



## **Oversight and Governance**

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Published 30 November 2018

## **AUDIT AND GOVERNANCE COMMITTEE**

Monday 10 December 2018  
4.00 pm  
Council House, Plymouth

### **Members:**

Councillor Kate Taylor, Chair  
Councillor Dr Mahony, Vice Chair  
Councillors Mrs Pengelly, Stevens and P Smith.

### **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. Apologies**

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

**2. Declarations of Interest**

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

**3. Minutes (Pages 1 - 6)**

To confirm the minutes of the meeting held on 1 October 2018.

**4. Chair's Urgent Business**

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

**5. Annual Audit Letter (Pages 7 - 16)**

**6. Mid-Year Treasury Management Report 2018/19 (Pages 17 - 30)**

**7. Treasury Management Strategy 2019/20 (Pages 31 - 70)**

**8. Capital Financing Strategy 2019/20 (Pages 71 - 80)**

**9. Internal Audit Half Year Report (Pages 81 - 104)**

**10. External Audit Progress Report and Sector Update (Pages 105 - 116)**

**11. Operational Risk and Opportunity Management Update Report (Pages 117 - 122)**

**12. Whistle blowing Policy (Pages 123 - 136)**

**13. Anti-Fraud, Bribery and Corruption Policy, Strategy and Response Plan (Pages 137 - 160)**

**14. Voter Id - to follow**

- |   |                          |
|---|--------------------------|
| <b>15. Review of Petitions Guidance</b> | <b>(Pages 161 - 164)</b> |
| <b>16. Civic Event Calendar 2019</b>    | <b>(Pages 165 - 172)</b> |
| <b>17. Tracking Resolutions</b>         | <b>(Pages 173 - 174)</b> |
| <b>18. Work Programme</b>               | <b>(Pages 175 - 180)</b> |

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**Audit and Governance Committee****Monday 1 October 2018****PRESENT:**

Councillor Kate Taylor, in the Chair.

Councillors Mrs Pengelly, P Smith, Stevens and Carson (Substituting for Cllr Dr Mahony)

Co-opted Representatives: Mr Clarke and Mr Stewart.

Apologies for absence: Councillor Dr Mahony (Cllr Carson substituting) and Geri Daly (Grant Thornton).

Also in attendance: Councillor Haydon (Cabinet Member for Customer Focus and Community Safety), Siân Millard (Oversight and Governance Manager), Andrew Hardingham (Director for Strategic Transformation and Change), Brenda Davis (Audit Manager), Julie Hosking (Corporate Risk Advisor), Carolyn Haynes (Financial Controller), Chris Flower ( Finance Business Partner Capital Treasury and Management), Linda Torney (Assistant Head of Legal Services), Glenda Favor – Ankersen (Head of Electoral Services), Emmanuelle Marshall (Project Manager), Helen Cocks (Customer Liaison Manager), David Bray ( Grant Thornton), Clare Cotter (Head of Health, Safety and Wellbeing Assurance) and Jamie Sheldon (Democratic Advisor).

The meeting started at 16:00 and finished at 17:30.

*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.*

28. **Declarations of Interest**

The following declarations of interest were made in accordance with the code of conduct:

Councillor	Minute number	Reason	Type
Councillor Mrs Pengelly	Minute 40 – Councillor Long Service Award	Councillor Mrs Pengelly is a long serving Councillor over 25 years' service.	Personal
Councillor Kate Taylor	Minute 37 Analysis of Local Government and Social Care Ombudsman Annual report 2017/18	Councillor Kate Taylor is an employee of Livewell South West	Personal

29. **Minutes**

The minutes of the meeting held on 30 July 2018 were approved as an accurate record.

30. **Chair's Urgent Business**

Under this item the Audit Completion Report was discussed.

Lisa Clampin (BDO) introduced the Audit Completion Report:

A draft report was presented at 30 July 2018 Audit and Governance Committee and this was a follow up report to give the audit certificate.

- This report gave an unmodified opinion;
- This report will bring to a close the Council's Statement of Accounts for 2017/18.

Members noted the report.

31. **Health, Safety and Wellbeing Annual Report**

Clare Cotter (Head of Health, Safety and Wellbeing Assurance) presented the Health, Safety and Wellbeing Annual Report.

The Health, Safety and Wellbeing annual report for 2017-18 was an important aspect of the health, safety and wellbeing governance arrangements for the Council. The report identified the actions that had been taken in 2017-18 to improve management arrangements for health, safety and wellbeing and what was planned in 2018-19 in the spirit of continuous improvement. As part of this it included insights into the incidents and accidents which had occurred compared to previous years.

Members raised questions relating to the following areas:

- the benchmarking of accident and incident reporting;
- the collection of data and if there was a standardised approach;
- the viewpoint from trade unions representatives upon the Health, Safety & Wellbeing Annual report.

The Audit and Governance Committee noted the report.

32. **Internal Audit Progress Report**

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

The report provided Members of the Audit and Governance Committee with a position statement on the audit work carried out since April 2018 and based on work performed to date during 2018/19, Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The Audit and Governance Committee noted the report.

33. **Internal Audit Follow Up Report**

Brenda Davis (Audit Manager) presented the Internal Audit Follow Up Report.

At the Audit and Governance Committee on 31 May 2018 members were presented with the 2017/18 Internal Audit Annual report which provided a summary of the work undertaken by Devon Audit Partnership during 2017/18 along with an audit opinion on the adequacy of internal control.

The aim of the report was to provide assurance to Members of the Audit and Governance Committee that where an audit has been undertaken and an opinion of 'Improvements Required' or less has been provided, Devon Audit Partnership had undertaken follow up audit reviews, wherever possible, or discussed progress with relevant officers. The results from this process were contained in the report. It should be noted that an opinion of 'Fundamental Weaknesses Identified' was not given for any of the audits undertaken in 2017/18.

The Audit and Governance Committee noted the report.

34. **Annual Audit Letter - To Follow**

This item was not discussed and would be scheduled to be discussed at a future meeting.

35. **Fee letter for 2018/19**

David Bray (Grant Thornton) presented the Fee Letter for 2018/19.

Members were advised that Grant Thornton would be the Council's auditors from 1 April 2018; the letter set out the theme for the work to be carried out.

The Audit and Governance noted the Fee Letter for 2018/19.

36. **Housing Benefits fee quote for 2018/19**

David Bray (Grant Thornton) presented the Housing Benefits fee quote for 2018/19.

Members were advised that the housing benefits audit was normally in the core audit work however was split out for 18/19; one group of auditors would do both audits and the fee was historically set.

The Audit and Governance Committee noted the Housing Benefits Fee quote for 2018/19.

37. **Analysis of Local Government and Social Care Ombudsman Annual Report 2017/18 - To Follow**

Councillor Haydon (Cabinet Member for Customer Focus & Community Safety) introduced the report.

Members were advised that every year the Local Government and Social Care Ombudsman (LGSCO) sends each council an annual review letter which outlines the Ombudsman's position in relation to complaints monitoring. The publication of the 2017/8 annual report provided an opportunity to review and discuss complaints that had been received about Plymouth during the period 1 April 2017 to 31 March 2018. After investigation, the LGSCO upheld only fifteen complaints of the one hundred and twenty one (12.4%) complaints they made decisions about in relation to Plymouth City Council. This was an improvement on the rate upheld for 2016/17 which was 14.7%.

Members agreed to:

1. address the comments made by the LGSCO in respect of statutory children's complaints procedures;
2. work with Livewell South West to strengthen the complaints handling process and ensure lessons learned are driving service improvements across organisations in respect of Adult Social Care;
3. work with Street Services to improve the customer experience (complaints are included in the LGSCO category Environmental Services and Public Health and Regulation);
4. further develop the monitoring of corporate performance in respect of customer feedback and ensure customer feedback is used to resolve any issues through the implementation of lessons learned;
5. note the progress made to date and approve the proposals set out in paragraph 2.4 of the report.

38. **Strategic Risk Register**

Julie Hosking (Corporate Risk Advisor) presented the Strategic Risk Register.

