **Work Programme**

Members noted the work programme.

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**AUDIT AND GOVERNANCE COMMITTEE  
TERMS OF REFERENCE**

2018-2019

**I. FUNCTIONS**

The Audit and Governance Committee is responsible for the functions set out in Section 2 below. The Council's Internal Audit functions are carried out by the Devon Audit Partnership; External Audit is carried out by the Council's appointed External Auditor.

**MATTERS SPECIFICALLY DELEGATED TO THE AUDIT AND GOVERNANCE COMMITTEE****2. RESPONSIBILITIES OF THE AUDIT AND GOVERNANCE COMMITTEE****2.1 External Audit Functions of Audit and Governance Committee**

- (a) To consider the appointment of the Council's external auditor, as far as the rules permit.
- (b) To discuss with the external auditor the nature and scope of audit coverage, including Value for Money (VFM) and Best Value Work and to agree level of fees chargeable.
- (c) To review external audit reports and annual audit letters, together with management response and make recommendations to the Cabinet.
- (d) To respond to any other concerns of the external auditors.

**2.2 Internal Audit Functions of the Audit and Governance Committee**

- (a) To monitor the progress and performance of Internal Audit.
- (b) To review and approve the Internal Audit annual programme.
- (c) To consider significant findings of Internal Audit reviews and investigations together with management responses and monitor implementation of agreed recommendations.
- (d) To advise Council on the Internal Audit function, resourcing and standing within the authority.
- (e) To ensure co-ordination between internal and external auditors.

- (f) To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council.

### **2.3 Risk Management Functions of the Audit and Governance Committee**

- (a) To approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the authority.
- (b) To review and advise the Cabinet and Council on the content of the corporate governance report in the annual report, and to approve the statement of accounts.
- (c) To monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders Contracts.
- (d) To keep under review corporate policies such as Anti-fraud Strategy.

### **2.4 Corporate Governance Functions of the Audit and Governance Committee**

- (a) To advise Council on the promotion, maintenance and review of Code of Corporate Governance for the City Council.

### **2.5 Constitutional Functions of the Audit and Governance Committee**

- (a) To monitor, review and advise the Council on the efficiency of the Council's constitution.
- (b) To make recommendations to the Council on ways that the constitution or any procedures or protocols relating to it could be amended in order to achieve the constitutions' purpose set out in Article One.

### **2.6 Councillor Development Functions of the Audit and Governance Committee**

- (a) To support and deliver a councillor-led, strategic approach to member development.
- (b) To monitor, advise on and promote councillor learning and development activities.
- (c) To ensure that these activities are in line with the objectives and values of the Council's corporate plan.
- (d) To consult with political groups (or individual members where they do not form part of a group) to ensure that appropriate learning and development opportunities are in place for all members.

- (e) Evaluate the investment in councillor learning and development to assess achievement and improve future effectiveness.

**2.7 Civic Functions of Audit and Governance Committee**

- (a) To advise on civic matters.

**2.8 Other Functions of Audit and Governance Committee**

- (a) To undertake any other work as directed by full Council.

**3 MATTERS DELEGATED TO OFFICERS**

The Service Director for Finance is authorised to carry out all other non-executive functions in respect of audit in accordance with the officer scheme of delegation of functions.

The Monitoring Officer is authorised to carry out all other non-executive functions in respect of the council's constitution in accordance with the officer scheme of delegation of functions and the constitution.

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Internal Audit – Annual Report 2017/18
<b>Committee:</b>	Audit and Governance Committee
<b>Date:</b>	31 May 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Interim Strategic Director Transformation & Change)
<b>Author:</b>	Robert Hutchins, Head of Devon Audit Partnership
<b>Contact details</b>	Tel: 01752 306710 email:robert.hutchins@devonaudit.gov.uk
<b>Ref:</b>	AUD/RH
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

This report summarises the work undertaken by Devon Audit Partnership during 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 provided objective and relevant assurance and contributed to the effectiveness and efficiency of the governance, risk management and internal control processes.

Our Annual report is particularly relevant, to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit Regulations 2015.

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**Corporate Plan**

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 needs and 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.

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

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

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

1. The Audit Committee note that overall and based on work performed during 2017/18, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Significant Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.
2. Members note the performance and achievements of the Internal Audit Team during 2017/18.

**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 (Mar 2017)
- Internal Audit Progress Report (Sept 2017)
- Internal Audit – Follow-Up Work (Sept 2017)
- Internal Audit Half Year Report (Dec 2017)

**Background papers:**

None.

**Sign off:**

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Andrew Hardingham, Interim Strategic Director Trans & Change													
Has the Cabinet Member(s) agreed the contents of the report? Rec’d a copy.													

Internal Audit

Annual Audit Report 2017-18

Plymouth City Council  
Audit & Governance Committee

May 2018

Robert Hutchins  
Head of Audit Partnership



Auditing for achievement

## Introduction

The Audit and Governance 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 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 and Governance 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 for signing the Annual Governance Statement.

**Robert Hutchins**  
**Head of Devon Audit Partnership**

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## Opinion Statement

This statement of opinion is underpinned by :

**Overall, based on work performed 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 support Members in their consideration for signing the Annual Governance Statement see appendix 1.*

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews, 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. Implementation of action plans is the responsibility of management yet may be reviewed during subsequent audits or as part of a specific follow-up process.

Directors have been provided with details of Internal Audit's opinion on each audit review to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be accompany the published Statement of Accounts for 2017/18.

The Summary Assurance Opinions chart on page 3 provides a high level "Themed" and RAG rated overview of audit coverage for 2017/18.

### 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 reintroduction of a formal business planning process that is closer aligned with risk and performance management processes will further strengthen corporate governance and effective decision making.

### Governance Arrangements

Work continued within Social Care / Health integration with Audit being a member of the Finance & Assurance Review Group (FARG), focussed around governance, finance and risk framework. The Information Lead Officers Group and the Information Governance Manager continue to lead on good governance in relation to management of information.

### Performance Management

The strategy is key to the successful delivery of services and is established for 'business as usual' and change 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.

# Summary Assurance Opinions

Service Area Overview of Audit Coverage										
Summary of key audit reviews	Transformation and Change	People	Place	ODPH	Cross Cutting	Executive Office	Value Added			
	Organisational Structure	Care Leavers (Payments)	Waste PFI	Public Protection Service	Legal Care Proceedings (Children's)	Risk Management	Libraries Transformation			
	Purchasing Cards	Fostering (Payments)	Highways Term Maintenance Contract	Management of Commissioned Pharmaceutical Services	Finance & Assurance Review Group		Licensing of Houses in Multi Occupation			
	Schools Financial Value Standards	Pre-Paid Cards – Direct Payments	Fleet Management System		Lessons Learned from Schools in Deficit		Regulatory Reform Orders			
	Academy System (Revenues & Benefits)	F-Up Children Independent Placements (Payments)					Adult & Community Learning Contracts			
		DOLS								
	Deferred Payments (ASC)									
Core Assurance	Business Processes & Governance	Corporate Information Management			Grant Certification			Annual Governance Statement		
	Key Financial Systems	Main Accounting	Treasury Management	Payroll	Debtors	Creditors	Council Tax	Business Rates	Housing Benefits	
	ICT	Cyber Security				IT Material Systems				

Note: Assurance opinions are 'RAG' rated to support the overall assurance opinion for the year (Red = fundamental weaknesses, Amber = improvements required, Green = good and high standard). The ratings are relevant at the time of the audit review and assurance may have improved since that time. Areas shaded blue denote opportunity or value added work.

## 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".

In response to the Payroll review "As I've come to expect the Audit was conducted in a professional and courteous manner. I do appreciate the benefit of the auditor being familiar with my service and shows a genuine understanding of our strategy of improvement and the challenges we face within our operational function".

### Place

We have been advised that work undertaken previously with the Events team helped to 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."

"Thank you for the IA final report on Care Proceedings and the areas you have highlighted as requires improvement! It is also good to see the areas identified as 'good practice'. We will continue to improve on areas for improvement."

### Office of the Director of Public Health (ODPH)

We reviewed the digital profile of the Public Protection Service which has supported the service area so they can "focus on making further improvements to our offerings".

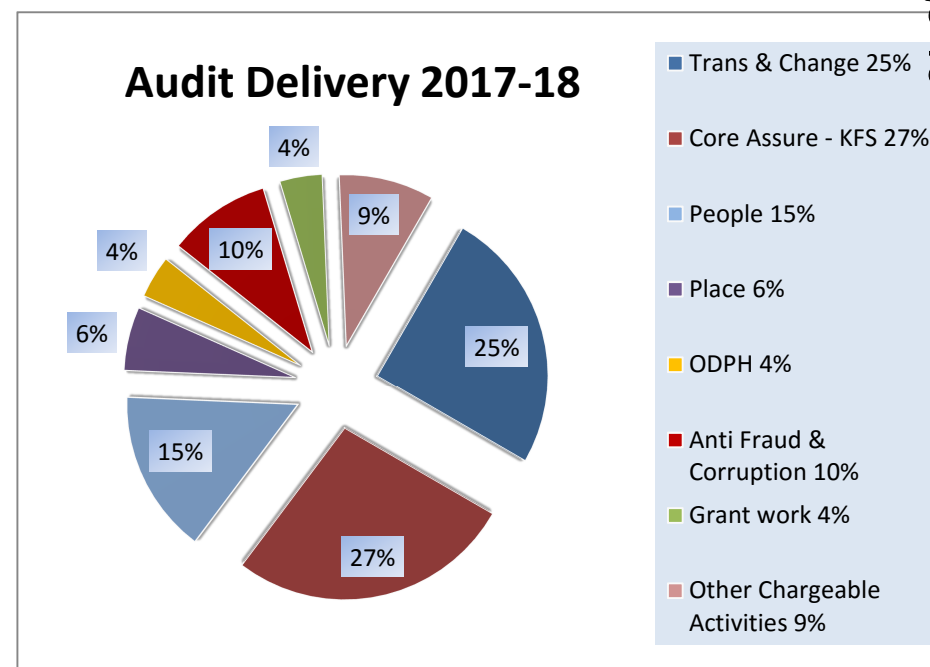
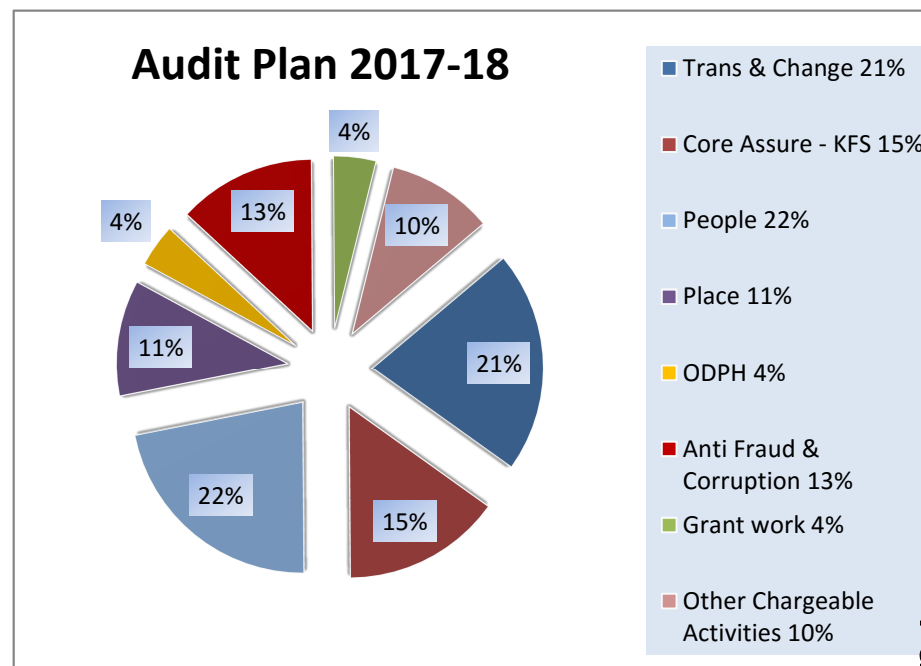
Work to support the service in the design of a system to ensure that appropriate and proportionate processes and procedures in place to manage pharmacy accreditations via the PharmOutcomes web based system. Our recommendations will serve to improve business continuity and ongoing resilience in the system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

## Audit Coverage and Performance Against Plan

The pie charts right shows the breakdown of audit days planned by service area / type of audit support provided. The balance of work has varied during the year as can be seen from comparison with the second chart. Variations have been with the agreement of the client.

Appendix 4 to this report provides a summary of the audits undertaken during 2017/18, along with our assurance opinion. Where a “high” or “good” standard of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “improvement required” has been provided then issues were identified during the audit process that required attention. We have provided a summary of some of the key issues reported that are being addressed by management. It should be pointed out that we are content that management are appropriately addressing these issues.

Appendix 5 shows the performance indicators for audit delivery in 2017/18 against the revised audit plan. It will be noticed that there was a small variation in the total number of audit days provided during the year. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review.



## 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 were reviewed, either by DAP, or provided to relevant departments for their investigation during 2017/18.

Notable outcomes reported from the above exercise included the cancellation of 326 concessionary bus passes and 47 disabled parking permits which belonged to persons whom the Council were unaware had passed away since their passes were issued. A total of 5 housing benefit claims were also reassessed with £3052 of overpayments identified due to changes in circumstances that had not previously been reported to the Council.

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

**Irregularities** - During the 2017/18 financial year, Internal Audit has carried out or assisted in 5 investigations. Analysis of the types of investigation and the number undertaken shows the following:-

Issue	Number
Financial irregularities	2
IT Misuse	2
Poor procedures	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 for 2017/18

### 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
<b>Transformation and Change</b>			
<b>Core Assurance – Key Financial System</b>			
Treasury Management ANA - Medium	Good Standard Status: Final	Reported to Audit Committee December 2017.	
Housing Benefits ANA - High	Status: Final Improvements Required	<p>Performance is closely monitored, with weekly performance meetings focussed on productivity and outstanding workloads. Performance for processing of new claims has continued to improve with the average processing time at the end of October 2017 reducing significantly to 18.07 day from the average processing time of 30.68 days recorded at the end of October 2016. Whilst performance relating to changes in circumstances is slightly above target (at 10.23 days against a target of 7), this has to be balanced against the efforts put into addressing new claims performance.</p> <p>Against a national context of increasing housing benefit overpayment debt, improvements are required to the department’s recovery processes. An action plan is in place and moving forward, the adoption and consistent application of the plan should greatly improve performance in this key area.</p> <p>Since the finalisation of this review:</p> <ul style="list-style-type: none"> <li>• The Risk Based Verification (RBV) policy has been updated and approved, and</li> <li>• A more efficient, digital process has implemented to administer the annual declarations of conflicts of interest and understanding of personal responsibilities.</li> </ul>	
Council Tax ANA - Medium	Good Standard Status: Final	<p>Overall, the level of internal control within the Council Tax system continues to operate at a good standard.</p> <p>An exercise to review Single Persons Discount in collaboration with Call Credit 360 resulted in 300 accounts having the discount removed to the value of £101,000. Long-term empty properties are effectively monitored with more than 450 having been brought back into use</p>	



Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>in 2017/18, enabling the Council to claim funding under the provisions within the New Homes Bonus scheme in addition to council tax revenue.</p> <p>Where closed accounts show a credit balance, all credit balances older than the current plus one year should be written back.</p>	
Business Rates NNDR ANA – Medium	Good Standard Status: Final	<p>The administration and collection of Business Rates continues to operate effectively with a sound system of internal control.</p> <p>The most recent revaluation of business rates came into effect in April 2017. Following the revaluation, some additional discretionary funding has been made available to billing authorities to support those businesses that faced the steepest increases in their business rates bills; Plymouth received £443k.</p> <p>In 2013/14 councils across Devon came together to form a county-wide business rates pool, with Plymouth being the lead authority. In December 2017 notification was received that the 'Devon Pool' had been selected as one of 10 areas to take part in a national pilot allowing councils to retain 100 per cent of growth in business rates commencing April 2018. Audit will review these arrangements in 2018/19 with a view to providing assurance to all pool members.</p>	
Payroll ANA – Medium	High Standard Status: Final	<p>The Payroll system continues to perform to a High Standard with consistent application of internal controls ensuring that employees have been paid accurately, on time and in accordance with their contract of employment.</p> <p>Amendments to payroll data are subject to a robust process of control and agreement to ensure the accuracy and completeness of payroll expenditure and there is a continuous drive to challenge current working practices and further develop systems, such as exploring the use of Firmstep to improve workflow, the risks and opportunities of which are well managed by HR Business Services.</p>	
Creditors ANA - High	Good Standard Status: Final	<p>Controls within the payments system continue to operate to a good standard with a robust reconciliation process in place between Creditors and the General Ledger. Working procedure documents are in use and there is an adequate segregation of duties.</p> <p>Software is deployed prior to all payment runs to identify any potential duplicate payments which are investigated in advance of the payment run.</p>	



Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>An independent "recovery audit" commissioned from Meridian to review purchase ledger transactions, duplicates &amp; overpayments, supplier statements &amp; complex suppliers and VAT for the period 1st April 2011 to 31st July 2016 reported that the level of duplicate payments found (2 transactions with a total value of £4,692) "<i>are significantly lower than we would have expected statistically</i>" providing further assurance that the processes and controls are operating effectively.</p> <p>Performance is regularly monitored and at the time of the audit, the service area was achieving targets for timely payments.</p>	
Main Accounting ANA - High	Good Standard Status: Final	<p>Cabinet receive quarterly Capital and Revenue monitoring reports highlighting how the Council is delivering against its financial measures using its capital and revenue resources as well as relevant budget variations and virements. However, evidence that virements are approved in accordance with financial regulations is not always readily available. This is recognised by Senior Finance Officers who have undertaken a significant amount of work to improve and better align budget information. With the e-budgeting module going live in April 2018, following a co-ordinated period of training, it is anticipated that this will ensure greater understanding and ownership amongst budget holders.</p> <p>All journals over £500k are subject to independent review and approval.</p> <p>Cash and bank is routinely reconciled to the main accounting system and overall, data from feeder systems transferred via interface to the main accounting system is well controlled.</p>	
Debtors ANA – Medium	Good Standard Status: Final	<p>Internal controls within the Debtors system continue to operate to a good standard.</p> <p>Effective debt management policies and procedures are in place with the Income and Credit Management Policy being approved by Cabinet in March 2017 and a Write Off and Cancellation of Debt Authorisation document approved in January 2018.</p> <p>Automated controls and the use of exception and management information reports ensure the accuracy and completeness of financial data. As at February 2018 the percentage of sundry debt recovered against the general fund was 95.8% (against a target of 96.6%).</p>	
I.T. Systems ANA – High	Good Standard Status: Draft	<p>The Council's ICT service provider, or 'IT Service Tower', is in its fourth year of operation and it is pleasing to report that since the last review there have been some notable improvements. Good organisational controls are supplemented by good standards in operational processes and functions. Crucially, investment to maintain up to date</p>	













Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>infrastructure, and now user devices, ensures that the Council can fully utilise ICT as an enabler for service delivery change.</p> <p>Concerns remain in the challenging area of user access management, with the continually changing corporate establishment, and often poor levels of line manager compliance with user management procedures, creating weaknesses in network management. Furthermore, limitations with existing HR and Delt's IT Service Desk software all negatively impact the Councils ability to manage access to its computerised data assets.</p> <p>Delt and the Council's HR and Development team should address weaknesses identified wherever possible, seeking Senior Management support where necessary. This will reduce some of the operational inefficiencies introduced to compensate for existing weaknesses. Senior Management should remain informed in order to help ensure that the Council complies with its statutory obligations under the Data Protection Act 2018.</p>	
<b>Core Assurance - Other</b>			
Corp Information Management <ul style="list-style-type: none"> <li>ILOG, FoI, DPA, Policies &amp; P's, EDRMS, End User Computing</li> </ul> SRR - Amber ANA – High	Status: On-going	<p>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 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 imminent Data Protection Act 2018. Management should continue to 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	Reported to Audit Committee December 2017.	


Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
HR/Payroll System ANA – High	Value Added Status: Complete	Reported to Audit Committee December 2017.	
ICT – Cyber Security SRR – Amber ANA - High	Good Standard Status: Draft	<p>The overall level of ‘cyber’ security (including technical controls) remains of a good standard, with some examples of good practice being identified within the two cyber security audits conducted in the past fourteen months. Of particular note is the added value obtained from the knowledge and wisdom provided by key individuals and the investment made to keep technologies up to date. However, there is a need to continually improve end user awareness, an essential component in managing staff and their use of the information technology that they are increasingly required to use in their everyday duties.</p> <p>There remains a need to review and refine the Council’s Information Security Policy (ISP). This also impacts Delt as they require clear standards on which to base their service provision and develop their own policy suite.</p>	
It has been agreed with the Transformation Architecture Manager that review should commence early 2018/19.			
Retained Functions - IT Service Strategy & Design - ANA – Medium			
<b>Strategic and Operational</b>			
Housing Benefits Overpayments ORR – Amber ANA – High Client Request	Improvements Required Status: Final	Reported to Audit Committee December 2017.	
Organisational Structure ORR – Amber ANA – High Client Request	Good Standard Status: Complete	Reported to Audit Committee December 2017.	
Libraries Transformation ANA – High Client Request	Value Added Status: Final	Reported to Audit Committee September 2017.	
Academy System (Revenues & Benefits) ANA – Medium Client Request	Value Added Status: Complete	DAP continues to provide “trusted advisor” support, working co-operatively with officers within Revenues & Benefits as they continue to develop more streamlined and efficient processes.	



Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>During 2017/18 Internal Audit has provided advice in the following areas:</p> <ul style="list-style-type: none"> <li>The streamlining of NNDR processes including the writing off of debt, the visiting of empty properties and greater use of digital document retention,</li> <li>Changes to the Department for Work &amp; Pensions 'Real Time Information' data matching scheme,</li> <li>Risk based reviews of Council Tax single person's discounts.</li> </ul> <p>Additional claims testing as part of the Housing Benefit review has also provided further assurance in respect the department's subsidy claim.</p>	
Purchasing Cards ANA – Medium Client Request	Improvements Required Status: Draft	<p>Overall the controls surrounding the use of Purchasing Cards and the system (BSM) which administers it are generally satisfactory but some issues were identified relating to:</p> <ul style="list-style-type: none"> <li>cards being used by other team members;</li> <li>cardholders splitting purchases to circumvent insufficient transactional values;</li> <li>purchases not always coded and approved on a weekly basis;</li> <li>receipts not always obtained for emergency hotel accommodation;</li> <li>VAT not always coded correctly.</li> </ul>	N/A
Finance Fit ORR – Amber ANA – Medium Client Request	Value Added Status: Complete	DAP has continued 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	
Contract Management ORR – Amber ANA – High	Status – In Progress	Our work will provide an independent review of council wide contract management arrangements, including what appears to be working well, what doesn't work as well and why.	N/A
Risk Management ANA – High	Working Status: Final	A significant amount of work has taken place to initiate improvement and plans are in place to ensure risk management becomes more embedded and integrated. Of particular importance is the reintroduction of formal business planning processes that is closer aligned with risk and performance management processes which will strengthen Corporate Governance and support effective decision making. With the Corporate Risk Advisor	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		moving into the Chief Executive Office there will be better synergies with business planning and performance management building further resilience into the system of internal control.	
Plymouth Community Homes Contract ANA - Medium	Status – In Progress	The transfer by the Council of its housing stock to Plymouth Community Homes (PCH) in November 2009 resulted in the Council retaining certain long-term environmental risks and potential liabilities; one of which relates to asbestos. The focus of this review is to provide assurance to the Council on the adequacy of the systems used to record potential asbestos liability.	N/A
Due to a review of the scheme by the service department, it has been agreed that the following audit will be deferred until 2018-19.			
Customer Feedback ANA – Medium, Client Request			
<b>Transformation &amp; Change and People – Cross Cutting Assurance</b>			
Legal Care Proceedings (Children's) SRR – Amber ANA – High Client Request	Improvements Required  Status: Final	Reported to Audit Committee December 2017.	
Lessons Learned From Schools in Deficit ANA – Medium Client Request	Value Added  Status: Final	Reported to Audit Committee December 2017.	N/A
Finance & Assurance Review Group (FARG) SRR - Red ANA – High Client Request	Status: Complete	DAP has continued to monitor and support the actions of the Integrated Fund (IF). Assurance has been sought, and support provided through attendance and input at the Finance and Assurance Review Group which is tasked with coordinating assurance, financial reporting and risk management for the Integrated Commissioning Board.	







Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>People</b>			
<b>Core Assurance – Key Financial System</b>			
CareFirst - Income Collection (Adults – Deferred Payments) Risk / ANA: ANA – High	Improvements Required Status: Final	Reported to Audit Committee December 2017.	
CareFirst - Care Leavers (Payments) ANA – Medium	Good Standard Status: Final	Reported to Audit Committee December 2017.	
Follow-Up of 2016/17 Children Independent Placements (Payments)	Good Standard Status: Final	Reported to Audit Committee September 2017.	
CareFirst - Fostering (Payments) ANA – Medium	Good Standard Status: Draft	The payment of allowances, expenses and grants are processed through the Boarding Out Payments system which is maintained by the Child Payments Team. Reliance is placed on the social care staff to be aware of 'changes' in circumstances of children in care of the Plymouth Foster Carers. One area where overpayments can occur is in relation to 'Connected Carers'. However, any overpayments are closely monitored by one of the Clerical Officers in the Child Payments Team with regular reports being submitted to the Service Manager. Where an overpayment cannot be offset against other payments to the foster carer an invoice is raised for the sum owing.	
<b>Core Assurance - Other</b>			
Adult & Community Learning Contract Client Request	Value Added Status: Final	Reported to Audit Committee December 2017.	
Pre-Paid Cards - Direct Payments Delivery Method SRR – Amber ANA – High Client Request	Good Standard Status: Final	Good working relationships between LiveWell Southwest and PCC staff were demonstrated during the audit with key officers collaborating to formulate workforce development processes and address specific issues. The Council is preparing guidance and handouts to assist Social Workers within Livewell Southwest.  Numbers of Direct Payment recipients have been steadily falling over the past 18 months from 705 in April 2016 to 589 in November 2017; the reason for this is not completely understood and may require further investigation.	


Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Deprivation of Liberty Safeguards (DOLS) Follow-Up ANA - Medium	Improvements Required Status: Final	Reported to Audit Committee September 2017	
Community Connections - Licensing of HMO's ORR – Amber ANA – Amber	Value Added Status: Final	The requirements of new legislation expanding the mandatory licensing of Houses in Multiple Occupation are recognised and initial action has been taken to identify properties that should be licensed. Finance and Community Connections are working together to develop a robust cost recovery model licence fee structure.	
Community Connections - Regulatory Reform Orders ORR – Amber ANA – Amber	Value Added Status: Complete	Real-time feedback has been provided regarding the options for means testing in relation to Disabled Facilities Grants. There is a definite need to streamline the means testing process to support the success of the Independent Living Plan, however current financial assessments within Client Financial Services are not efficient with a current back log in assessments that may prove a barrier to realising the plans objectives. The success of this work will be to reduce the need for means testing, utilise financial assessment information already held by the Council when necessary and develop the use of effective online tools or established systems for financial assessments when means testing is required. Opportunities to explore this further with the Transformation Team are now being taken.	
Social Care Business Solutions - will be incorporated into the CareFirst Dashboard work which forms part of the 2018/19 audit plan. ANA – High Client Request			
<b>One System One Aim</b>			
Plymouth & Western System Development Board SRR - Red ANA – High	Status: Complete	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.  In July 2017 the Plymouth & Western System Development Board was stood down following a review of governance. This was replaced by the Western System Improvement Board.	N/A
Early Help Gateway (CSC) SRR - Amber ANA – High	Value Added Status: Final	Our recommendations will, if considered alongside Ofsted and the Post Implementation Review findings, support management in implementing phase three of the project. This will continue to strengthen and develop collaborative, integrated and sustainable models of	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Client Request		working with schools, health, police and other partner agencies. As well as increasing the future resilience of the team, improving management information, data quality, customer satisfaction and realise further efficiencies through better utilisation of resources.	
Livewell South West ANA – High Client Request	Status: In Progress	<p>In April 2015, Plymouth City Council's Adult Social Care workers transferred to a new provider organisation; LiveWell South West (formally PCH) to allow for an integrated delivery of Adult Social Care Services.</p> <p>We will review the adequacy of the controls, processes and procedures for the integrated delivery of Adult Social Care Services.</p> <p>Consideration will also be given to the effectiveness of the retained client function and its ability to support and facilitate LiveWell in leveraging ideas and innovations necessary to deliver the business outcomes required by Plymouth City Council in the delivery of Adult Social Care services.</p>	N/A
One System One Aim (Client Financial Services) – Following a recruitment exercise within the service area and subsequent training delivered by OLM the CareFirst software provider at the end of January 2018, it was agreed that site work would be deferred until 2018/19 to allow a period of time for learning to be implemented.			
Multi-Agency Hub SRR – Amber, ANA – High Client Request	- Deferred until 2018/19 at the request of management.		
<b>Maintained Schools Audit Programme</b>	Good Standard	<p>Systems and controls in schools mitigate the risks identified in many areas.</p> <p>The key matters arising from the audits are the:</p> <ul style="list-style-type: none"> <li>• Single Central Record and the retention of evidence for 'right to work' in the UK;</li> <li>• Business Continuity / Disaster Recovery Plan.</li> </ul> <p>Recommendations have been made to reduce risks and in other areas, will serve to further strengthen procedures.</p>	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>Office of the Director of Public Health (ODPH)</b>			
Business Continuity Planning SRR - Amber ANA – High Client Request	Improvements Required  Status: Draft	<p>Audit continued to participate on the Council's Business Continuity Strategy Group.</p> <p>In addition, a review of Business Continuity within the Supply Chain was carried out. This focussed on the Council's approach to managing the Business Continuity Plans (BCP) maintained by its key suppliers.</p> <p>The review found a lack of standard processes as to when a supplier should submit a BCP as part of a procurement exercise and how such plans should be reviewed to ensure they are suitable.</p> <p>The on-going monitoring and review of a supplier's BCP is the responsibility of the respective contract manager within the Authority but there is no strategy, policy or procedure that formally sets out how this should be undertaken.</p> <p>The review also uncovered issues with the identification of key suppliers, the maintenance of the Council's contract register and the identification of an appropriate contract manager for each contract.</p>	N/A
Public Protection Service SRR – Amber ANA – Medium Client Request	Good Standard  Status: Final	Reported to Audit Committee December 2017.	
Management of Commissioned Pharmaceutical Services Client Request	Value Added  Status: Final	Reported to Audit Committee December 2017.	
<b>Place</b>			
Review of Major Contracts SRR - Amber ANA - High	Status: On-going	Supporting officers in the early management of the new Highways Term Maintenance contract. A review of the works ordering processes around the new highways management system, planned for later in the year, was deferred until 2018/19 at the request of management. This review has now commenced.	



Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Trade Waste Follow-Up ANA – Medium Client Request	Improvements Required Status: Final	Reported to Audit Committee December 2017.	
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	Reported to Audit Committee December 2017.	
Commercial Properties SRR95 – Red ANA – High	Status: In Progress	<p>During 2017/18 Audit have supported officers in an ongoing review of the commercial property proforma process. Initial work undertaken has identified potential risks and weaknesses with the current process and changes have been proposed to streamline the process and ensure data is correctly communicated to the right people at the right time.</p> <p>Audit will continue to provide advice during 2018/19 as new processes are agreed by stakeholders to ensure that there are robust controls in place regarding the accurate and timely recording of property data within the Tech Forge system.</p>	
Street Services ANA – High Client	Status: In Progress	The department have a recognised budget pressure regarding the cost of replacing damaged, lost and stolen households bins / garden bags and are in the process of reviewing policy and procedures with a view to improving stock control and reducing cost. Audit are reviewing the new procedures to ensure that they are robust and benchmarking, to compare the Council's approach to that of other authorities.	
<b>Grants</b>			
Early intervention – Families with a Future Regulatory Requirement ORR - Amber	Certified Status: Complete	DAP have verified and certified twelve claims and have continued to work with the Families with a Future Team to ensure the accuracy and completeness of key data and that demonstrable evidence of intervention is maintained.	

Risk Area / Audit Entity	Audit Report		
	Assurance Opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Grants x 9 Regulatory Requirement	Certified Status: Complete	Grants certified without amendment <ul style="list-style-type: none"> <li>• GD18 Northern Corridor Junction Improvements</li> <li>• Local Transport Capital Block Funding (Integrated Transport &amp; Highways Maintenance)</li> <li>• Pothole Action Fund</li> <li>• Highways Maintenance Challenge Fund</li> <li>• Local Growth Fund - Derriford Transport Scheme</li> <li>• Local Growth Fund - Eastern Corridor Cycle Route</li> <li>• Local Growth Fund - Northern Corridor Junction Improvement</li> <li>• Regional Growth Fund 2015/16</li> <li>• Regional Growth Fund 2016/17</li> </ul>	

## Appendix 2 - Professional Standards and Customer Service

### Conformance with Public Sector Internal Audit Standards (PSIAS)

**Conformance** - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2017. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

**Quality Assessment** – through external assessment December 2016 “DAP is considered to be operating in conformance with the standards”. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement is supported by a development programme.

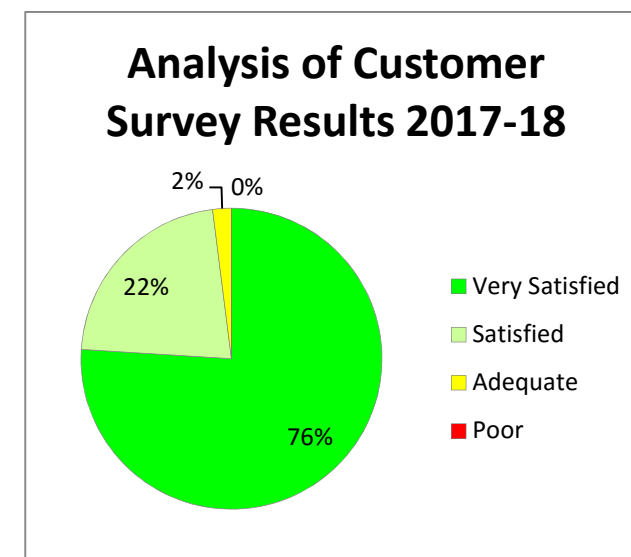
**Improvement Programme** – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was reported to the Management Board in October 2016.

### Performance Indicators

Overall, performance against the indicators has been very good with improvements made on the previous year (see Appendix 5). We are aware that some of our draft and final reports were not issued to the customer within the agreed timeframes (15 working days for draft report and 10 working days for final report). We continue to review where performance in this area can be improved.

### Customer Service Excellence

In June 2017, DAP was successful in re-accreditation by G4S Assessment Services of the CSE. We continue to issue client survey forms with our final reports and the results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see appendix 6. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.





## Appendix 4 - Annual Governance Framework Assurance

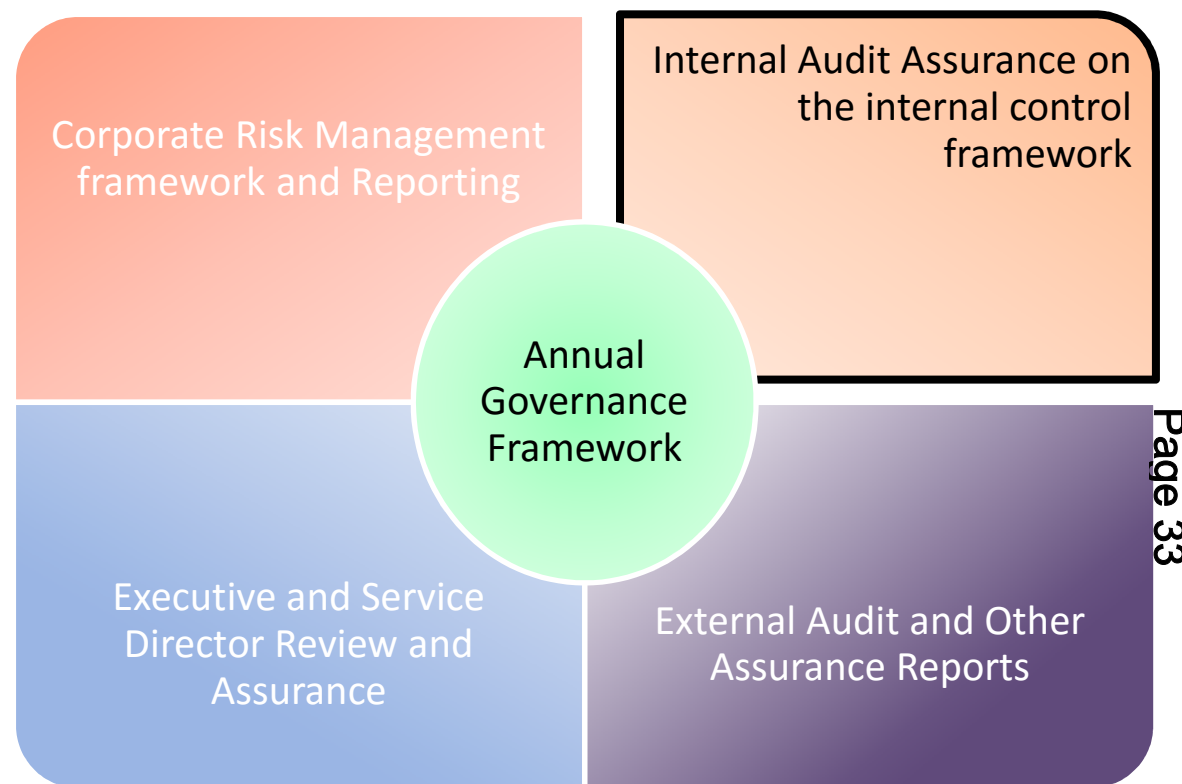
**The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.**

The Annual Governance Statement provides assurance that

- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and Chair of the Audit and Governance Committee;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon;
  - The Authority;
  - Audit and Governance Committee;
  - Risk Management;
  - Internal Audit
  - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance



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The AGS needs to be presented to, and approved by, the Audit and Governance Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Group, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

## Appendix 5 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

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

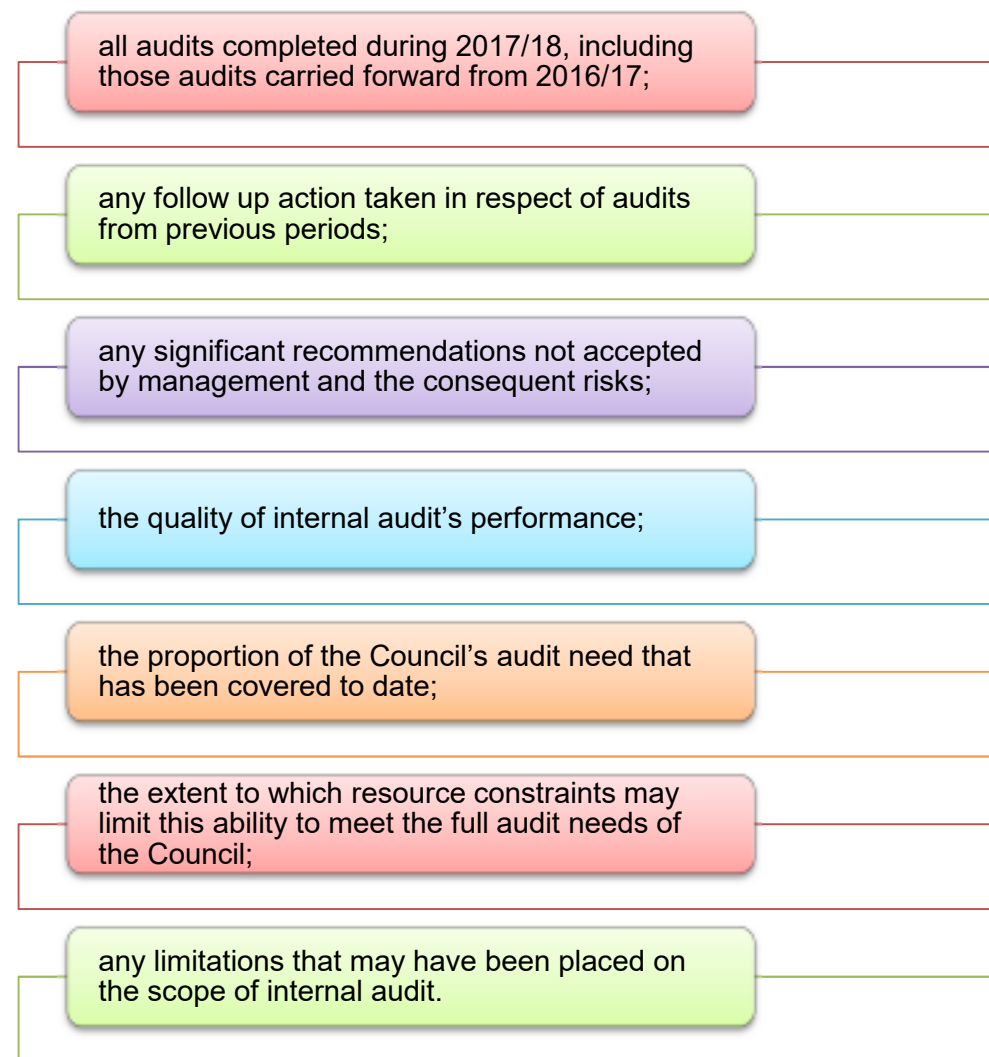
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives;
- a comparison of internal audit activity during the year with that planned;
- a summary of the results of audit activity and;
- a summary of significant fraud and irregularity investigations carried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

The extent to which our work has been affected by changes to audit plans has not been notable this year. Whilst certain changes have been made from the plans originally agreed this has been due to changes in operational business needs

As a result some work originally included within the audit plan was no longer relevant or has been deferred to a later date to fit with client needs and current objectives. These changes do not limit the overall audit assurance opinion.



In assessing the level of assurance to be given the following have been taken into account:



## Appendix 6 – 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:

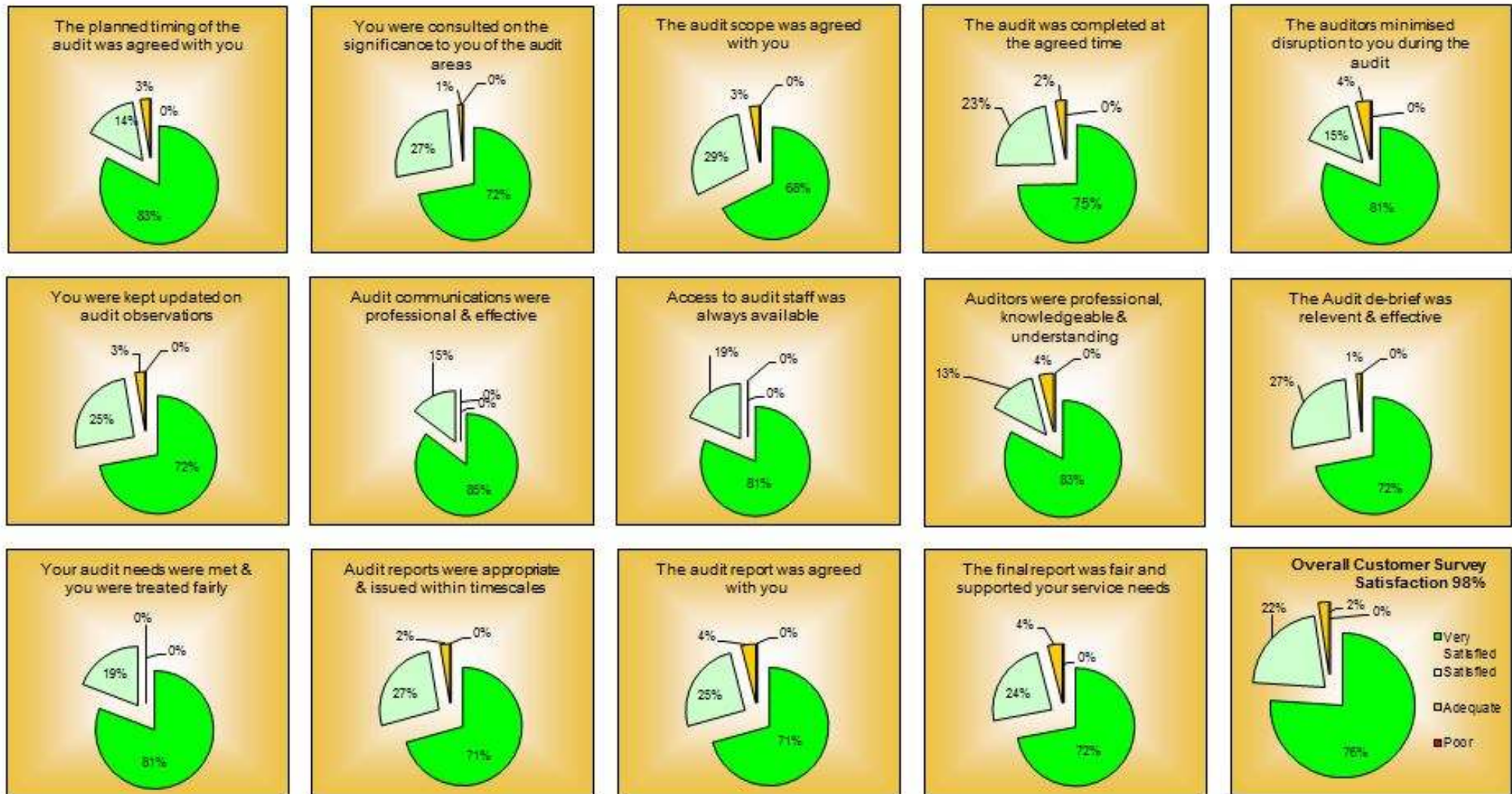
<b>Local Performance Indicator (LPI)</b>	<b>2017/17</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit plan Commenced (Inc. Schools)	100%	99%	100%	100%
Percentage of Audit plan Completed (Inc. Schools)	93%	95%	93%	96%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%
Percentage of chargeable time	65%	71.4%	65%	71.5%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	95%	90%	97%
Final reports produced within target number of days (currently 10 days)	90%	98%	90%	100%
Average level of sickness absence (DAP as a whole)	2%	3.2%	2%	4% *
Percentage of staff turnover (DAP as a whole)	5%	21%	5%	11% **
Out-turn within budget	Yes	Yes	Yes	Yes

\* Sickness relates to DAP overall

\*\* Staff turnover is relates to 1 starter and 2 leavers

# Appendix 7 - Customer Service Excellence

## Customer Survey Results April 2017 – March 2018





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## Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement. 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](mailto:robert.hutchins@devonaudit.gov.uk) .