Members were advised that the report provided a summary of the latest formal monitoring exercise completed for the Strategic Risk and Opportunity Register for the period March 2018 to August 2018.

The Audit and Governance Committee noted and endorsed the current position with regard to the Strategic Risk and Opportunity Register.

39. **Polling District Review - To Follow**

Glenda Favor-Ankersen (Head of Electoral Services) and Emmanuelle Marshal (Project Manager) presented the Polling District Review.



Members were advised that the Council was statutorily required to undertake a review every five year of the polling district. The last review for Plymouth City was conducted in November 2014 and so the next compulsory review must be undertaken and completed between 1 October 2018 and 31 January 2020; the review would be started on 5 November 2018.

Members endorsed the approach proposed.

40. **Councillor Long Service Award**

Siân Millard (Oversight & Governance Manager) presented the Councillor Long Service Award.

There was currently a long-service award for officers, but not for Councillors. Officers are employees of the Council and Councillors are elected Members of Council with a democratic mandate from the local electorate.

Councillors' long-service was currently recognised on retirement from office, or as a former Lord Mayor, by being awarded the title of Honorary Alderman.

A long-service award would recognise the service of Councillors still engaged as an elected Member.

This was proposed to recognise the significant contribution of those Councillors during their period of office.

The Audit and Governance Committee agreed to note the proposed criteria within the report and proposed recognition and to recommend implementation of these proposals to the Leader in consultation with the Shadow Leader.

41. **Delegation of functions to Audit and Governance Committee**

Linda Torney (Assistant Head of Legal Services) presented the Delegation of functions to Audit & Governance Committee.

The purpose of this report was to recommend that Council authorise the Audit and Governance Committee to approve changes to the Constitution, subject to Council retaining responsibility for those functions set out in Appendix One to the report.

This would improve the efficiency of the decision making process, and maintain open and transparent decision making.

The Audit and Governance Committee agreed to recommend that Council authorises the Audit and Governance Committee to approve changes to the Constitution, set out in Appendix One to the report; subject to Council retaining responsibility for the core documents in the Constitution.

42. **Tracking resolutions**

Members noted the report.

43. **Work Programme**

Members were invited to email the Chair with any items they would like included on the Work Programme.

44. **Exempt Business**

Agreed that under Section 100(4) of the Local Government Act, 1972 to exclude the press and public from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1 of Part I Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

45. **Information Governance Report (EI)**

John Finch (Information Governance Manager) presented the Information Governance Report to the Audit and Governance Committee.

Members noted the report.



# PLYMOUTH CITY COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

27 November 2018



# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Plymouth City Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

## RESPONSIBILITIES OF AUDITORS AND THE CCG

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

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

BDO LLP

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 13 August 2018.

Our audit identified five errors above our reporting threshold that, if corrected, would reduce the deficit for the year by £2.571 million. These were not corrected by management as they were concluded to be immaterial to the financial statement both individually and cumulatively. We concurred with that conclusion.

Our audit identified one material misstatement in respect of the classification of £54.8m of grants received in advance, which was corrected. This also resulted in a prior year adjustment of £39.6m.

### USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 13 August 2018.

# FINANCIAL STATEMENTS

OPINIONS	We issued our unmodified opinion on the Council's financial statements on 13 August 2018.
	<p>This means we consider:</p> <ul style="list-style-type: none"> <li>• The financial statements give a true and fair view of the financial position and its income and expenditure for the year</li> <li>• Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.</li> </ul>

## SCOPE OF THE AUDIT

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

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

## OUR APPLICATION OF MATERIALITY

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

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

The materiality for the Council financial statements as a whole was set at £10.1 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.7 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

## OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

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

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	We did not identify any inappropriate journals or significant transactions outside the normal course of business.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>Our testing of grants subject to performance conditions did not identify any issues with income recognised in the current year.</p> <p>In preparing the statement of accounts, the Council concluded that £8.8 million of grants received in advance in the prior year had been incorrectly recognised as income before the performance conditions had been met. Although this is not above the audit materiality level, management considered this significant enough to warrant amendment and processed a prior year adjustment to reduce income and reserves by £8.8 million.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and its investment properties are not materially different to the fair value at the balance sheet date.</p> <p>For PPE, the Council operates a rolling valuation programme to ensure that all properties are valued at least every five years. We found no issues with the valuation last year but this is a risk for all authorities due to the level of judgement involved.</p> <p>For investment properties, the Council is required to value its properties on an annual basis.</p> <p>The significant risk relates to valuation only, as this is the area involving significant levels of judgement.</p>	<p>We were satisfied that we could rely on the work of the Council's valuer.</p> <p>We concluded that the basis of the valuation for each asset revalued in the year was appropriate and that the revaluation movements were correctly accounted for.</p> <p>Our audit identified errors in the fair value of three investment properties. The net impact of which was £254k. This was corrected.</p> <p>From our work over the carrying value of land and buildings assets not subject to formal revaluation in year. We concluded the impact on the financial statements from not revaluing all assets was an understatement of £1.39m in carrying values, which was not material and not corrected.</p> <p>The Tamar Bridge and Tor Point Ferry crossing were not formally revalued during the year and we concluded from our work that they had increased in value since the last formal valuation by £1.434m. This was not material and was not corrected.</p>
Short term debtors existence	<p>Our preliminary analytical review procedures on the draft financial statements identified that the value of short term debtors had increased materially when compared to the prior year, which was not in line with our expectations. We consider there to be a significant risk of material misstatement relating to the existence of short term debtors.</p>	<p>Our audit testing did not identify any issues with the existence of short-term debtors.</p>
Short term creditors existence	<p>Our preliminary analytical review procedures on the draft financial statements identified that the value of short term creditors had increased materially when compared to the prior year, which was not in line with our expectations.</p> <p>We consider there to be a significant risk of material misstatement relating to the existence of short term creditors.</p>	<p>Our audit testing did not identify any issues with the existence of short-term creditors.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Pension liability assumptions	<p>The pension liability comprises the Council's share of the market value of assets held in the Devon Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements and our review of the reasonableness of assumptions used to calculate the present value of future pension obligations did not result in any issues arising.</p> <p>During the financial statements preparation process the pension fund actuary notified the Council of two potential errors in the pension fund liability recorded in 2016/17. In response, the Council included a £15m prior year adjustment in respect of the pension liability to correct omission in the prior year of liabilities for employees who transferred from the Council to DELT and Livewell Southwest.</p> <p>We concluded that the Council's treatment of these liabilities was not materially misstated.</p>



## USE OF RESOURCES

CONCLUSION	<p>We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 13 August 2018.</p> <p>This means we consider that the Council has proper arrangements to:</p> <ul style="list-style-type: none"> <li>• Ensure it took properly informed decisions</li> <li>• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</li> </ul>
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### SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

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

### OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

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

## USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Sustainable resource deployment (SR)	<p>In our audit plan, we identified sustainable finances as a significant risk area.</p> <p>In January 2018, the Council updated its Medium Term Financial Strategy (MTFS) covering the period to 31 March 2020.</p> <p>The Council has identified cost pressures in many areas and further reductions in Revenue Support Grant (RSG) are scheduled. To illustrate, RSG will amount to £16.3 million in 2018/19 with a further reduction to £9.5 million in 2019/20 (in 2017/18 RSG amounted to £23.1 million).</p> <p>To illustrate, the MTFS identified that in 2017/18 the Council needed to reduce net expenditure by £21.5 million to achieve the budgeted net expenditure for the year and the Council is currently reporting reasonable progress against this target. In future years, the MTFS identified a need for further reductions in net expenditure of £9.3 million in 2018/19 and £8.3 million in 2019/20.</p> <p>In addressing this risk in 2017/18, we looked at the assumptions underlying the current MTFS; looked at arrangements in place for monitoring and reporting the savings achieved against those forecast in the savings plan; and looked at the process for initiating, approving, implementing and monitoring transformation schemes achieving savings.</p>	<p>No significant issues arose from our work. The Council has a track record of delivering against its budget primarily through achievement of its savings plans. Whilst the Council, along with its peers, will face ongoing financial pressures, the levels of savings required in the medium term are lower than those achieved in 2017/18. Furthermore, the Council has sufficient resource resilience to address potential shortfalls should the budget gaps not be fully closed.</p> <p>We issued an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness.</p>

# APPENDIX

## REPORTS ISSUED

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

REPORT	DATE
Grant claims and certification	15 March 2018
Audit plan	15 March 2018
Audit completion report	17 September 2018

## FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	136,874	136,874
Housing benefits subsidy certification fee	17,477	17,477
Total audit fees	154,341	154,341

We provided the following non-audit services:

- Teachers' Pension Return - £4,800



FOR MORE INFORMATION:

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

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Mid-Year Treasury Management Report 2018/19
<b>Committee:</b>	Audit Committee
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Service Director for Finance)
<b>Author:</b>	Chris Flower (Finance Business Partner for Capital and Treasury Management)
<b>Contact details</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:**

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's Strategy for 2018/19 was approved by full Council at its budget meeting on 16 February 2018.