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Annual Governance Statement 2017/18
<b>Committee:</b>	Audit & Governance Committee
<b>Date:</b>	31 May 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Interim Strategic Director for Transformation & Change)
<b>Author:</b>	Julie Hosking, Corporate Risk Advisor
<b>Contact details</b>	Tel: 01752 304495 email: julie.hosking@plymouth.gov.uk
<b>Ref:</b>	CRM/MJH
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).

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

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

This report outlines the process followed in order to produce the AGS for 2017/18, which includes a review of the Code of Corporate Governance and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Interim Strategic Director for Transformation & Change (S.151 Officer).

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

The proposed Statement for 2017/18 is attached to the report.

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**The Corporate Plan 2016 - 19:**

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

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

None arising specifically from this report.

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

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

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No.

**Recommendations and Reasons for recommended action:**

The Audit Committee is recommended to:

- a) Note the processes adopted for the production of the 2017/18 Annual Governance Statement.
- b) Approve the adequacy and effectiveness of the proposed Code of Corporate Governance
- c) Endorse the adequacy and effectiveness of the system of internal audit.
- d) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Interim Strategic Director for Transformation & Change (S.151 Officer).

**Alternative options considered and rejected:**

Not applicable.

**Published work / information:**

**Background papers:**

Strategic Risk & Opportunity Register

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

**Sign off:** Councillor Darcy

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member, Interim Joint Strategic Director for Transformation and Change													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

## **1.0 Introduction**

**1.1** This report outlines the background to the statutory requirement to produce an Annual Governance Statement (AGS) and describes the process followed in producing the AGS for 2017/18 for publication alongside the Annual Statement of Accounts.

## **2.0 The Council's Statutory Responsibility**

**2.1** Plymouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement.

**2.2** There is also a requirement under regulation 5(1) that relevant authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

**2.3** The purpose of the AGS process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, in order to give assurance as to their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.

**2.4** The AGS is required to be approved at a committee of the Council and this sits most comfortably with Audit Committee, as its terms of reference include both internal control and risk management.

**2.5** The proposed Annual Governance Statement for 2017/18 is attached to this report.

## **3.0 Scope of the AGS**

**3.1** The AGS spans the whole range of local authority activities and includes those controls designed to ensure:

- The authority's policies are put into practice
- The organisation's values are met
- Laws and regulations are complied with
- Required processes are adhered to
- Effective risk management processes are in place
- Financial statements and other published information are accurate and reliable
- Governance arrangements are in place for significant partnerships
- Human resources and other resources are managed efficiently and effectively

**3.2** In establishing and defining the system of internal control the AGS provides a mechanism by which the authority can maintain, review and keep up to date its control environment. It links internal audit findings, external audit and inspection reports and the risk management process and provides an effective review of the Council's risk management and control mechanisms.

**3.3** The Council's control environment is managed through a number of core processes and procedures which are defined within the body of the AGS.

- 3.4** The AGS has been compiled by carrying out an annual review of the control environment which has involved researching and formally recognising and recording the processes already in place across the Authority.
- 3.5** Recognising that preparation of the AGS is a wide-ranging and corporate issue, a Working Group of key officers was established to oversee the process. This Group comprised:
- Head of Assurance
  - Oversight and Governance Manager
  - Assistant Head of Legal Services
  - Audit Manager, Devon Audit Partnership
  - Head of Integrated Finance
  - Head of Financial Planning & Reporting
  - Policy and Intelligence Advisor
  - Corporate Risk Advisor
- 3.6** The Working Group is responsible for producing the AGS which is then approved by the Corporate Management Team and Cabinet Planning prior to ratification by the Audit Committee.
- 3.7** Risk Champions from each department were also involved in the process to support the corporate wide approach.
- 3.8** The Council's external auditors will consider the arrangements in place to enable preparation of the AGS, including the degree to which the Council recognises and can demonstrate corporate ownership of its governance arrangements.
- 4.0 The Assurance Gathering Process**
- 4.1** Those with responsibility for signing the AGS need to feel confident that the information used to review the control environment is complete and accurate. The AGS is therefore required to be signed by the most senior member and the most senior officer (i.e. the Council Leader and the Chief Executive). It is also signed by the Interim Strategic Director for Transformation & Change (S.151 Officer) as the officer responsible for overseeing the production of the AGS.
- 4.2** Although the production of the AGS is required by the Accounts and Audit Regulations, the responsibility for securing effective internal control does not rest solely with Finance staff.
- 4.3** Preparation of the AGS has therefore involved a variety of people charged with delivering corporate governance:
- Directors, Heads of Service and managers assigned with the ownership of risk and the delivery of services
  - The Chief Financial Officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts
  - The Monitoring Officer in meeting his statutory responsibilities
  - Elected Members (e.g. through Audit or Scrutiny Committees)
  - Others responsible for providing assurance (e.g. Internal Audit and Risk Management)

- 4.4** The primary source of information which informs the content of the AGS comes from Assurance Questionnaires completed by Directors, Head of Service and other senior managers covering key questions around the internal control and governance framework.
- 4.5** When completing these questionnaires respondents are asked to review a number of sources where internal control/governance weaknesses may be identified:
- Risks identified in Strategic and Operational Risk Registers
  - Issues arising from Internal Audit Reviews completed in 2017/18
  - Issues arising from external inspections

### **5.0 Code of Corporate Governance Self-Assessment/Annual Review**

- 5.1** The Council's Code of Corporate Governance Framework which is also attached to this report is consistent with the principles of the CIPFA/SOLACE 2016 Framework Delivering Good Governance in Local Government.
- 5.2** The framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance.
- 5.3** Examples of the framework the Council adopts to comply with the Codes key principles are included in the AGS, as well as significant governance issues arising from the review and an accompanying assurance statement.
- 5.4** Audit Committee previously approved the adequacy and effectiveness of the Code of Corporate Governance Framework in March 2008 and it is recommended that approval of the proposed Code forms part of the Annual Governance Statement for 2017/18.

### **6.0 Review of Internal Audit System**

- 6.1** Continuous review of the effectiveness of the Council's internal audit system is conducted by the Audit Committee whose terms of reference include:
- To agree the annual Internal Audit Plan
  - To monitor the progress and performance of Internal Audit
  - To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council
- 6.2** The Chief Auditor's annual report is being considered at the same time as this report and invites Members to endorse the adequacy and effectiveness of the system of internal audit for the year ending 31 March 2018.
- 6.3** It is recommended that this endorsement forms part of the Annual Governance Statement for 2017/18.

### **7.0 Identifying control weaknesses significant for the purpose of the AGS**

- 7.1** Whilst there is no absolute definition of the term, the following indicators (provided by CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:

- The issue has the potential to seriously prejudice or prevent achievement of a principal objective;
- The issue may result in a need to seek additional funding to allow it to be resolved;
- The issue has the potential to result in significant diversion of resources from another aspect of the business;
- The issue may lead to a material impact on the accounts;
- The issue, or its impact, may attract significant interest or seriously damage the reputation of the Council;
- The issue may result in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose, or
- The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.

### **8.0 Conclusion**

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



## 1. Scope of Responsibility

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

The Council also has a duty under the Local Government Act 2000 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

This Annual Governance Statement explains how the Council has complied with the Code of Corporate Governance and also how it meets the requirements of Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

## 2. The Purpose of the Governance Framework

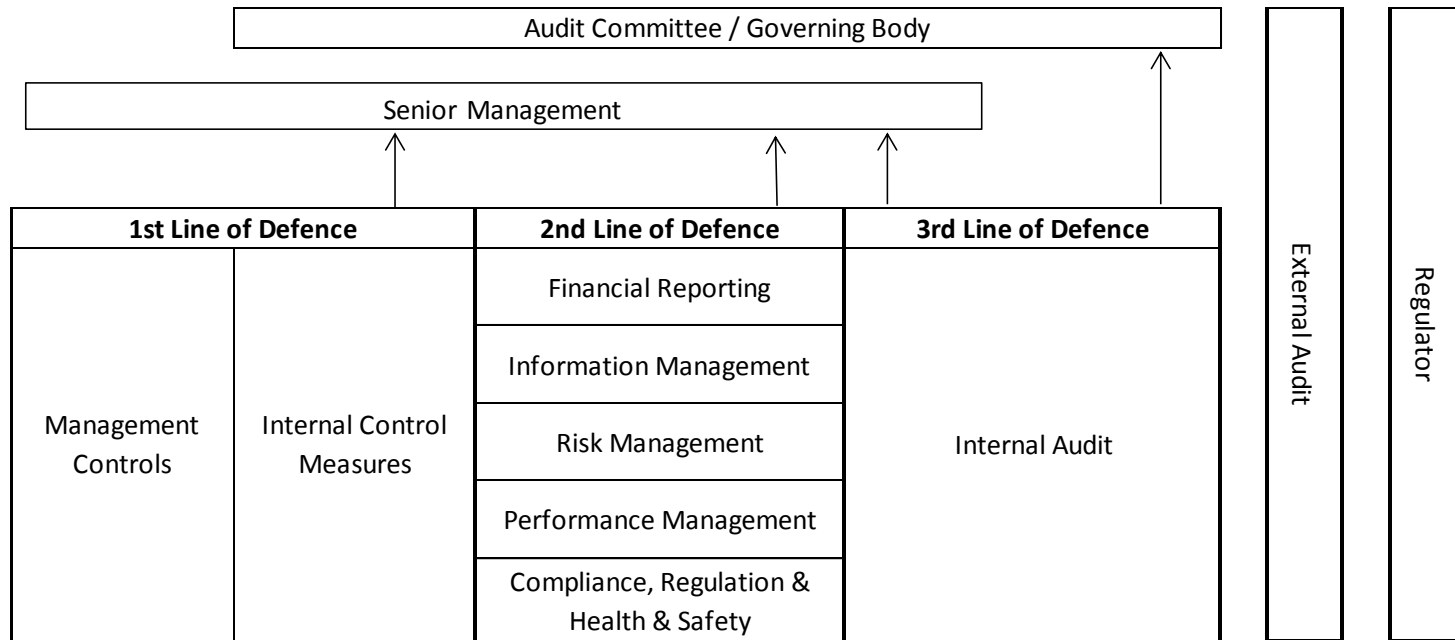
The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives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

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

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at Plymouth City Council for the year ended 31 March 2018 and up to the date of the approval of the Annual Report and Statement of Accounts.

### 3. The Three Lines of Defence

The three lines of defence model is used as the primary means to demonstrate and structure roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance and assurance. The diagram below shows the relationship between these functions:-



#### First Line of Defence – Management Controls and Internal Control Measures

Line management are responsible for ensuring that a risk and control environment is established as part of day to day operations. Line management should be adequately skilled to create risk definitions and make risk assessments. The risk profile needs to be proactively reviewed, updated and modified for changes to the business environment and emerging risk changes. Active risk management and periodic reporting on risk is crucial to quick identification and response.

The first line of defence provides management assurance by identifying risks and business improvement actions, implementing controls and reporting on progress.

#### Second Line of Defence – Oversight Functions

The second line of defence consists of activities covered by several components of internal governance. This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation. These are usually management functions that may have some degree of objectivity, but are not entirely independent from the first line.

**Third Line of Defence**

Internal audit forms the third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the organisation’s senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of the council’s risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives.

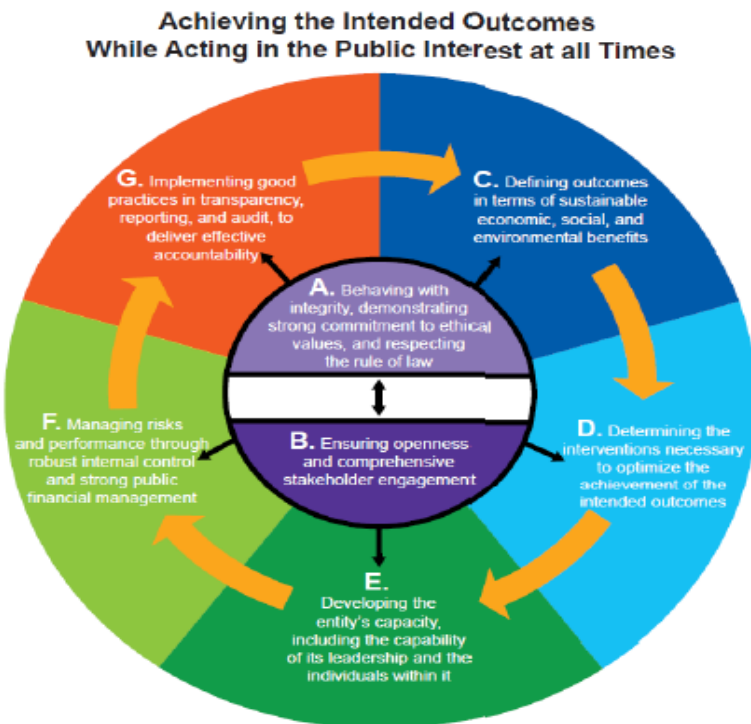
**External Auditors and Regulators**

External auditors and regulators reside outside the council structure but have an important role in the overall governance and control structure by providing an independent and objective function to assess the whole, or some part of the first, second or third line of defence.

**Audit Committee’s Role**

All three lines of defence have specific tasks in the internal control governance framework. It is the Audit Committee’s role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes, as well as internal audit activities.

**4. The Governance Framework**



The Council’s Code of Corporate Governance is consistent with the principles of the CIPFA/SOLACE 2016 Framework Delivering Good Governance in Local Government.

This diagram illustrates how the various principles for good governance in the public sector relate to each other. To achieve good governance the Council should achieve their intended outcomes while acting in the public interest at all times.

As overarching requirements for acting in the public interest, principles A and B apply across all other principles (C - G).

A summary of local arrangements in place for 2017/18 to comply with each of the principles is set out on the following pages.

**Principle A – Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

**OUR VALUES**



- The Council’s organisational values are underpinned by its system of internal control and governance arrangements to ensure compliance with its Code of Corporate Governance.
- The Council’s Local Code of Corporate Governance as described in this Governance Statement has been reviewed in line with Cipfa/Solace Delivering Good Governance in Local Government Framework 2016 and the core principles contained in this Framework.
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law is acknowledged as key to the delivery of good governance and underpins the delivery of council priorities and services for the community.
- The standards of conduct and personal behaviour expected of Members and Officers, its partners and the community are defined and communicated through Codes of Conduct and Protocols within the Council’s Constitution. Arrangements are in place to ensure that Members and Officers are aware of their responsibilities under these Codes and Protocols. The Monitoring Officer is responsible for ensuring that decisions are made in accordance with the Constitution.
- Elected Members are collectively responsible for the governance of the Council. Decision making and scrutiny of decisions has been separated through the executive arrangements introduced by the Local Government Act 2003.
- Ward-based governance and engagement arrangements for Councillors, multi-agency problem solving arrangements, reliable casework handling and feedback and customer insight to inform decision-making are all elements of our plans, equipping Councillors to do their job.
- The Head of Devon Audit Partnership has overall responsibility for the maintenance and operation of the whistleblowing policy. This includes monitoring the policy and maintaining a record of the concerns raised and outcomes, which will be reported to the Audit Committee in an anonymised format.
- Arrangements are in place for Members and Officers to declare gifts and hospitality and to register interest and manage conflicts of interest.

## Principle B – Ensuring openness and comprehensive stakeholder engagement

- Ensuring openness and comprehensive stakeholder engagement is considered essential in meeting the Council’s corporate ambitions and framework of values and regarded as key to effective service delivery. Communication supports the decision-making process and helps to improve service quality and foster good relationships between staff, Members and stakeholders.
- The Statement of Community Involvement provides consistent standards for involvement in decision making in the city. It sets a minimum standard for engagement and is for everybody who wants to get involved in shaping Plymouth’s future.
- The Councillor-led Democratic and Community Engagement programme undertaken by the Constitutional Review Group, a cross-party group of Councillors, sets out a vision, guiding values and priorities for democratic and community engagement within wards from the perspective of the front-line Councillor.
- Safer Plymouth Partnership has reviewed its representation and broadened this to include greater community and voluntary sector representation.
- Thrive Plymouth was launched in 2014 and is our local 10 year programme to address health inequalities in the city. ‘One You’ campaign launched to help adults to assess the lifestyle choices they are making, to consider how those choices might impact on their health now and in the future, and to consider the steps they can take to make their lifestyles healthier. The campaign was supported locally in Plymouth, including a 12 page supplement dedicated to the campaign in the Plymouth Herald, and features through other local media outlets including local BBC television.
- The Council has a system for recording Customer Feedback which enables learning from feedback and complaints to facilitate effective monitoring of information provided by customers to review future service delivery. There is a formal process for corporate complaints as well as for Children’s and Adults Statutory complaints.
- Most Committee meetings, including Full Council and Cabinet are webcast live and archived as part of our drive to make our decision making more open and transparent.
- As part of our commitment to be accountable and transparent we have put together a range of open data information (Data Plymouth) on the Council’s website.



## Principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits

### 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

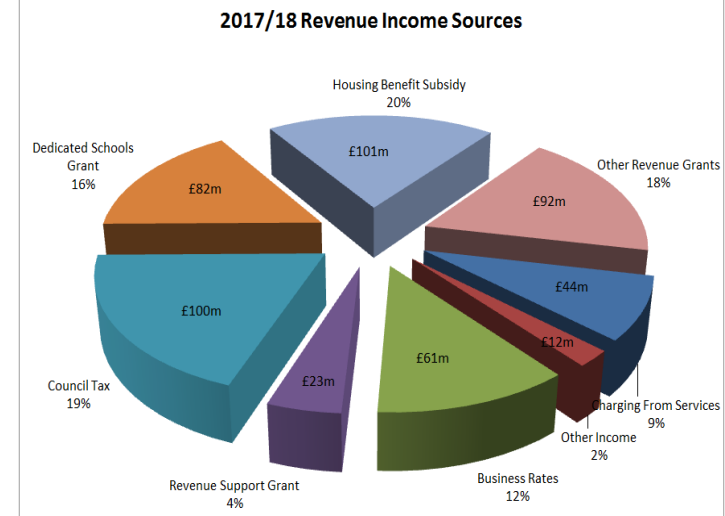
- Focus on prevention and early intervention
- Keeping children and adults protected
- Inclusive communities
- Respecting people's wishes
- Reduce health inequalities

- 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

- Our Corporate Plan is focused on our vision to be 'one team serving our city'. That means everyone working together towards our shared ambition to be a pioneering, growing, caring and confident city.
- The Plymouth Plan provides the strategic direction for decision making in the city. It brings together all statutory and non-statutory plans forming a holistic strategy for people and place.
- The annual report summarises how priorities have been delivered for Plymouth over the last year and details future plans for 2018/19.
- The Council uses its blue print operating model to develop more appropriate outcomes for people and more effective service delivery, standardising, simplifying and sharing wherever possible, through the Plymouth Family or wider partnerships.
- The Wider Devon Sustainability and Transformation Plan sets out ambitious plans to improve health and care services for people across Devon in a way that is clinically and financially sustainable. Health and care organisations as well as Local Authorities across Devon have been working together to create the shared five year vision to meet the increasing health and care needs of the population.
- The Plymouth and South West Devon Joint Local Plan looks at the big issues, including where to build homes, where roads should go and how to ensure economic growth and prosperity for Plymouth residents and those living in the towns and villages of West Devon and the South Hams. We carried out a major consultation asking people where land should be set aside for homes and work and what should be protected as green space. The Joint Local Plan was submitted to the Planning Inspectorate for examination on 31 July 2017.
- Thousands of hectares of green space will enjoy protection from development through the Joint Local Plan in response to community voices which have strongly influenced what appears in the final version of the Plan.
- Implementation of the Plan for Modernisation of Waste and Street Services is progressing. All areas of the city are receiving the new alternative weekly waste collection service to help increase levels of recycling.

## Principle D – Determining the interventions necessary to optimise the achievement of the intended outcomes

- The Medium Term Financial Strategy (MTFS) sets out how the Council will finance the priorities for the Council, having regard to the Plymouth & South West Devon Joint Local Plan and the Corporate Plan. The MTFS is updated each year, includes a risk assessment of budget option and is agreed by Full Council.
- The Transformation Programme has produced £65m savings since 2013. The challenge lies ahead to deliver a further £19m of savings by 2019-20. There are three programmes that involve a wide range of projects touching every area of our work:
  - Growth, Assets and Municipal Enterprise (GAME 2)
  - Transformation of the Corporate Centre (TCC)
  - Integrated Health and Wellbeing – One System, One Aim



- The system of internal financial control is based upon a framework of regular management information, financial regulations, Contract Standing Orders, administrative procedure and a structure of delegation and accountability.
- The Section 151 officer, as documented in the Constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and maintaining an effective system of internal financial control.
- Cabinet is our main decision making body, made up of the Leader of the Council and a number of Councillors.
- The scrutiny function is delivered through the Place and Corporate and Health and Wellbeing Overview and Scrutiny Committees. Scrutiny provides an important check and balance within the governance system on the decisions of Cabinet and the Leader and acts as a 'critical friend' to the Cabinet and other decision makers in order to promote better services, policies and decisions.
- The Corporate Fraud Team fulfils the Council's statutory obligation to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.
- Key performance indicators are used to track performance of the Council's priorities as outlined in the Corporate Plan.
- Service Standards have been implemented across the Council to improve the way we listen and respond to our customers.

## Principle E – Developing the entity’s capacity, including the capability of its leadership and the individuals within it

- An Organisational Design process is being followed to shape the organisational structure and ensure its alignment to the purpose of the Council and the context in which it operates.
- The Smart Working project is defining opportunities for smarter ways of working for various roles within the Council. This will define the organisations future accommodation and ICT infrastructure needs.
- An organisation wide transformation project has been mobilised to deliver the outcome to ‘create new ways of working’, this project is called ‘The Way We Work’ and is made up of five separate projects:-
  - Technology – devices and other hardware
  - Better Information – data and storage
  - Office 365 – software
  - Where We Work – accommodation
  - How We Work – culture change
- Digital Services is now fully owned and operated from within the Customer Service Department and is continuing to improve digital activities for customers and staff through website improvements, digital processes and workflows created and improved reporting mechanisms being used.
- The Commercial Finance team are developing proposals to allow the Council to operate in a more commercial way.
- Opportunities for new income streams are reviewed regularly by all services. Additional income has been generated through the Asset Investment Fund and by generation of new revenue rental streams.
- The Capital Programme is actively seeking to increase its property portfolio.
- Our People Strategy is our high level medium term plan for how we will provide a motivated, engaged and skilled workforce focused on meeting the needs of the citizens of Plymouth by focussing on three workforce themes - Talent, Leadership and Culture (TLC)
- Employee and Member Development examples include:-
  - Annual staff survey
  - Management Fundamentals Training Programme
  - Annual Staff ‘Star Awards’
  - Induction training carried out for new Members and employees
  - E-Learning utilized
  - Councillor Training Programme
  - Apprenticeship Programme
  - Management Driving Licence (compulsory E-Learning to be completed by all current managers and available for aspiring managers)





Principle F – Managing risks and performance through robust internal control and strong public financial management

**Risk Governance**

**Aligning Risk to Council Strategy, Business Planning and Performance**

- Monitor performance against:
- > Council priorities
  - > Internal Control arrangements
  - > Audit Recommendations

**Risk Identification & Prioritisation**

- > Identify risks to delivery of outcomes
- > Evaluate potential likelihood and impact of risk

**Risk Mitigation**

- > Identify mitigation already in place
- > Agree additional mitigation actions (Terminate/Transfer/Treat/Tolerate)

**Risk Monitoring**

Identification of risks and mitigation activity considered by Corporate Management Team quarterly and presented to Audit Committee

**Risk Based Internal Audit Planning**

Devon Audit Partnership liaise with Head of Assurance having consideration for the Strategic and Operational Risk Register content to set the Audit Plan for the year ahead

- The Council consider and counter risk across a broad range of areas. An approved Risk Management Strategy and Policy and guidance are available for staff on the Council’s website together with E-Learning.
- Risks are formally reviewed and monitored quarterly by the Corporate Management Team and reported to the Audit Committee.
- An Operational Risk Management Group with representation from each directorate meet at least quarterly to oversee and review the risk management process and development of the Council’s approach to risk.
- Risks to planned outcomes are considered as part of the business planning process.
- Alignment of risk information with performance management has been improved this year with strategic risk updates now being included within the Corporate Plan Quarterly Report. The Corporate Plan Performance Framework is monitored by Cabinet.
- A Joint Integrated Commissioning Risk Management Framework has been developed with N.E.W. Devon CCG to support our joint co-operative commissioning approach.
- Information Lead Officer Group direct work streams within the overall governance of information assets and the Management of Information Security Forum ensure there is clear direction and visible management support for security initiatives.
- Risks that threaten the health, safety and wellbeing of employees and other people using Council premises are monitored by the Health, Safety & Wellbeing Steering Group via HSW risk register.

## Principle G – Implementing good practices in transparency, reporting and audit to delivery effective accountability

### Internal Audit

The Devon Audit Partnership (DAP) has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon Councils. DAPs Internal Audit Plan is based on the high risks reported within risk registers and is presented to and approved by the Audit Committee in March. The plan is published on the Council's website with the Audit Committee agenda, and includes:

- The current position of the audit service provision
- Reviews work undertaken to-date
- Provides an opinion on the overall adequacy and effectiveness of the Council's internal control environment.



DAP collaboratively work with services to make recommendations around improvement to the control environment with internal audit reviews undertaken across a range of accounting systems and governance subjects.

### External Audit

The Council's arrangements for providing economy, efficiency and effectiveness are reviewed by the external auditors on an annual basis. Their Annual Report provides a summary of the activity undertaken during the year. They also review the Annual Governance Statement.

### Audit Committee

An effective Audit Committee is in place whose purpose is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process. The Committee has two independent members.

The Audit Committee monitor and review the Council's corporate governance arrangements, financial reporting, internal control system, risk management system and internal and external audit functions. In line with good practice, Audit Committees should assess their effectiveness annually. The National Audit Office has produced a self-assessment checklist, the completion of which will be incorporated into the Audit Committee work plan for 2018/19.

## 5. Review of Effectiveness

Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

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

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

The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## 6. Areas of Significant Governance

A key element of the annual governance review process is also to identify any significant internal control issues. The Council has adopted the approach recommended by CIPFA which has identified what may be considered generally as a significant issue. These criteria are:

- The issue has the potential to seriously prejudice or prevent achievement of a principal objective;
- The issue may result in a need to seek additional funding to allow it to be resolved;
- The issue has the potential to result in significant diversion of resources from another aspect of the business;
- The issue may lead to a material impact on the accounts;
- The issue, or its impact, may attract significant interest or seriously damage the reputation of the Council;
- The issue may result in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose, or
- The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.

This table describes the areas where significant governance is required for matters carried forward from 2016/17 and identified during 2017/18:

Key Governance Area	Lead Officer	Description	Reporting Through
<b>1) Delivery of The Plymouth and South West Devon Joint Local Plan and Plymouth Plan.</b>	Strategic Director for Place	The Plymouth and South West Devon Joint Local Plan (JLP) provides an integrated and holistic long term plan as to how the city and surrounding area will change up to 2031. It covers the local authority areas of Plymouth City Council, South Hams District Council and West Devon Borough Council. The JLP together with the Plymouth Plan provides a strategic policy framework for both people and place. The creation of sustainable communities, and the theme of providing quality of life for everyone in the city, runs through the plans, providing an effective and integrated strategic framework for addressing and responding to issues such as community safety, community cohesion, child poverty, equalities and diversity, new homes, jobs and employment.	Full Council
<b>Assurance Statement:</b> Following a six week consultation period on the pre-submission draft which ran from 15 March to midnight 26 April 2017 the Joint Local Plan was submitted to the Planning Inspectorate for examination on 31 July 2017. A public examination commenced on Tuesday 30 January 2018 following which, an inspectors' report will be submitted to the Council. The JLP and Plymouth Plan will be brought together to ensure complete synergy between people and place. The Council's corporate plan sets out how it will focus on continuing to deliver services for the people of the city.			
<b>2) Establishment of a new Joint Committee involving Plymouth, Torbay and all the councils across Devon and Somerset. Development of a delivery plan for the Heart of the South West Productivity Strategy and conversations with Government to accelerate the aims in the Strategy.</b>	Assistant Chief Executive	Somerset, Devon, Torbay and Plymouth councils established a new Joint Committee in March 2018. Together with the Local Enterprise Partnership they endorsed a Productivity Strategy and are now developing a delivery plan which will work towards achieving the vision in the Strategy: to double the value of the Heart of the South West (HotSW) economy by 2038.	Full Council
<b>Assurance Statement:</b> A Productivity Strategy has been produced which provides a clear sense of direction of how working together more effectively across the region and with more Government support, we will boost productivity, increase investment, support businesses, improve skills and training, and create a stronger economy for the region.			
<b>3) Sustainability &amp; Transformation Plan (STP) and development of Local Delivery Partnership for the Western System.</b>	Chief Executive	Across the Devon STP all partners are working towards the development of a new Accountable Care System for Devon which includes a single Strategic Commissioner and four Local Delivery Partnerships based on a Place based model of health and care, a Mental Health Accountable Care Delivery System (ACDS) and a network of acute hospitals. One of these local delivery partnerships will cover the Western locality including Plymouth.	Health and Wellbeing Board and Cabinet
<b>Assurance Statement:</b> A Devon wide Organisation Design Steering Group has been established to cover all the work streams. The Chief Executive of PCC is on this group to lead the development of the Local Delivery System for Western Locality including Plymouth, also working with Cornwall for residents from this area who access NHS services in Plymouth. The current Strategic Director of People, Carole Burgoyne MBE, takes on a wider role working with both Plymouth City Council and the NEW Devon Clinical Commissioning Group and will report to both the City Council's Chief Executive and Accountable officer of the CCG. This post will focus on further integration of services across health, care and wellbeing both in the planning and commissioning of those services and in the delivery of them. This will ensure that residents get a more joined up			