This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2018. It is a requirement of the CIPFA Code of Practice on Treasury Management that a mid- year report, as a minimum, should be presented to Full Council.

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**Corporate Plan**

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**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns and its implications have been fully incorporated into the Council's Medium Term Financial Planning.

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

N/A

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

- I. The Mid-Year Treasury Management Report 2018/19 to be noted by the Audit Committee.

**Alternative options considered and rejected:**

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

**Published work / information:**

Treasury Management Strategy and Annual Investment Strategy 2018/19 to Council on 16 February 2018.

**Background papers:**

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

**Sign off:**

Fin	pl.18.19 .146	Leg	LT/316 78/301 I	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

## **Mid-Year Treasury Management Report 2018/19**

### **1. Introduction**

- 1.1 This report is to provide the Audit Committee and the Council with a mid-year review of the Council's treasury management activities for the first 6 months to 30 September 2018.
- 1.2 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 1.3 The Council's Treasury Management Strategy for 2018/19 was approved by full Council on 16 February 2018 which is published on the Council's web site.
- 1.4 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

### **2. Regulatory Updates**

- 2.1 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England Ministry of Housing Communities and Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.
- 2.2 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, will be producing its Capital Strategy later in 2018 19 for approval by full Council.
- 2.3 Changes to the MHCLG Investment Guidance 2018 includes the requirement to report for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares brought for service purposes.

### 3. External Context as at 1<sup>st</sup> October 2018

- 3.1 **Economic background:** Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year on year, above the consensus forecast and that of the Bank of England's in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.
- 3.2 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.
- 3.3 Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.
- 3.4 The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.
- 3.5 The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

### 4 Financial markets:



- 4.1 Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

**5 Credit background:**

- 5.1 Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ring-fenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ring-fenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.
- 5.2 The ring-fencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc – is complete, the transfer of their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) is progressing and will need to be completed by the end of 2018.
- 5.3 There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ring-fencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.
- 5.4 Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs

## 6. Local Context

- 6.1 At 31<sup>st</sup> March 2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £415m, while usable reserves £60m. The Council had £367m of borrowing and £80m of investments.
- 6.2 The Council has an increasing CFR over the next 5 years due to the capital programme, but will maintain their investments and will therefore require borrowing of up to £380m over the forecast period.

## 7. Borrowing Strategy

- 7.1 At 30/9/2018 the Council held £416m of loans, (an increase of £49m from 31/3/2018), as part of its strategy in funding the capital programme.

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

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

- 7.2 Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources and borrow short-term loans.
- 7.3 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.
- 7.4 Temporary and short term loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. The Council has £283m of such loans that were borrowed at an average life of 3 months.

Arlingclose supports the Council's borrowing strategy to maintain the short term borrowing. However this strategy is kept under constant review.

## 8. Borrowing activity in during the half year

- 8.1 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 8.2 At 30/9/2018 the Council held £416m of loans, (an increase of £49m on 31/3/2018), as part of its strategy for funding the capital programme.

The 30th September 2018 borrowing position is show in the table below.

	Balance at 01/04/2018 £m	Movement £m	Balance at 30/09/2018 £m
Short Term Borrowing	223	60	283
LOBO	82	(11)	71
Public Works Loans Board	44	-	44
Other long term loans	18	-	18
<b>Total Borrowing</b>	<b>367</b>	<b>49</b>	<b>416</b>
Long Term Investments	36	(7)	29
Short Term Investments	18	-	18
Cash and Cash Equivalent	26	(3)	23
<b>Total Investments</b>	<b>80</b>	<b>(10)</b>	<b>70</b>
Net Borrowing	287	59	346

- 8.3 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 Authority's long-term plans change being a secondary objective.
- 8.4 In keeping with these objectives, this strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 8.5 With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use short-term loans instead. The net movement in short term loans is shown in the table above.

8.6 As the Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital, the Council borrowed an additional £60m short term loans, to provide some longer-term certainty and stability to the debt portfolio.

8.7 PWLB Certainty Rate

The Council qualifies for borrowing from the PWLB at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2018. In April the Council submitted its application to the CLG along with the 2018/19 Capital Estimates Return to qualify for this reduced rate for a further 12 month.

8.8 Debt Rescheduling:

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

8.9 LOBO

The LOBOs (Lender's Option Borrower's Option) are loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2019/19.

Since the 1<sup>st</sup> April 2018 the Council has refinanced a £11m LOBO and has reduced is holding of LOBO loans from £82m to £71m.

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

8.10 Other Debt Activity

Although not classed as borrowing, the Council also raise capital finance via Private Finance Initiative (PFI) and finance leases etc. As at 30th September 2018, the total debt was £121m including PFI £108m Finance leases £2m. The Council has raised no additional PFI borrowing during the period to 30<sup>th</sup> September 2018.

## 9 Investment Activity

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

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

### Investment Activity

Investments	Balance on 01/04/2018 £m	Movement Movement £m	Balance on 30/09/2018 £m
<b>Short Term Investments</b>			
Other Investments	18	0	18
Money Market Funds	26	(3)	23
<b>Long Term Investments</b>			
Pooled Funds	25	0	25
Other Funds	11	(7)	4
<b>TOTAL INVESTMENTS</b>	<b>80</b>	<b>(10)</b>	<b>70</b>
Increase/ (Decrease) in Investments £m			(10)

9.3 Both the CIPFA Code and MHCLG guidance requires 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.

9.4 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 or Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

## 10 Budgeted Income and Outturn

10.1 At the start of the year the UK Bank Rate was 0.5% and on 2<sup>nd</sup> August 2018 it went up to 0.75%. Short-term money markets and the Debt Management Account Deposit Facility (DMADF) still offer very low rates of return.

10.2 The Council's budgeted investment income for the year is estimated at £1.730m. The Council is currently anticipating delivering this by the year end.

## 11 Non-Treasury Investments

- 11.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 11.2 The Council also holds £135.227m of investments in directly owned property as part of the Asset Investment Fund as at 30<sup>th</sup> September 2018. This represents an increase in the first six months of the year of £38.316m.
- 11.3 The non-treasury investments in the Asset Investment Fund are forecast to generate £2.903 (budget £1.600m) of investment income for the Council after taking account of direct costs and service borrowing, representing a rate of return of 2.1%.

## 12 **Compliance with Prudential Indicators**

### 12.1 Prudential Indicators 2017/18

The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

- 12.2 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.

### **Investment Limits**

	30.9.18 Actual	2018/19 Limit	Complied
Any group of funds under the same management	£20m	£25m	✓
Investments held in a broker's nominee account	£0	£25m	✓
Foreign countries	0	£10m	✓
Registered Providers	£0	£25m	✓
Unsecured investments with Building Societies	£5m	£10m	✓

Loans to unrated corporates	£10m	£25m	✓
Money Market Funds (maximum held)	£46m	£60m	✓

### 13 Debt Limits

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

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

Operational Boundary	30.09.18 Actual £m	2018/19 Target £m	Complied
Borrowing	416	540	✓
Other long-term liabilities	121	140	✓
<b>Total Debt</b>	<b>537</b>	<b>680</b>	<b>✓</b>

The Council confirms that during 2018/19 the Operational Boundary has not been breached.