Key Governance Area	Lead Officer	Description	Reporting Through
approach in this important area.			
<b>4) Senior management capacity and resilience to deliver the Council's strategic objectives.</b>	Chief Executive	The Council is working on a number of challenges concurrently rather than consecutively. The direction in which the leadership wishes to take the Council is clear, there is a strong strategic narrative about what the organisation wants to achieve. The Chief Executive adopted an Organisational Design approach to review the Senior leadership team (SLT) and proposed changes were approved at the January 2018 Full Council meeting. These changes, including a new post of Director for Children's Services, to be shared with Torbay Council, was required to ensure that senior management capability is in place to meet these challenges.	Full Council
<b>Assurance Statement:</b> An Organisational Design process is being used to shape an organisational structure to align it with the purpose of the Council and the context in which it operates. Reviewing the rapidly changing internal and external environment helps to ensure we have the ability to respond with agility to changing demands and deliver greater partnership working across councils and other public sector bodies. This approach aims to improve resilience as well as the ability to deliver better outcomes for citizens.			
<b>5) Delivering Council services within the envelope of the resources provided in 2018/19-19/20 Medium Term Financial Strategy (MTFS).</b>	Interim Strategic Director for Transformation and Change	The Council needs to deliver £19m of efficiencies over the next two financial years to 2019-2020.  Significant savings are focussed in three key transformation programmes:- <ul style="list-style-type: none"><li>• Growth, Assets and Municipal Enterprise (GAME2) – This programme is investing in accelerating Plymouth's economic growth, which will raise income through business rates and Council tax.</li><li>• One System, One Aim – This programme emphasises the need for preventative and early intervention services to improve health.</li><li>• Transforming the Corporate Centre – This programme has been established to define and deliver an organisational service centre to deliver universal services and transactions with consistency and commonality.</li></ul>	CMT, SLT, Scrutiny Panels and Cabinet
<b>Assurance Statement:</b> The Medium Term Financial Strategy was presented to Council in November 2017. This has been updated to reflect the latest budget position and the impact of the Provisional Local Government Settlement. Members and Corporate Management Team have been actively consulted and involved in the development of the MTFS. As in previous years due to the complexity and range of services that are provided and ever increasing demands there will always be a risk in delivering these savings and the impact upon reserves and balances in future years if these cannot be delivered. Detailed work is being undertaken to address the funding gap. Work is ongoing with Arlingclose (our Treasury Management Advisors) to fully understand the treasury management impact of Britain's exit from the European Union and other treasury management opportunities.			
<b>6) Being unable to deliver Council services within the envelope of the resources provided in 2017/18 leading to negative impact on budgets, loss of reputation, negative impact on front line services and a negative opinion from external audit</b>	Interim Strategic Director for Transformation and Change	The financial challenges faced by the Council are acute and should be set in the context of continuing reduction in resources from government and ever increasing pressures, particularly within Social Care due to increasing demands and complexity needs.	Cabinet and Scrutiny

Key Governance Area	Lead Officer	Description	Reporting Through
<p><b>Assurance Statement:</b> Progress reported within monthly financial reporting to Cabinet members and Scrutiny. Continued Member engagement in budget process and medium term financial plan setting process by having regular Member briefings. Corporate Management Team has MTFS as a standing agenda item. Frequent monitoring to inform decision making has taken place and corrective action implemented.</p>			
<p><b>7) Potential negative impact of the various elements of Welfare Reform changes on addressing our priorities.</b></p>	<p>Service Director for Community Connections</p>	<p>The Welfare Reform agenda continues to present significant risk, placing additional pressures on customers including the most vulnerable, and requiring significant partnership work with the voluntary sector to provide face to face advice to support customers affected.</p>	<p>Safer Plymouth Partnership, Health and Wellbeing Board and Cabinet</p>
<p><b>Assurance Statement:</b> The impact of Welfare Reform continues to be monitored and discretionary welfare schemes reviewed and quarterly welfare dashboard produced. Plans implemented and strategies in place to create jobs. Support continues to Credit Unions and other financial inclusion initiatives. Child Poverty Action Plan adopted.</p>			
<p><b>8) Reduction in the quality of education provision negatively affecting the level of pupil attainment following poor Ofsted inspection. Poor Ofsted judgements may result in the closure of provision leading to insufficient places in the city.</b></p>	<p>Service Director for Education, Participation &amp; Skills</p>	<p>At secondary level, 50% of schools are not at the required standard of good or better as judged by Ofsted. Following discussions with the Regional Schools Commissioner's (RSC) office and the Department for Education, a decision in principle has been made to close Plymouth Studio School in the summer of 2018. This decision comes after an Ofsted report which criticised the school and labelled it 'inadequate'.</p>	<p>Plymouth Education Board</p>
<p><b>Assurance Statement:</b> The Council is working with parents and students of Studio School to help secure alternative education provision. Development of an accountability and support model involving a number of partners is in progress. The Plymouth Challenge will create a partnership of distinct interventions to drive improvement.</p>			
<p><b>9) Ensuring the Authority meets its legal and regulatory health and safety duties under the Control of Vibration at Work Regulations 2005.</b></p>	<p>Strategic Director for Place</p>	<p>The Control of Vibration at Work Regulations 2005 requires that employers must assess and identify measures to eliminate or reduce risks from exposure to hand-arm vibration with the aim to protect employees from risks to their health.</p>	<p>Health, Safety &amp; Wellbeing and Street Services Working Groups</p>
<p><b>Assurance Statement:</b> All actions have been completed to comply with the Health and Safety Executive (HSE) Improvement Plan. Feedback awaited from the HSE as to their acceptability of the Improvement Plan and any potential implications.</p>			
<p><b>10) Safeguarding children and protecting them from the risk of harm.</b></p>	<p>Strategic Director for People</p>	<p>Every council has to set up a Safeguarding Children Board responsible for improving the wellbeing of children in the area. The boards are multi-agency and include representatives from partner organisations.</p>	<p>Plymouth Safeguarding Children Board</p>
<p><b>Assurance Statement:</b> Plymouth Safeguarding Children Board (PSCB) co-ordinates the work of everyone on the Board to safeguard and promote the welfare of children in Plymouth and publishes policies and procedures for child protection. The Board has an independent Chair (someone who doesn't work for social services) who works closely with the Director of Children's Services.</p>			
<p><b>11) The Council not meeting its obligations to</b></p>	<p>Interim Strategic Director for</p>	<p>Information is the raw material used by the Council to plan for and deliver all its services and reducing the risk that describes the availability and quality of</p>	<p>Audit Committee</p>

Key Governance Area	Lead Officer	Description	Reporting Through
keep citizen data secure.	Transformation and Change	information for staff, decision makers and citizen use, as well as the protection of sensitive information is a continuing process.	
<p><b>Assurance Statement:</b> An Information Lead Officer work group comprising of Information Lead Officers from each directorate is responsible for delivery of actions. The group reports to a Senior Information Risk Owner who is a member of the senior management team. The Information Governance Manager has raised awareness of Data Protection Act 2018 Regulations and an Information Audit is underway in all departments.</p>			
<p><b>12) During the course of preparing for and administering the General Election in June 2017 the Council experienced a number of failures in the processing of the registration, voting and the count declaration.</b></p>	Chief Executive	<p>In the days leading up to the General Election on 8 June 2017, the Acting Returning Officer (ARO) for the three parliamentary constituencies of Plymouth Moor View, Plymouth Sutton and Devonport and South West Devon identified a problem with the issue of postal voting packs to electors who had requested them. In addition to the above, a further issue emerged at the declaration of the results of the election, where the final number of votes declared for the Plymouth Sutton and Devonport constituency was not correct, despite the count itself being accurate and the result unaffected. A number of electors reported that they attended polling stations on 8 June 2017 with their polling card but were unable to vote.</p>	Full Council
<p><b>Assurance Statement:</b> In response to these issues the Acting Returning Officer instigated an independent review and commissioned a highly experienced Returning Officer and advisor to national bodies on elections, to investigate what happened and why so that lessons could be learned. The Review of Registration and Elections report was presented to City Council on 25 September 2017. Review recommendations are being implemented via an Electoral Services Improvement Programme to drive and sustain a robust and resilient service. All new Electoral Services posts have been appointed including a new Electoral Services Manager. Dr Dave Smith, the Independent Investigator who examined the issues we had last year during the General Election spent three days in January 18 reviewing the Council's progress in making sure it is fully ready to run local elections in May. He has concluded that the Council has taken a rigorous approach to addressing the issues, shown a real will to change and improve processes both within the Electoral Service and between the service and the wider Council. In his Review of Progress report dated 31 January 2018, one of Dr Smith's conclusions stated that the pace of change has put the Council in a strong position to successfully deliver local elections provided there is continued strong leadership and operational grip on the Electoral Service with the support of the rest of the Council. There were no major issues experienced leading up to and during the running of the Local Elections on 3 May 2018 which were successfully delivered.</p>			
<p><b>13) Contract agreement for Plymouth City Council to run Children's Services in Torbay.</b></p>	Chief Executive	<p>In September 2017, Plymouth City Council endorsed an in principle decision to progress the development of a contractual arrangement to run Torbay's Children's Services, including education, and to undertake due diligence to develop detailed contractual arrangements for consideration by Council in January 2018. This follows on from a recommendation made by John Coughlan, the Commissioner for Torbay's Children's Services, to the Minister of State for Children and Families earlier this year, which has now been formalised by the Department for Education through an updated Direction to Torbay. The two Councils share a Director of Children's Services.</p>	Full Council
<p><b>Assurance Statement:</b> Contractual agreement in place and comprehensive risk management arrangements and governance structure involving both Councils at officer and political levels. The Children's Commissioner of the Department of Education is overseeing improvement.</p>			

Key Governance Area	Lead Officer	Description	Reporting Through
<b>14) Delivering shared back office services</b>	Assistant Chief Executive and Interim Strategic Director for Transformation & Change	Following a strategic options review on the future of the Council's back office services, Cabinet gave approval in September 2017 to the development of a full business case and associated service specifications for a shared services model of delivery hosted by DELT.	Cabinet
<b>Assurance Statement:</b> Mitigations are reviewed at pre-decision Scrutiny Panel and Cross Party Working Group. DELT governance arrangements in place with the Assistant Chief Executive as Plymouth City Council Board Member and DELT and Interim Strategic Director for Transformation and Change as Shareholder. As recommended by Scrutiny and approved by Cabinet, Trade Union recognition within DELT has been reached and signed off.			
<b>15) The delivery of a plan for waste that delivers increased recycling levels in Plymouth and ensures it meets the PFI targets agreed in the SW Devon Waste Partnership.</b>	Strategic Director for Place	The City Council is committed to delivering its strategic vision for the sustainable management of waste. Part of this commitment is the achievement of statutory and local targets to minimise the production of waste, as well as ensuring that as much as possible is recycled or subject to processes that aim to recover value.	South West Devon Waste Partnership and Cabinet
<b>Assurance Statement:</b> Modernisation Plan in place across Street Services and Waste Department will focus on back office systems and processes which are designed to improve the delivery of frontline services for customers.			

## 7. Certification

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

Cllr Tudor Evans OBE  
Leader of the Council

Tracey Lee  
Chief Executive

Andrew Hardingham  
Interim Strategic Director for Transformation & Change  
(Section 151 Officer)

Dated:

Dated:

Dated:



**Introduction**

Each year the Council conducts a review of the effectiveness of its system of internal control and governance arrangements to ensure compliance with its Code of Corporate Governance. This review forms part of the assurance gathering process to produce the Annual Governance Statement (AGS). The Code has been revised in accordance with the CIPFA/ SOLACE Delivering Good Governance in Local Government Framework 2016.

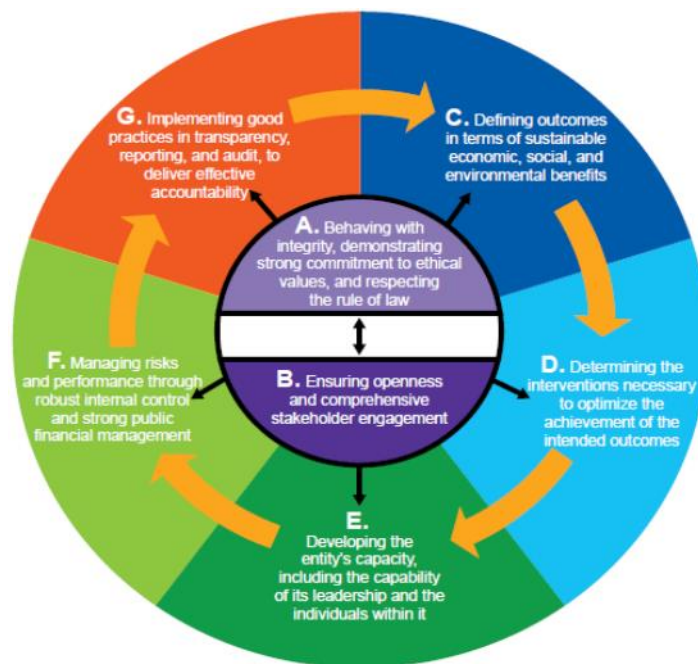
A summary of Plymouth City Council’s local arrangements in place to comply with each of the core principles can be found in the Annual Governance Statement (AGS) which is prepared on behalf of the Leader of the Council and the Chief Executive and submitted to the Audit Committee for consideration and review. It is the Audit Committee’s responsibility to monitor the performance of the Council’s governance procedures against the Code. Following approval, the AGS is published alongside the Statement of Accounts on the Council’s website.

**Code of Corporate Governance**

Governance is about how the Council ensures that it is doing the right things in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems, processes, cultures and values by which the Council is directed and controlled and through which it accounts to, engages with, and leads its communities.

The diagram below illustrates how the various principles for good governance in the public sector relate to each other. The seven core principles each contain a set of supporting principles, which in turn have a range of specific requirements that apply across the Council’s business and these are described in detail on the following pages.



### **Core principle A – Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Description:** Local government organisations are accountable not only for how much they spend, but also how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values to respect the rule of law.

#### **Sub-principles:**

##### **Behaving with integrity**

- Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.
- Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).
- Leading by example and using these standard operating principles or values as a framework for decision making and other actions.
- Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively.

##### **Demonstrating strong commitment to ethical values**

- Seeking to establish, monitor and maintain the organisation's ethical standards and performance.
- Underpinning personal behaviours with ethical values and ensuring they permeate all aspects of the organisation's culture and operation.
- Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.
- Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation.

##### **Respecting the rule of law**

- Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.
- Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.
- Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.
- Dealing with breaches of legal and regulatory provisions effectively.
- Ensuring corruption and misuse of power are dealt with effectively.

### **Core principle B – Ensuring openness and comprehensive stakeholder engagement**

**Description:** Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

#### **Sub-principles:**

##### **Openness**

- Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.
- Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision

confidential should be provided.

- Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.
- Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action.

#### **Engaging comprehensively with institutional stakeholders**

- Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.
- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.
- Ensuring that partnerships are based on:
  - Trust,
  - a shared commitment to change,
  - a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.

#### **Engaging stakeholders effectively, including individual citizens and service users**

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.
- Ensuring that communication methods are effective and members and officers are clear about their roles with regard to community engagement.
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.
- Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.
- Balancing feedback from more stakeholder groups with other stakeholder groups to ensure inclusivity.
- Taking account of the interests of future generations of tax payers and service users.

### **Core principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits**

**Description:** The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

#### **Sub-principles:**

##### **Defining outcomes**

- Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions.
- Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.
- Delivering defined outcomes on a sustainable basis within the resources that will be available.
- Identifying and managing risks to the achievement of outcomes.
- Managing service user’s expectations effectively with regard to determining priorities and making the best use of the resources available.

**Sustainable economic, social and environmental benefits**

- Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.
- Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.
- Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.
- Ensuring fair access to services.

**Core principle D – Determining the interventions necessary to optimise the achievement of the intended outcomes**

**Description:** Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

**Sub-principles:****Determining interventions**

- Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.
- Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills and assets and bearing in mind future impacts.

**Planning interventions**

- Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.
- Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.
- Considering and monitoring risks facing each partner when working collaboratively including shared risks.
- Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.
- Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.
- Ensuring capacity exists to generate the information required to review service quality regularly.
- Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.
- Informing medium and long term resource planning by drawing up realistic estimates of revenues and capital expenditure aimed at developing a sustainable funding strategy.

**Optimising achievement of intended outcomes**

- Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.
- Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.
- Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues of

responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.

- Ensuring the achievement of 'social value' through service planning and commissioning.

### **Core principle E – Developing the entity's capacity, including the capability of its leadership and the individuals within it**

**Description:** Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

#### **Sub-principles:**

##### **Developing the entity's capacity**

- Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness.
- Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.
- Recognising the benefits of partnerships and collaborative working where added value can be achieved.
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.

##### **Developing the capability of the entity's leadership and other individuals**

- Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.
- Publishing a statement that specifies the type of decisions that are delegated and those reserved for the collective decision making of the governing body.
- Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.
- Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by;
  - Ensuring members and staff have access to appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.
  - Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.
  - Ensuring personal, organisational and system wide development through shared learning, including lessons learned from governance weaknesses both internal and external.
- Ensuring that there are structures in place to encourage public participation.
- Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.
- Holding staff to account through regular performance reviews which take account of training or development needs.
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

## Core principle F – Managing risks and performance through robust internal control and strong public financial management

**Description:** Local government needs to ensure that the organisation and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

### Sub-principles:

#### Managing risk

- Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.
- Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.
- Ensuring that responsibilities for managing individual risks are clearly allocated.

#### Managing performance

- Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.
- Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.
- Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible. Encouraging effective and constructive challenge and debate on policies and objectives to support balance and effective decision making.
- Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement.
- Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).

#### Robust internal control

- Aligning the risk management strategy and policies on internal control with achieving the objectives.
- Evaluating and monitoring the authority's risk management and internal control on a regular basis.
- Ensuring effective counter fraud and anti-corruption arrangements are in place.
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
- Ensuring an audit committee or equivalent group or functions which is independent of the executive and accountable to the governing body;
  - Provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment.
  - That is recommendations are listened to and acted upon.

#### Managing data

- Ensuring effective arrangements are in place for the safe collection, storage, and use and sharing of data, including processes to safeguard personal data.
- Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.
- Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance

monitoring.

### **Strong public financial management**

- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.
- Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.

## **Core principle G – Implementing good practices in transparency, reporting and audit to deliver effective accountability**

**Description:** Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

### **Sub-principles:**

#### **Implementing good practice in transparency**

- Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.
- Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.

#### **Implementing good practices in reporting**

- Reporting at least annually on performance, value for money and the stewardship of its resources in a timely and understandable way.
- Ensuring members and senior management own the results reported.
- Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an evidence to demonstrate good governance (annual governance statement).
- Ensuring that the framework is applied to jointly managed or shared service organisations as appropriate.
- Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.

#### **Assurance and effective accountability**

- Ensuring that recommendations for corrective action made by external audit are acted upon.
- Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon.
- Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.
- Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.
- Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met.

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Statement of Accounts 2017/18
<b>Committee:</b>	Audit Committee
<b>Date:</b>	31 May 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham, Interim Strategic Director for Transformation and Change
<b>Author:</b>	Carolyn Haynes (Financial Controller)
<b>Contact details</b>	Tel: 01752 398927 Email: <a href="mailto:carolyn.haynes@plymouth.gov.uk">carolyn.haynes@plymouth.gov.uk</a>
<b>Ref:</b>	FIN/CH
<b>Key Decision:</b>	No
<b>Part:</b>	I

**Purpose of the report:**

A report on the Council's revenue and capital outturn for the financial year will be reported to Cabinet on 5 June 2018. This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication, and reports on progress towards the requirement to prepare the pre-audited accounts by the 31 May 2018.

The Accounts and Audit Regulations require that the accounts are available for public inspection for six weeks and this year the period of inspection commences on the 31 May 2018. The external audit will commence on 29 May 2018.

The report also details progress towards completion of the action plan agreed to implement the recommendations made by the auditor following the completion of the 2016/17 audit.

**The Corporate Plan 2016/17-2018/19:**

The Council's expenditure forms the basis on which the Corporate Plan can be delivered.

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

The 2017/18 final accounts will have implications on the Medium Term Financial Plan. The level of Working Balance and reserves will affect the level of funding available in future years and variations in service expenditure will also need to be reviewed to assess the effects on future years.

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

N/A

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

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**I) Recommendations and Reasons for recommended action:**

- I. Audit Committee note the report and the 'authorised for issue' date (26 July 2018) for the draft Statement of Accounts.
- 

**Alternative options considered and rejected:**

None – It is a statutory requirement to produce and approve the Statement of Accounts.

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**Published work / information:**

Outturn Report to Cabinet 5 June 2018

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**Background papers: None**

None

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**Sign off:**

Fin	pl1819.12	Leg	ALT/30509	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

## Statement of Accounts 2017/18

### 1. Introduction

- 1.1 The financial outturn for both the Council's revenue and capital activities for 2017/18 will be reported to Cabinet on the 5 June 2018. This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication.
- 1.2 The Accounts have to be produced in line with the relevant CIPFA Codes of Practice and with regard to relevant items of statute. Details of the changes in relation to the 2017/18 Codes and relevant legislation which need to be considered for the accounts are outlined in section 3.
- 1.3 The Accounts and Audit Regulations require that the draft Statement of Accounts is signed by the Council's Section 151 Officer by 31 May each year (One month earlier than last year in accordance with the earlier closing timetable). Progress towards the production of the pre-audit accounts is outlined in section 2 of this report. The pre-audited accounts will be published on the Council's website by the end of May.
- 1.4 Formal audit of the accounts for 2017/18 will commence on 29 May. The 30 working days period in which the Council has to make the draft accounts available for public inspection starts on 1 June. The audited Accounts will be presented to the next committee (26 July 2018) alongside the external auditor's report prepared by BDO. An analysis of the financial position and key messages within the accounts will be reported to committee in the accompanying report as it is not possible to do so at this stage whilst the draft accounts are still being finalised.
- 1.5 The Code requires that the Council sets and discloses an 'authorised for issue' date, which reflects a cut-off date in terms of the post balance sheet period within which events have to be considered in relation to their impact on the 2017/18 accounts. The relevant date for the draft Statement of Accounts has been set as 26 July 2018.
- 1.6 Each year the Audit Committee receives the external auditor's (ISA260) report on the accounts audit, which, where appropriate, will include an action plan containing issues for the Council to address for the following year's accounts. Progress against auditor recommendations resulting from the 2016/17 financial audit is detailed in Section 6 and **Appendix A**.
- 1.7 The Annual Governance Statement (AGS) is being presented separately to this Audit Committee for approval. The AGS no longer forms part of the published Statement of Accounts document but would stand-alone to reflect that its scope is wider than just the financial transactions of the authority. However, it will be published alongside the Statement of Accounts on the Council's website as is required by the Code.

### 2. Key Dates for 2017/18 and progress to date

- 2.1 The statutory timetable relating to the production and publication of the final accounts has changed bringing forward the timetable for the closure of the accounts in respect of 2017/18 and subsequent financial years.

- 2.2 The Council is required to publish the unaudited statement of accounts by the 31<sup>st</sup> May 2018 (one month earlier than the publication date for the 2016/17 statement of accounts). This is prior to the period for the exercise of public rights which must include the first 10 working days of June. The regulations also require that local authorities in England publish their audited statement of accounts by 31 July 2018 (including on the authority's website) although there are provisions where the audit has not been completed by this date.
- 2.3 In line with CIPFA's recommendations, the Council has been in regular discussion over the last two years with its key stakeholders (including the Audit Committee) about the new accounts closure timetables. Officers have also been working closely with BDO (external auditors) on the revised deadlines.
- 2.4 The year-end timetable for both internal and external reporting (via the Statement of Accounts) of the 2017/18 financial results has been set as follows:-

Milestone	Key Date
Provisional Outturn report to CMT	10 April
Draft Outturn Report to Cabinet Members	5 June
Draft Statement of Accounts prepared	31 May
Final Accounts Audit Commences	29 May
Statutory deadline for Section 151 Officer to 'sign off' of draft Statement of Accounts	31 May
Period of Public Inspection	1 June to 12 July
Auditor's ISA260 report received and audited Statement of Accounts approved by Audit Committee	26 July
Statutory deadline for Section 151 Officer and Audit Committee to approve the audited Statement of Accounts	31 July

- 2.5 As the agenda for this committee was published, the Finance team were finalising the draft Statement of Accounts for review by Senior Management. We are on course to have the work on the accounts completed by the 31 May deadline, but Officers will provide a verbal update on progress at the meeting.
- 2.6 The Code requires that events occurring after the balance sheet date, i.e. 31 March 2018, are considered in terms of their relevance to the Council's financial position for 2017/18. There is an obligation to ensure that any such events are properly reflected in the Statement of Accounts up to the date that the statement is 'authorised for issue' – the authorised for issue date. The authorised for issue date marks the point beyond which there can be no reasonable expectation that events could have been taken into consideration in the preparation of the Statement of Accounts. The Council has to disclose this date within the accounts and it has been decided that post balance sheet events up to and including the 26 July 2018 be considered for the draft accounts submitted for audit.

**3. Key Changes to the Local Authority Accounting Code of Practice 17/18 that affect the Accounts for 2017/18**

3.1 The 2017/18 edition of the Code introduces new, or amended, accounting standards or reporting requirements in a number of areas including:

- A new principles-based approach to narrative reporting.
- A review of the Code's provisions on going concern reporting.
- A review of accounting policies provisions in the Code.
- New disclosure on transaction costs for pension fund investments.
- Narrow scope amendments to International Financial Reporting Standards.
- Legislative Changes.

3.2 As well as changes to the Codes of Practice, Officers will also be considering other documentation published by CIPFA which will have an impact on either 2017/18 or future years' accounts. Current developments include consultation documents and / or new publications on the following topics:-

- IFRS9 Financial Instruments: Recognition and Measurement.
- IFRS15 Revenue from Contracts with Customers.

**4. 2016/17 Restatement**

4.1 The Council has restated its previously issued Statement of Accounts for 2016/17. There are two material restatements relating to the Pension Reserve and Capital Grants.

4.2 Following a review of the working papers for the Capital Grants & Contributions, it became apparent that capital grants received in advance, were incorrectly stated as having no outstanding terms and conditions and was therefore recognised as income in the CI&ES. This is the incorrect accounting treatment and capital grants received in advance cannot be recognised in the CI&ES until all T&C are satisfied. They have now been restated in the Balance Sheet as a long term creditor. *This is purely an accounting adjustment, the status of the grants are unchanged in real terms.*

4.3 The Pension Reserve has been restated due to the inclusion of additional pension guarantees for Delt and Livewell. Plymouth City Council has provided a guarantee to Livewell South West and Delt in respect of any deficit that may emerge in the future in respect of the benefits accrued prior to the transfer of staff to them. Livewell South West is therefore responsible for benefits accrued after 1 April 2015 and Delt is responsible for benefits accrued after the 1 April 2016.

**5. Post Balance Sheet Events (PBSE)**

5.1 Although the Statement of Accounts shows the financial outturn position for 2017/18 and Balance Sheet position as at 31 March 2018, the Council is required to take into account items occurring after 31 March 2018 if they would have a material impact on the accounts.

5.2 No post balance sheet events have been identified to date or included in the draft Statement of Accounts.

5.3 As the draft accounts were still being finalised at the time of publishing this report, it may not reflect the final PBSE position when the accounts are published at the end of May.

**6. Progress against the 2016/17 ISA260 Report Action Plan**

- 6.1 The External Auditor's annual Governance Report (ISA260 Report), includes the findings on the annual accounts audit and an action plan to address key audit issues. **Appendix A** sets out the auditor's recommendations following the 2016/17 accounts audit and reports on the progress made to date regarding the related action plan.
- 6.2 Six issues were reported in the action plan and these are shown below in **Appendix A**.

**7. Conclusions**

- 7.1 The 2017/18 financial results for the authority have been established and reported significantly earlier than when compared to previous years.
- 7.2 The annual external audit is being carried out by BDO our external auditors and it commenced on the 29 May 2018; the period of public inspection of the accounts commences on 31 May 2018. The audited Statement of Accounts will be submitted to Audit Committee for approval at the 26 July meeting.
- 7.3 Officers are working to ensure that the auditor's action plan resulting from the 2016/17 final accounts audit is addressed where applicable.

Appendix A

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
For Civica financials, we noted a relatively high number of generic accounts and also “administrator” access being given to a relatively high number of people.	Potential weakness in control over access.	Management should review the number of generic accounts and also those individuals allocated administrator access.	From 750 users who can access the system we have five full access users which is not considered excessive.	N/A	N/A
For Civica, the password parameters were fewer than we would expect	Weakened access controls.	Review password parameters.	The password parameters have been strengthened	Carolyn Haynes	1 Jan 2017
Starters and leavers controls need to be formalised for Logotech	Weakened access controls.	Formalise leaver procedures.	There are only 5 users for this database and they have been with the Council for a number of years.	N/A	N/A
For Techforge, change management procedures should be reviewed to ensure an audit trail exists for all approved changes.	The controls to prevent unauthorised changes to the application need to be strengthened.	Formalise change procedures and ensure all changes can be checked against an authorised approval.	We will work with Delt to deliver improvements	Delt	31 Dec 2017
For Carefirst, the password complexity was weak.	Weakened access controls	Ensure passwords are more complex.	The password complexity has been strengthened for all users.	Delt/Carefirst	18 May 2018
For Itrent and Techforge, we note that lock-out only occurred after 30 failed attempts. This is a high number and should be reduced.	Weakened access controls	Reduce the number of failed password inputs before lock out occurs.	We will work with Delt to deliver improvements	Delt	31 Dec 2017

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**CITY OF PLYMOUTH**

<b>Subject:</b>	Annual Report on Treasury Management Activities for 2017/18
<b>Committee:</b>	Audit Committee
<b>Date:</b>	31 <sup>st</sup> May 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Interim Strategic Director of Transformation and Change)
<b>Author:</b>	Chris Flower (Finance Business Partner – Accountant for Capital and Treasury Management)
<b>Contact:</b>	Tel: 01752 304212 Email: <a href="mailto:chris.flower@plymouth.gov.uk">chris.flower@plymouth.gov.uk</a>
<b>Ref:</b>	Fin/CF
<b>Key Decision</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2017/18 including the final position on the statutory Prudential Indicators.

This report:

- a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2017/18;
- c) provides an update on the risk inherent in the portfolio and outlines actions taken by the Council during the year to minimise risk;
- d) gives details of the outturn position on Treasury Management transactions in 2017/18;
- e) confirms compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year.

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

In accordance with Treasury Management Practices note 6, this report is required to be submitted to Full Council.

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**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.

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

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

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

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

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**Recommendations & Reasons for recommended action:**

1. To note the Treasury Management Annual Report 2017/18.
2. To refer the Treasury Management Annual Report 2017/18 to Full Council for approval.

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

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**Alternative options considered and reasons for recommended action:**

None - it is requirement to report to Council on the treasury management activities for the year.

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**Background papers:**

- Treasury Management Strategy report to Council 26 February 2018
- Mid-Year Review report to Audit Committee 7 December 2017

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**Sign off:**

Fin	pl1819.07	Leg/ Dem& Gov	It/3051 6/2105	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Andrew Hardingham, Service Director for Finance											
Has the Cabinet Member(s) agreed the content of the report? Yes											

## **Annual Report on Treasury Management Activities for 2017/18**

### **Introduction**

The Chartered Institute of Public Finance and Accountancy's Treasury Management (the CIPFA Code) requires the Council to report on the performance of the treasury management function after the financial year end).

The Council's Treasury Management Strategy for 2017/18 was approved by Council on 15 February 2017. 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.

### **External Context**

**Economic background:** 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy latest estimates the first estimate of Q1 GDP showed the UK economy expanded by 0.1% over the quarter and 1.2% year-on-year. The quarter figure was below market expectations, while the year-on-year figure was in line with expectations.

There are concerns that the UK economy will continue to decline in preparation for the exit of the EU in 2019. This is in contrast to the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in

essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

**Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20 year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

**Credit background:** In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of

1st January 2019. As there was some uncertainty surrounding which banking entities the Council would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

**Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

**Credit Rating developments:** The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following deterioration in its financial position.