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

Authorised Limit	30/09/18 Actual £m	2018/19 Target £m	Complied
Borrowing	416	670	✓
Other long-term liabilities	121	160	✓
<b>Total Debt</b>	<b>537</b>	<b>835</b>	<b>✓</b>

Total debt as at 30/9/2018 was £537m. The Council confirms that during 2018/19 the Authorised Limit was not breached at any time.

## 14 Treasury Management Indicators

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

### 14.1 Security:

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

	30.09.18 Actual	2018/19 Target	Complied
Portfolio average credit rating	A	A	✓

### 14.2 Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments.

### 14.3 Interest Rate Exposures:

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

	30.09.18 Actual	2018/19 Target	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓



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

	30.09.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	56%	90%	0%	✓
12 months and within 24 months	13%	40%	0%	✓
24 months and within 5 years	0%	40%	0%	✓
5 years and within 10 years	1%	25%	0%	✓
10 years and above	33%	95%	0%	✓

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

- 14.5 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	30.09.18 Actual	Target	Complied
Limit on principal invested beyond year end	£0m	£45m	✓

The Council does, however, have £20m invested in the CCLA Pooled Property Fund and £5m in the CCLA Diversified Income Fund which the Council is holding the investment for the long term. However, these investments are classified as a short term investment because it can be called upon at any point.

#### 154 **Investment Training**

- 15.1 During the period to 30<sup>th</sup> September 2018 officers have attended the following Treasury Management training:

Arlingclose Meetings – Treasury Management Board Meeting

CIPFA – Treasury Management Workshop

Arlingclose - Investment workshop

Arlingclose – Strategy Workshop for Investments, Capital and Treasury Management

## 16 Outlook for the remainder of 2018/19

- 16.1 Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.
- 16.2 The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.
- 16.3 Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
<b>Official Bank Rate</b>										
Upside risk	0.00	0.00	0.00	0.50	0.50	0.50	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside Risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75

- 16.4 The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Treasury Management Strategy 2019/20
<b>Committee:</b>	Audit Committee
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Interim Strategic Director for Transformation and Change)
<b>Author:</b>	Chris Flower, Finance Business Partner – Accountant for Capital and Treasury Management
<b>Contact details</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

---

**Purpose of the report:**

This report sets out the Treasury Management Strategy for 2019/20 and includes the Annual Investment Strategy, the new Non-Treasury Management Investment Strategy and the Minimum Revenue Provision Statement.

These reports are required by The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.

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**Corporate Plan**

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:**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns. The Treasury Management Strategy sets the authorised limits and operational boundaries within which investment and borrowing decisions are taken and risks managed. Effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing

suitable performance measurement techniques, within the context of effective risk management.

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

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

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Growing Caring and Confident City.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

---

**Recommendations and Reasons for recommended action:**

- I. The Audit Committee recommends the Treasury Management Strategy 2018/19 (incorporating the authorised limits, operational boundaries and prudential indicators) to the Cabinet for approval.

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

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**Alternative options considered and rejected:**

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

---

**Published work / information:**

Not Applicable

**Background papers:**

Not Applicable

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

**Sign off:**

Fin	PL.18. 19.14 8	Leg	ALT/ 3050 8/1	Mon Off	ALT/ 3050 8/1	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Assistant Director													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

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# TREASURY MANAGEMENT STRATEGY 2019/20



How Plymouth will invest to grow and meet future Infrastructure needs

## Foreword



### **Councillor Mark Lowry** **Cabinet Member for Finance**

“This Strategy demonstrates the network of controls that are in place to ensure our investments are secure.

It also demonstrates our commitment to sound management and control of the Council’s cash and investments.

It also shows how the Council’s ambitious capital programme will be funded and offers much greater openness and transparency to residents and stakeholders”



### **Andrew Hardingham** **Assistant Director for Finance**

“This Strategy is designed to underpin the Council’s ambition to invest in the future of Plymouth. It offers a series of opportunities to manage the Council’s finances to maximise returns, reduce risk, diversify investments and minimise the cost of borrowing.

The strategy will keep us within our prescribed limits under the Prudential Code. The Council is seeking at all times to deliver good investment returns that are secure and affordable.”



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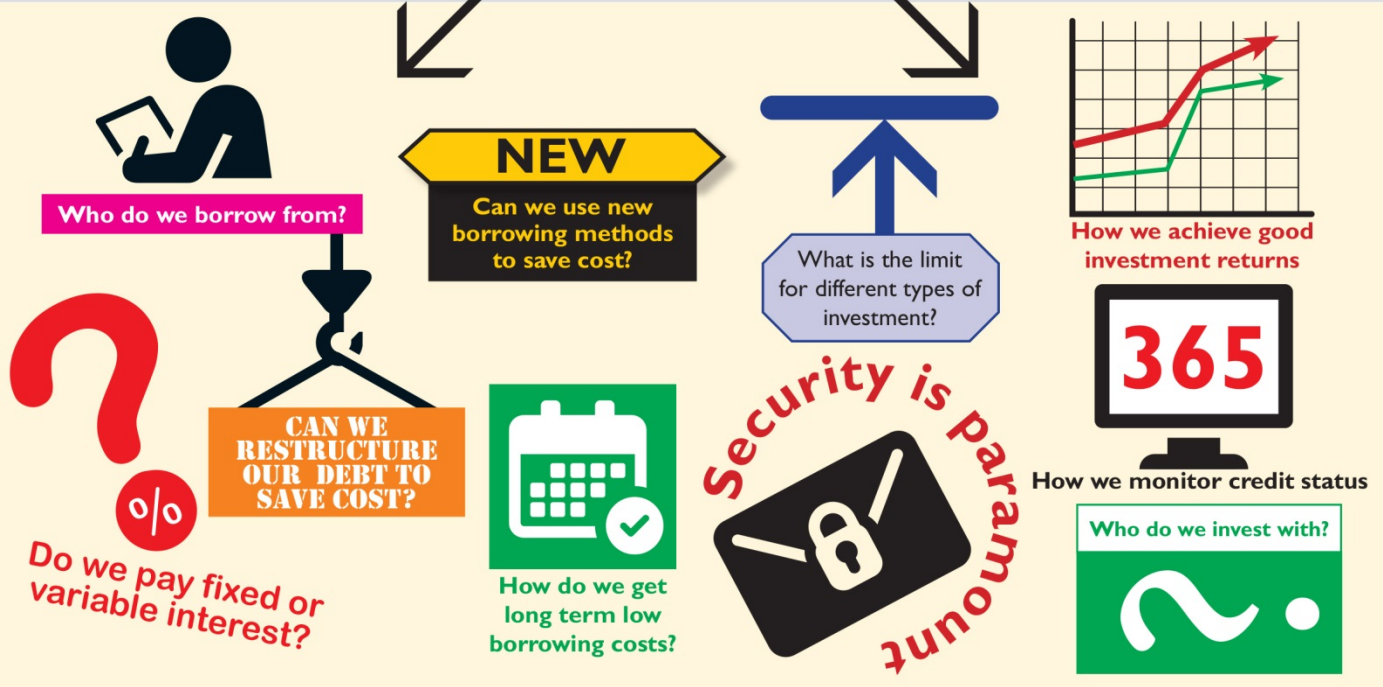
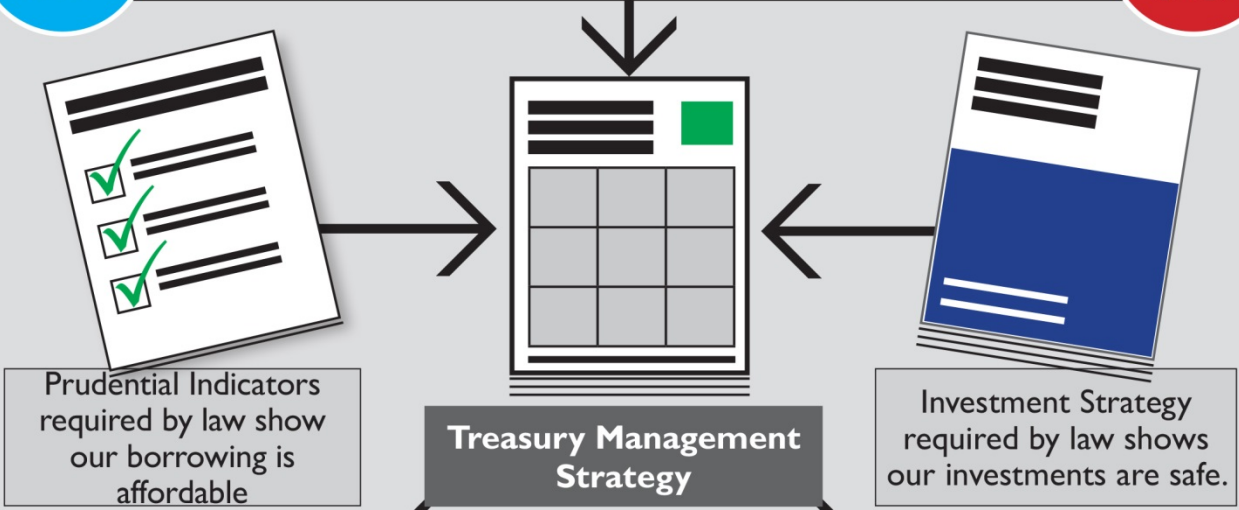
# How the Treasury Management System works



Infrastructure and capital investment needs to deliver the Plymouth Plan



Borrowing to fund the investment. Investing surplus funds



## Introduction

Treasury Management is the management of the Council’s cash flows, borrowing and investments, and the associated risks. The Treasury Management Strategy sets out how Plymouth will invest to grow and meet future Infrastructure needs. It is a companion document to the Medium Term Financial Strategy which sets out Plymouth’s ambitions and priorities from the Plymouth Plan.

This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code which was updated in 2017.

## INVESTMENTS – FACTS AT A GLANCE

### Principles and Objectives of the Treasury Management Strategy

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

### Market Intelligence

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

### Statutory and Performance Framework

*Rules that guide us*

#### Specified Investments

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

#### Counterparties and Limits (see table on page 19)

#### Non-specified investments

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

#### Investment Limits – subject to credit ratings table on page 20

- **No limit** UK Government
- **£25m** any single organisation
- **£45m** any group of organisations
- **£30m** per pooled fund manager
- **£25m** negotiable instruments per broker
- **£10m** per foreign country
- **£25m** per registered provider
- **£10m** unsecured with Building Societies
- **£25m** unrated corporates
- **£60m** money market funds

#### Key Council Budget Assumption for 2019/20

- Investments make an average rate of return of 1.49%

### Approach

*Choices made within the framework*

**Objective** - Security first, Yield second and then Liquidity  
**Strategy** - to maximise returns, reduce risk and diversify investments  
**Risk Assessment and credit ratio** Our advisors monitor credit ratings daily so no new investment will be made if they do not meet our ratings  
**Other information on security of Investments** Market intelligence from our advisors may give warnings before credit warning changes e.g. credit default swaps information

## BORROWING – FACTS AT A GLANCE

### Principles and Objectives of the Treasury Management Strategy

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

### Market Intelligence

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

### Statutory and Performance Framework

*Rules that guide us*

#### Borrowing

- **£216m** Total Capital Expenditure
- **£680m** Capital Finance Requirement (need to borrow)
- **£735m** Total Debt (loans and private finance initiatives)
- **£772m** Operational Boundary (practical ceiling on borrowing)
- **£880m** The Authorised Limit (absolute maximum debt approved)

#### Prudential Indicators

- **4.49%** Ratio of finance costs to net revenue stream (borrowing costs as a proportion of net revenue budget)
- **£14.40** Hypothetical increase in Council Tax affordability. (this is technical measure; the Council has made no future years tax decisions)

#### Treasury Management Indicators

- **100%** Limit on Fixed Interest Exposure
- **95%** Limit on Variable Interest Rate
- **0% to 90%** Maturity Structure of Borrowing, exposure in any duration

#### Minimum Revenue Provision Policy

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

#### Key Council Budget Assumption for 2019/20

- New long-term loans will cost an average rate of 3.25%

### Approach

*Choices made within the framework*

**Objective** - Balance low interest rates with long term certainty

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

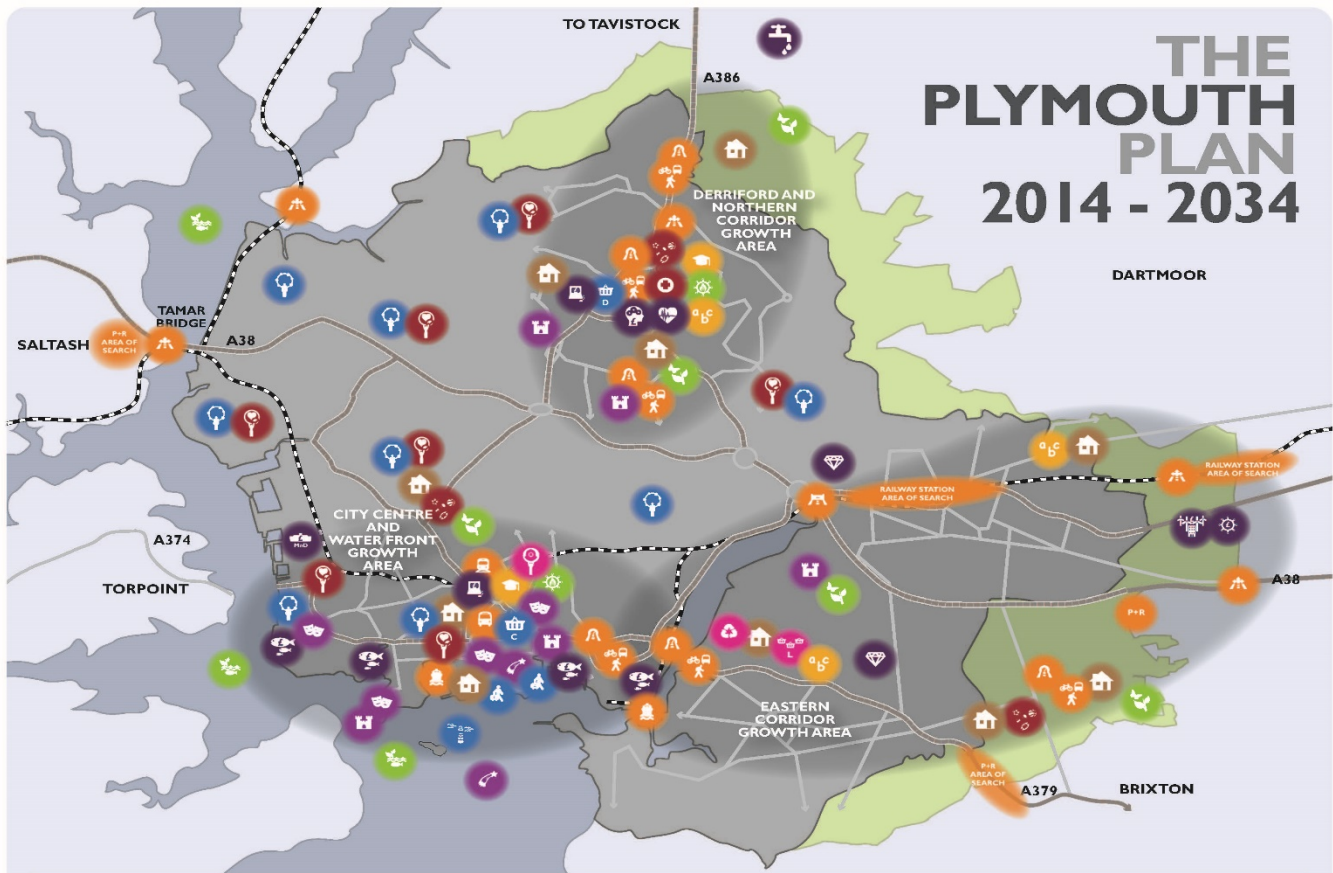
**Sources Approved by Arlingclose** - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back