**Other developments:** In March, following Arlingclose's advice, the Council removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Council's lending list.

**Local Authority Regulatory Changes:** Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code [have been / are being] incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. The Council intends to produce a Capital Strategy by December 2018.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

**MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall. The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but

could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the Council have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

### **Local Context**

On 31<sup>st</sup> March 2018, the Council had net borrowing of £205m arising from its revenue and capital income and expenditure, an increase on 2017 of £45m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table I below.

Table I: Balance Sheet Summary

	<b>31.3.17 Actual £m</b>	<b>2017/18 Movement £m</b>	<b>31.3.18 Actual £m</b>
General Fund CFR	354	62	416
Less: Other debt liabilities *	-121	-4	-125
<b>Borrowing CFR</b>	<b>233</b>	<b>58</b>	<b>291</b>
Less: Usable reserves	-55	-8	-63
Less: Working capital	-18	-5	-23
<b>Net borrowing</b>	<b>160</b>	<b>45</b>	<b>205</b>

\* *finance leases, PFI liabilities and transferred debt that form part of the Council’s total debt*

Net borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied including minimum revenue provision; together with a small decrease in usable reserves and a fall in working capital due to the timing of receipts and payments.

### **Borrowing Activity**

At 31<sup>st</sup> March 2018, the Council held £358m of loans, (an increase of £71m on 31/03/2017) as part of its strategy for funding previous years’ capital programmes. See table 2 below.

The Council's chief objective when borrowing has been to strike 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.

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 started to rise with the likelihood of further rises over the next 12 months.

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. Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive.

The Council's Treasury Management Board has determined it was more cost effective in the short-term to borrow short-term loans instead of fixing in at higher long term rates. The Council reviews the situation on a regular basis and also takes advice from its Treasury Management advisors.

Table 2: Borrowing Activity

	Balance on 01/04/2017 £m	Movement £m	Balance on 31/03/2018 £m	Avg Rate %
Public Works Loan Board	44	0	44	5.76%
Banks - LOBOs	82	0	82	4.38%
Banks - Fixed Long Term	18	15	33	3.03%
Short Term Borrowing	143	56	199	0.52%
<b>TOTAL BORROWING</b>	<b>287</b>	<b>71</b>	<b>358</b>	<b>2.28%</b>
Other Long Term Liabilities	113	12	125	-
<b>TOTAL EXTERNAL DEBT</b>	<b>400</b>	<b>83</b>	<b>483</b>	<b>-</b>
Increase/ (Decrease) in Borrowing £m			83	



## **LOBOs**

The Council holds £82m (£82m in 2017) of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates. The Council then has the option to either accept the new rate or to repay the loan at no additional cost. During the year £46m of our LOBOs had options, none of which were exercised by the lender.

**Future transactions:** Please note that on 13<sup>th</sup> April 2018 a LOBO loan for £11m was refinanced and this will reduced the amount of LOBOs held by the Council to £71m. The Council is still pursuing other refinancing deals.

## **LGA Bond Agency**

UK Municipal Bonds Agency (MBA) plc. was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Council has analysed the potential rewards and risks of borrowing from the MBA and has approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee.

As at 31<sup>st</sup> March 2017 no bonds have been issued by the Municipal Bonds Agency.

## **Debt Rescheduling**

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so 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.

## **Other Long Term Liabilities**

Although not classified as borrowing, the Council has other capital finance from Private Finance Initiatives and Finance Leases etc. and as at 31<sup>st</sup> March 2018 this amounted to £125m.

The liability for the PFI scheme has increased our requirement for finance and therefore we increased our Operational Boundary and Authorised limit to allow for this.

### **Minimum Revenue Provision (MRP)**

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP for the cost of their unfinanced capital expenditure.

Following changes in advice from CIPFA the Council changed its MRP calculations method in 2015/16 to use the annuity method. Prior years involved detailed calculations which were very prescriptive but these were replaced with a requirement that local authorities calculate an amount or MRP which they consider to be prudent.

The Council matches the economic benefits from its assets with the life of those assets. Therefore the Council changed its calculation method to the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The Council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. For example if an asset cost of £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time of value because £1m today has a higher value (NPV) than £1m in 20 years' time.

To assist the Council in keeping a balanced budget for 2017/18 the Council used £2.170 m of capital receipt towards the MRP charge for 2017/18.

### Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Council's investment and cash balances ranged between £70 and £100 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

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

Table 3: Investment Activity in 2017/18

Investments	Balance on 01/04/2017 £m	Movement £m	Balance on 30/03/2018 £m	Avg Rate/Yield (%)
Short term Investments (call accounts etc.)	18	0	18	0.80%
Covered Bonds and Loans	11	0	11	0.77%
Money Market Funds	13	13	26	0.21%
Other Pooled Funds	20	5	25	3.95%
<b>TOTAL INVESTMENTS</b>	<b>62</b>	<b>18</b>	<b>80</b>	
Increase/ (Decrease) in Investments £m			18	

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.

During the year the Council invested £5m into a new CCLA Diversification Fund which offers higher rates of returns than the Council other short term investments.

The £20m portfolio of externally managed pooled CCLA Property Fund has generated a total return in the year of £1.046m (5.2%), income return used to support services in year. 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 is regularly reviewed.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy.

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); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Council wants to diversify into higher yielding long term asset classes.

### **Other Non-Treasury Holdings and Activity**

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Council also holds £63.9m of investments in directly owned property and loans to local businesses. This represents an increase of £28.5m on the previous year. A register of such investments is maintained and reviewed quarterly as part of the Council's performance reporting arrangements.

These non-treasury investments generated £2.1m of investment income for the Council after taking account of direct costs, representing a rate of return of 3.3%. This is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

## Treasury Management Outturn 2017/18

### Budget Income and Expenditure

#### Treasury Management Outturn Position 2017/18

	2017/18 Budget	2017/18 Outturn	Year End Variance
	£m	£m	£m
Interest Payable	0.903		
LOBO and other long term loans		4.387	
PWLB (Public Works Loan Board)		2.550	
Temporary loans		0.673	
Other Interest		0.265	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)		(6.920)	
<b>Total Interest Payable</b>	<b>0.903</b>	<b>0.955</b>	<b>0.052</b>
Interest Receivable	(1.969)		
CCLA Property Fund		(1.046)	
Money Market Fund		(0.047)	
Other External Interest		(0.693)	
<b>Total Interest Receivable</b>	<b>(1.969)</b>	<b>(1.786)</b>	<b>0.183</b>
Other Charges	0.0	0.009	0.009
Debt Management	(0.113)	0.437	0.550
Amortised Premiums	(0.096)	0.217	0.313
<b>Total Other Charges</b>	<b>(0.030)</b>	<b>0.663</b>	<b>0.872</b>
<b>Minimum Revenue Provision</b>	<b>7.637</b>	<b>7.302</b>	<b>(0.335)</b>
<b>TOTAL</b>	<b>6.363</b>	<b>7.134</b>	<b>0.712</b>

The Council's Treasury Management Outturn for the year was a deficit of £0.712m. The Council has to service additional borrowing and the investment returns remain very low.

The Treasury Management Outturn does not include the returns from the Council's investments in the purchasing of capital assets as this is included in the Place revenue outturn.

The Bank of England increased the Bank Rate by 0.25% to 0.50% in November 2017 and this was the first rate rise in ten years. The Bank of England have indicated that there will

a further two rises in the next twelve months. The increase in interest rates increase the Council's Investments rates are always slow to increase but if the trends continue.

The Treasury Management budget is held as a separate budget under the Finance Department of the Council's General Fund. Whilst interest costs are slightly less than the budget there are a number of factors that contribute to the final position. Whilst the Council not only borrows to finance capital expenditure, it also has to maintain a daily net cash surplus position. The costs of borrowing to finance invest to save capital schemes is charged to departments. The figures above include the borrowing implications of decisions to utilise the Asset Investment Fund to acquire assets to earn a revenue return which is accounted for in directorate's budgets.

The MRP differential derived as a consequence of the changes to the MRP financing policy agreed in 2017/18 has been used to offset amortised premiums and the increase in the PFI financing requirements and factored into the overall revenue outturn position to enable the Council to break even at year end.

The TM budget has also benefited from repayment of loans enabling service departments to release back to revenue provisions previously created as the risk of default was considered high.

### **Externally Managed Funds**

The Council also has investments in cash plus bond and property funds which allow the Council to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

Although money can be redeemed from the pooled funds at short notice, the Council's intention is to hold them for the medium-term. Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose.

### **Update on Investments with Icelandic Banks**

In March 2017 the Iceland authorities lifted the restriction on movement of monies from the country and in June 2017 the Council received its final payment.

The original claim in 2008 against the Iceland Banks was for £13m principle and £0.746m interest and this has been paid in full with an additional sum of £0.235m of accrued interest.

**Compliance with Prudential Indicators**

The Council confirms compliance with its Prudential Indicators for 2017/18, which were set in February 2017.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure;
- Estimates of Capital Financing Requirement;
- Gross Debt and the Capital Financing Requirement;
- Operation Boundary for External Debt;
- Authorised Limit for External Debt;
- Ratio of Financing Costs to Net Revenue Stream ;
- Incremental Impact of Capital Investment Decisions.

**Treasury Management Indicators**

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

**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:

	2017/18 Limit	2017/18 Actual	Complied
Upper limit on fixed interest rate exposure	210%	57%	✓
Upper limit on variable interest rate exposure	80%	72%	✓

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

**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 Limit	Lower Limit	31.03.2018 Actual	Complied
Under 12 months	100%	0%	56%	✓
12 months and within 24 months	100%	0%	5%	✓
24 months and within 5 years	100%	0%	0%	✓
5 years and within 10 years	100%	0%	0%	✓
10 years and above	100%	0%	39%	✓

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 total principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year	£40m	£35m	£35m
Actual	£0m	£0m	£0m
Complied	✓	✓	✓

**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.

	Target	Actual	Complied
Portfolio average credit rating	A	AA-	✓

**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.



**Investment Training**

Officers have undergone the following training during the year:

Arlingclose – Review of Minimum Revenue Provision.

Arlingclose – Principles of Treasury Management Workshop.

CCLA – Investments Seminar

Arlingclose – Review of Borrowing and Investments.

Arlingclose - Accounts closedown workshop 2017/18.

Grant Thornton - Accounts Closedown Workshops for Local Authority Accountants

**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.

This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

**Capital Expenditure:** The Council's capital expenditure and financing may be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2017/18 Estimate £m</b>	<b>2017/18 Actual £m</b>	<b>Difference £m</b>
General Fund	155.230	98.963	56.267
<b>Total Expenditure</b>	<b>155.230</b>	<b>98.963</b>	<b>56.267</b>
Capital Receipts	8.510	4.827	3.683
Grants & Contributions	37.350	29.731	7.619
Reserves	0.0	0.100	0.100
Revenue	0.930	0.295	0.635
Borrowing	108.440	64.010	44.430
<b>Total Financing</b>	<b>155.230</b>	<b>98.963</b>	<b>56.267</b>

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

Capital Financing Requirement	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
General Fund	410.930	417.924	6.994
<b>Total CFR</b>	<b>410.930</b>	<b>417.924</b>	<b>6.994</b>

The CFR rose by £64m in the year (2017 £354m) from capital expenditure financed by debt outweighs resources put aside for debt repayment.

The increase in CFR shows that the Council is increasing its borrowing to pay for capital expenditure in the city.

**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.

Actual Debt: The Council's actual debt at 31 March 2018 was as follows:

Debt	31.03.17 Estimate £m	31.03.18 Actual £m	Difference £m
Borrowing	288	358	70
PFI liabilities & other Finance leases	125	125	(0)
<b>Total Debt</b>	<b>413</b>	<b>483</b>	<b>70</b>

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

**Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	31.03.18 Boundary £m	31.03.18 Actual Debt £m	Complied
Borrowing	425	358	✓
Other long-term liabilities	130	125	✓
<b>Total Debt</b>	<b>555</b>	<b>483</b>	✓

**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	31.03.18 Boundary £m	31.03.18 Actual Debt £m	Complied
Borrowing	450	358	✓
Other long-term liabilities	160	125	✓
<b>Total Debt</b>	<b>610</b>	<b>483</b>	✓

#### Recommendations

1. To note the Treasury Management Annual Report 2017/18.
2. To refer the Treasury Management Annual Report 2017/18 to Council for approval.

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### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M	J	J	A	S	O	N	D	J	F	M	A	M
Draft Statement of Accounts 2017/18 and Annual Governance Statement	Carolyn Haynes	31				*								
Strategic Risk and Opportunity Register Monitoring Report and the Integrated Commissioning Risk Register	Julie Hosking					*						*		
Operational Risk and Opportunity Management - Update Report	Julie Hosking								*					
Risk and Opportunity Management Annual Report 2017/18	Julie Hosking													
Information Annual Governance Report	Julie Hosking / John Finch					*								
Annual Report on Treasury Management Activities for 2017/18	Chris Flower	31												

**Audit Committee Work Plan 2018/19**

Item	Lead Officer	2018							2019					
		M	J	J	A	S	O	N	D	J	F	M	A	M
Treasury Management Practices, Principles and Schedules 2018/19	Chris Flower											*		
Mid-Year Treasury Management Report 2017/18	Chris Flower								*					
Treasury Management Strategy 2019/20	Chris Flower								*					
Counter Fraud Annual Report	Mike Hocking / Ken Johnson													
Health and Safety Annual Report	Clare Cotter			*										
Internal Audit Annual Report 2017/18	David Curnow / Brenda Davis	31												

### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M	J	J	A	S	O	N	D	J	F	M	A	M
Internal Audit Half Year Report 2017/18	David Curnow / Brenda Davis								*					
Internal Audit – Progress Report	David Curnow / Brenda Davis					*								
Internal Audit Follow Up Report 2017/18	David Curnow / Brenda Davis					*								
Internal Audit Charter and Strategy 2018/19	David Curnow / Brenda Davis											*		
Internal Audit Plan 2018/19	David Curnow / Brenda Davis											*		
Annual Report to Those Charged with Governance (ISA260 Report) 2017/2018 including Value for Money (VFM) (External Auditor)	External Auditor BDO					*								

**Audit Committee Work Plan 2018/19**

Item	Lead Officer	2018							2019					
		M	J	J	A	S	O	N	D	J	F	M	A	M
External Audit Progress Report	External Auditor BDO		*						*					
Planning Report (External Auditor)	External Auditor BCO											*		
Annual Audit Letter	External Auditor BDO								*					
Planning Letter (External Auditor)	External Auditor BDO		*									*		
Grant Claims and Returns Certification (External Auditor)	External Auditor BDO											*		
Integrated Commissioning – Finance Assurance Review Group – Annual Report 2017/18 including ASW Audit Programme for CCG	David Northey								*					



**Audit Committee Work Plan 2018/19**

		2018							2019					
Item	Lead Officer	M	J	J	A	S	O	N	D	J	F	M	A	M
Surveillance, Covert Activities and the Regulation of Investigatory Powers Act 2000 (RIPA)	Alexander Fry		*											
Protecting the Public Purse – Counter Fraud Annual Report	Mike Hocking / Ken Johnson													
Terms of Reference for Audit & Governance Committee	Andrew Hardingham/ Sian Millard	31												
Independent Remuneration Panel Review	Sian Millard	31												
Review of Rolling Work Plan	Lead Officer/DSO	31												
Elections Debrief	Glenda Favor-Ankersen	31												
BDO Verbal Update	BDO	31												
<b>Items to be Scheduled 2019/20</b>														

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