**LOBOs** will be repaid if there is a NPV saving and if there is agreement with the lenders

**Municipal Bonds Agency** Council will use where appropriate

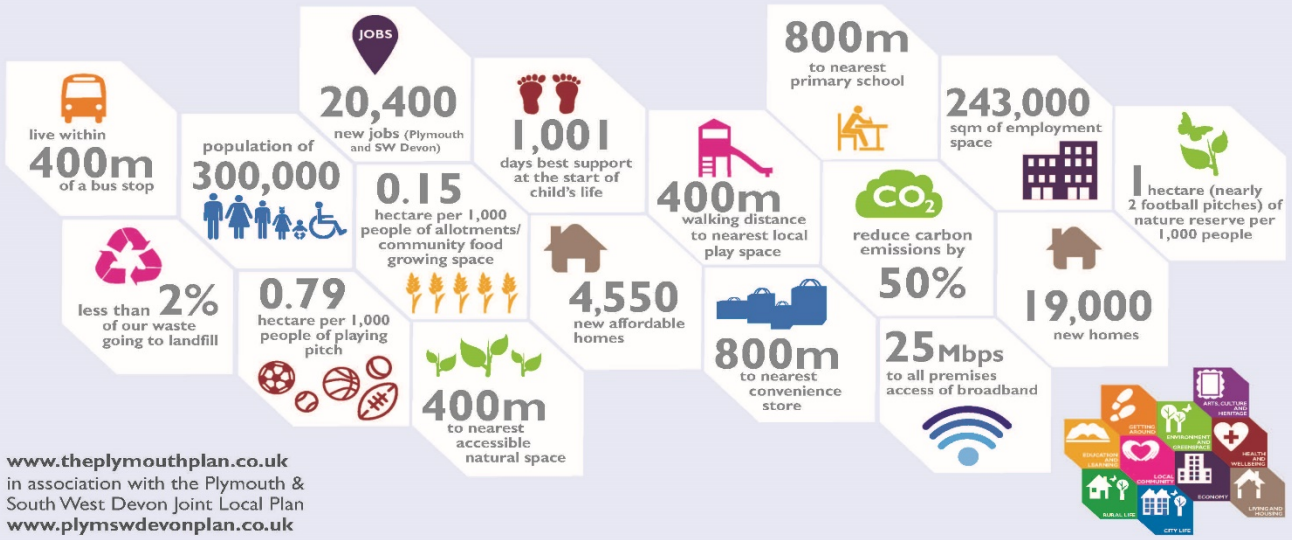
**Debt Restructuring** A present value calculation based on current rates for the same period of loan may result in a discount or premium.

Council will re-schedule if it reduces cost or risk



KEY					

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**Our Corporate Plan includes themes of infrastructure and investment**

**Corporate Plan**

The Corporate Plan sets out our vision to be ‘one of Europe’s most vibrant cities’ and our priorities are to be ‘A Growing City’ and ‘A Caring Council’.

**OUR PLAN  
A CITY TO BE PROUD OF**



**CITY VISION  
Britain’s Ocean City**

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

**OUR MISSION** Making Plymouth a fairer city, where everyone does their bit.

**OUR VALUES**

**WE ARE  
DEMOCRATIC**

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

**WE ARE  
RESPONSIBLE**

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

**WE ARE  
FAIR**

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

**WE ARE  
CO-OPERATIVE**

We will work together with partners to serve the best interests of our city and its communities.

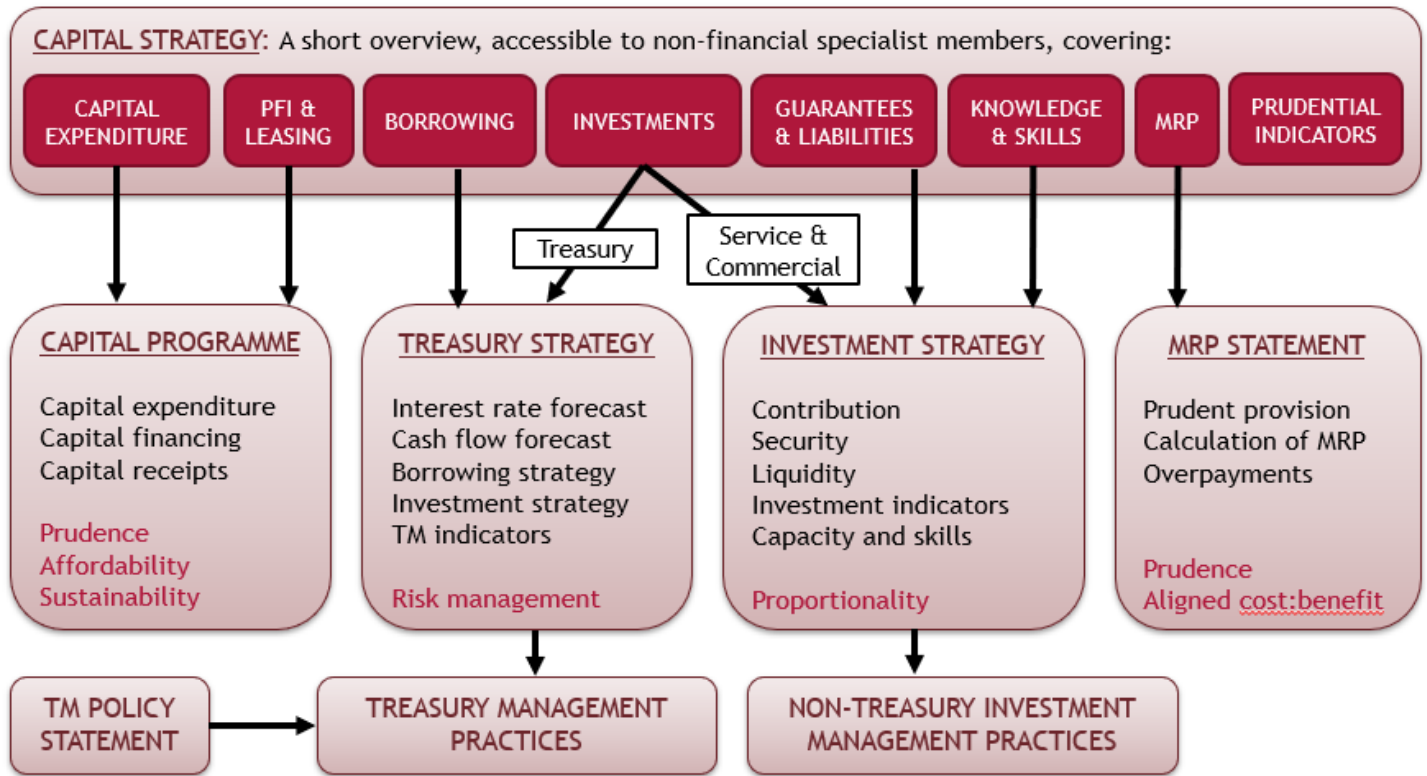
**OUR PRIORITIES**



**HOW WE WILL DELIVER**

- Listening to our customers and communities.
- Providing quality public services.
- Motivated, skilled and engaged staff.
- Spending money wisely.
- A strong voice for Plymouth regionally and nationally.

# Strategy Reports:



The diagram above shows how the requirements of the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Guidance and The CIPFA Code interact with the Capital and Treasury Management. There is a new Capital Strategy (presented in a separate document) and a new Non-Treasury Management Investment Strategy (shown as service and commercial in the diagram) included in this document.

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

**Economic update from Treasury Management advisors Arlingclose**

The UK’s progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority’s treasury management strategy for 2019/20.

Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England’s Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. In November 2018 the MPC maintained Bank Rate at 0.75% while the Inflation Report showed that compared to the August report further interest rate increases may be required to bring inflation down to the 2% target over the forecast horizon.

The headline rate of UK Consumer Price Inflation fell back to 2.4% year-on-year in September 2018 from 2.7% in August, as higher import and energy prices continued to hold inflation above the BoE target.

Labour market data is positive. The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.7% and only likely to have a moderate impact on household spending.

While external inflationary pressures from energy costs and import prices are expected to subside, domestic pressures are projected to build over the forecast horizon with the balance of these effects likely to keep inflation above the Bank of England's target throughout most of their forecast horizon, meaning that strong real income growth is unlikely to materialise any time soon.

As the US economy has continued to perform well, the Federal Reserve maintained its monetary tightening stance and pushed up its target range for the Fed Funds Rate in September 2018 by 0.25% to 2% - 2.25%. One further rise is expected in 2018 and two more in 2019.

The fallout from the US-China trade war continues which, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity in 2019. Despite slower growth in the region, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike, currently expected in 2019, and the timing and magnitude of increases thereafter.

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

### **Credit Outlook**

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities.

Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ring-fenced counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.



**Interest Rate Forecast**

Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (*at the time of writing this commentary in early November*). As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

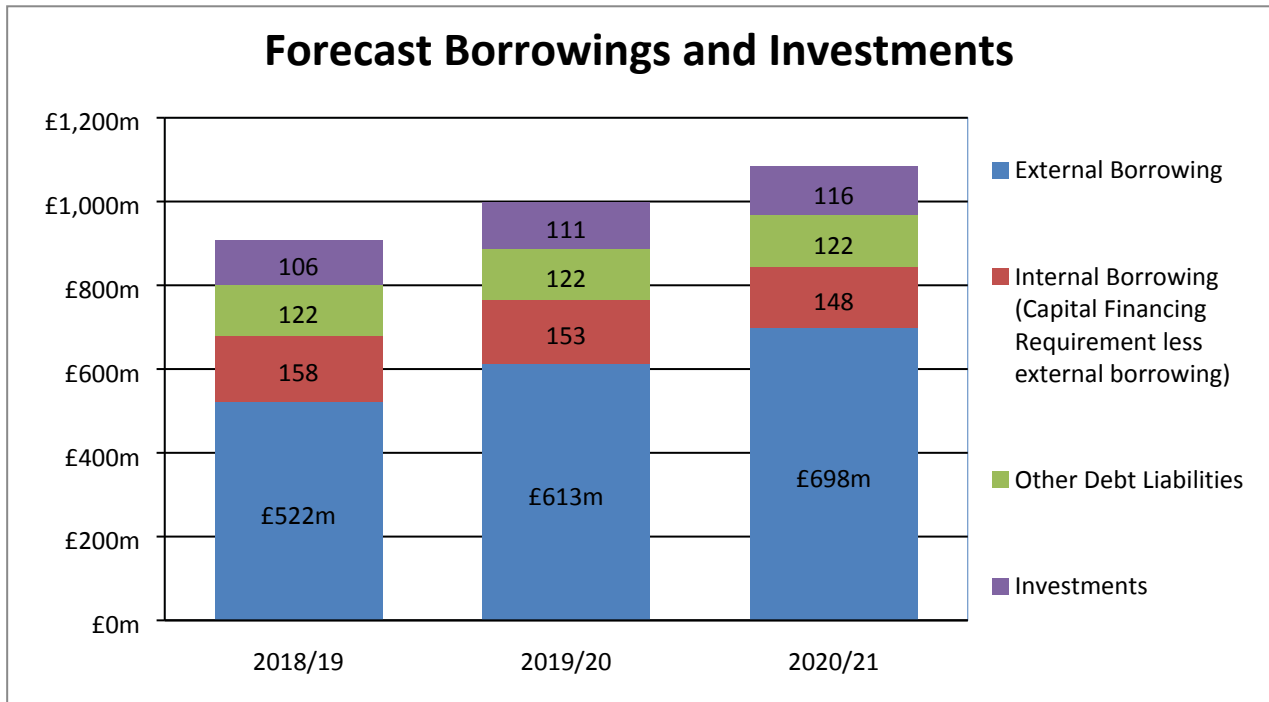
A more detailed economic and interest rate forecast provided is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.0%, and that new long-term loans will be borrowed at an average rate of 3.25%.

## Part 2 – Technical Detail for Analysis

### Borrowing

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



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

#### Maximum Total Debt

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

CIPFA's *Prudential Code for Capital Finance in Local Authorities* sets a maximum for total debt. This is the maximum the CFR is expected to reach at any time during the next three years.

The Council held £367 million of loans in as at 31 March 2018. This was an increase of £77 million on the previous year. The increase in loans is because of funding previous years' capital programmes.

The Council expects to hold borrowing up to £613m in 2019/20. The total borrowing must not exceed the authorised limit set by the Council of £750 million.

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

#### Objectives of Borrowing Decisions

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

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

### **Borrowing Strategy**

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

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

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

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

The Council will take the option to repay LOBO loans if there is a NPV saving and if there is agreement with the lenders.

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

The Council will only borrow from approved sources.

**These are the lenders we are able to use.**

### **Sources of Borrowing**

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

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

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

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

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

### **Lender's Option Borrower's Option (LOBOs)**

During 2018/19 the Council refinanced a LOBO for £11m to reduce the Council total LOBO loans to £71m.

The Council holds £71m of LOBO loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

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

The Council will take the option to repay LOBO loans if there is a NPV saving and if there is agreement with the lenders.

**This allows the flexibility to borrow from the Municipal Bonds Agency**

### **Municipal Bond Agency**

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

### **Short-term and Variable Rate loans**

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

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

### **Debt Rescheduling**

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

## Prudential Indicators 2019/20

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

### Estimates of Capital Expenditure

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

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

Capital Expenditure and Financing	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2021/22 Estimate £m
General Fund	96.232	215.644	148.735	115.834
<b>Total Expenditure</b>	<b>96.232</b>	<b>215.644</b>	<b>148.735</b>	<b>115.834</b>
Capital Receipts	2.096	6.305	4.367	0.376
Grants and Contributions	29.830	71.676	57.013	35.437
Reserves	-	-	-	-
Revenue	0.296	2.342	1.947	0.178
Borrowing	64.010	135.321	85.408	79.843
Leasing and PFI	-	-	-	-
<b>Total Financing</b>	<b>96.232</b>	<b>215.644</b>	<b>148.735</b>	<b>115.834</b>

### Estimates of Capital Financing Requirement

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

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

Capital Financing Requirement	31 Mar 18 Actual £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m	31 Mar 21 Estimate £m
General Fund	444.603	679.924	765.332	845.175
<b>Total CFR</b>	<b>444.603</b>	<b>679.924</b>	<b>765.332</b>	<b>845.175</b>

The CFR is forecast to rise by £300m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

## Gross Debt and the Capital Financing Requirement

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

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

Debt	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m	31 Mar 21 Estimate £m
Borrowing	522.000	613.000	698.000
PFI liabilities & Finance Leases	122.000	122.000	122.000
<b>Total Debt</b>	<b>644.000</b>	<b>735.000</b>	<b>820.000</b>

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

### Operational Boundary for External Debt

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

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

Operational Boundary	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	550.000	650.000	700.000
Other long-term liabilities	122.000	122.000	122.000
<b>Total Debt</b>	<b>672.000</b>	<b>772.000</b>	<b>822.000</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.

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

Authorised Limit	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	645.000	735.000	795.000
Other long-term liabilities	145.000	145.000	145.000
<b>Total Debt</b>	<b>790.000</b>	<b>880.000</b>	<b>940.000</b>

**Ratio of Financing Costs to Net Revenue Stream**

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

**This measure demonstrates that our proposed borrowing is affordable.**

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual	2019/20 Estimate	2020/21 Estimate
General Fund	4.49%	5.24%	6.04%

**Incremental Impact of Capital Investment Decisions**

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

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

Incremental Impact of Capital Investment Decisions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate
General Fund - increase in annual band D Council Tax	£12.10	£14.40	£18.10

**Adoption of the CIPFA Treasury Management Code**

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

## Investments

**This explains how the new CIPFA and MHCLG rules on investments have been extended to include non-Treasury Management Investments**

### Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

## Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA. The balance of treasury management investments is expected to fluctuate between £60m and £110m during the 2019/20 financial year.

**Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

**These are the ways Government allows us to invest surplus funds.**

### Specified Investments

The MHCLG Guidance defines specified investments as those:

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

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



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

### Approved investment counterparties and limits

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

This table must be read in conjunction with the notes below

### Non-specified Investments

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

**Table 3: Non-Specified Investment Limits**

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

### Investment Limits

The Council's revenue reserves available to cover investment losses were £60 million on 31 March 2018. No more than 60% of available reserves will be put at risk in the case of a single organisation (other than the UK Government). When considering investment limits in the chart below you must also refer to the credit ratings of the individual organisations (see table above) to make the final assessment.

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

**Investment Limits**

	Cash limit
Any single organisation, except the UK Central Government	£25m
UK Central Government	Unlimited
Any group of organisations under the same ownership	£45m per group
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£25m in total
Money Market Funds	£60m in total

**Liquidity Management**

The Council uses a cash flow forecasting spreadsheet to determine the amount of cash required on a day to day basis to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

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

**Council Budget Assumptions for 2019/20**

- Investments will make an average rate of 1.49%
- New long-term loans will cost an average rate of 3.25%

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

**Treasury Management Investment Strategy**

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £65m and £85m million, and is expected to remain about the same in the forthcoming year.

**Objectives**

Both the CIPFA Code and the MHCLG Guidance requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total

return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

### **Negative Interest Rates**

If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

### **Strategy**

Given the increased risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and higher yielding asset classes during 2019/20. The Council holds £35m as a longer-term investment (CCLA Property Fund, CCLA Diversified Fund and Schroder's Income Maximiser) and these give a higher return than the short term investments.

The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, pooled funds and money market funds. The Council will continue to look for investment opportunities that give a good return whilst being a secure investment.

### **Business models:**

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

### **Approved Counterparties**

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

### **Credit Rating**

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

### **Banks Unsecured**

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

### **Banks Secured**

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

### **Government**

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

## Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be issued following finance due diligence, loan agreement and security assessment.

## Registered Providers

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

## Pooled Funds

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

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

## Real estate investment trusts

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

## Operational Bank Accounts

The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than AAA- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances should be kept below £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

## Risk Assessment and Credit Ratings

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

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

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

**Other Information on the Security of Investments**

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Treasury Management Indicators**

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

**This is how we measure our performance.**

**Security**

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

	Target
Portfolio average credit rating	A

**This is how we ensure that we have cash available to meet unexpected payments.**

**Liquidity:**

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

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

### Interest Rate Exposures

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

	2019/20	2020/21	2021/22
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

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

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

### Maturity Structure of Borrowing

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

	Upper	Lower
Under 12 months	90%	10%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and above	80%	10%

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

### Principal Sums Invested for Periods Longer than 365 days

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

	2019/20	2020/21	2021/22
Limit on principal invested beyond one year	£45m	£50m	£50m

# Non-Treasury Management Investments

## Introduction

The non-treasury management investment strategy is a new report for 2019/20, following the requirements of statutory guidance issued by the government (MHCLG) in January 2018, and focuses on the second and third of the following investment categories.

The Council invests its money for three broad purposes:

1. **Treasury Management Investments** – to invest surplus cash from reserves and as a result of its day-to-day activities, for example when income is received in advance of expenditure;
2. **Service Investments** - to support local public services by lending to or buying shares in other organisations; and
3. **Commercial Investments** - to earn investment income (known as where this is the main purpose).

## Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with the CIPFA guidance.

The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Full details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in the preceding sections of this document.

## Service Investments

### Loans

The council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

The council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by the Section 151 Officer and the Leader. All loans will be subject to close, regular monitoring.

The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities or housing associations to support local public services and stimulate local economic growth. For example Ernesettle Community Solar Farm.

The loans are treated as capital expenditure.

**Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by:

1. reviewing the financial statements of the organisation and reviewing the organisation's business plans and future projections and future cash flows;
2. assessing what security is available to secure the loan and if necessary carry out a professional valuation of any property;
3. using external advisors to provide professional information such as due diligence requirements;
4. the loans are reviewed by our by our external advisors to ensure that they accounted for correctly;
5. if an organisation has a credit rating we will carry out a credit check to assist;
6. State Aid rules must be taken into account before a loan can be considered.

## Shares

The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

**Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by reviewing the history of the organisation; its financial statements and its share values. The Council will also look at business plans, future cash flows and any other market information that may affect the organisation.

**Liquidity:** The Council covers its liquidity for working capital and cash flow by being able to borrowing short term loans from other local authorities.

**Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition. Paragraph 21 of the guidance is that treasury management investments are excluded from being specified, non-specified or loans.

## Commercial Investments: Property

The MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

**Contribution:** The Council invests in local, commercial and residential property with the intention of making a profit that will be spent on local public services.

### Property held for investment purposes

Asset Investment Fund	Actual 2017/18	Estimate 2018/19	Forecast 2019/20
Commercial Property	£67.368	£147.000m	£160,000m
Net Income	£1.166	£1.600m	£2.500m
Net Return*	1.7%	2.1%	2.1%

\*based on a full year of ownership of the properties



**Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

Where the fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council will therefore taking mitigating actions to protect the capital invested. These actions include enhancing or refurbishing the assets and reviewing the rents agreements.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by carrying out the evaluation process described below. The risk of not achieving the desired profit or borrowing costs increasing or the having vacant premises is partially covered by a void reserve. Annual payments are deducted from the rental income each year to add to the void reserve.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council makes an internal charge (service borrowing) to cover the capital repayments from the rental income.

The Council also makes alternative arrangement to cover their short term cash requirements.

### Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 4: Proportionality of Investments

	2017/18 Actual
Gross service expenditure	£550.417m
Gross Investment income	£7.496m
Proportion	1.4%

### Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has chosen not to follow this guidance and has previously borrowed for this purpose because it wants to generate income to support its statutory duties. This is a common practice by local authorities since the new guidance was issued.

### Investment Evaluation Process

The Council's due diligence assessment processes are consistent and robust evaluation process and is set out below:

- I. Proposed investment opportunities are reported by suitably qualified and experienced in-house MRICS (Member of the Royal Institute of Chartered Surveyors) professionals.

2. This assessment provides analysis of a set of key criteria against which every prospective purchase is evaluated. The presentation of information highlights fundamental matters such as tenant covenant strength, lease length and location, in a transparent and consistent format, to support clear scrutiny and decisions.
3. The assessment provides a basis for scoring and weighting risk, to support the analysis of potential acquisitions and qualify overall suitability for inclusion in the portfolio.
4. The score threshold is not an absolute, but helps guide decisions.
5. To ensure arms-length objectivity, external agents provide professional market analysis, data and advice, in the context of the Property Investment Strategy, to support the evaluation and internal reporting process.
6. Since tenant default is a significant threat to the performance of the property investment financial checks are made on the proposed tenants. This is augmented by additional internal assessment of tenants' covenant and likely future performance.
7. With all the additional information a detailed model is produced. The model is tailored for each prospective investment, by including items such as future demand, yield, cash flows; rental movement, optimal holding periods for the property and data to support profitability modelling.
8. If a decision is made to proceed, in-house surveyors lead negotiations, via the introducing/retained external agents, who are professional property firms.
  - A valuation, in accordance with the RICS Red Book, Professional Valuation Standards, issued by RICS as part of their commitment to promoting and support high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.
  - A Building Survey report, as part of the proposed purchase for investment purpose, including preparation of a Site Environmental Assessment and preparation of a Reinstatement Cost Assessment for insurance purposes.
9. The above is reviewed by the Asset Portfolio Manager as an experienced in-house MRICS (Member of the Royal Institute of Chartered Surveyors) professional, with support from the internal multi-disciplinary property teams, for final decision by the Head of Land and Property on whether to proceed.
10. Head of Land and Property Projects receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process.

### **Property Investment Governance**

Clear, robust and transparent governance is critical to the strategy, meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective arms-length external advice where appropriate. It is also important to ensure any decision process retains fluidity, so officers are empowered to respond promptly and competitively, to investment opportunities in the market and avoid missing opportunities through delay.

The authority to acquire or dispose of land, is vested in the Head of Land and Property and where the land is purchased through the Asset Investment Fund a proposal is presented to the City Capital Investment Board (CCIB) and recommended for authorisation by the relevant Leader, Legal and the Section 151 Officer.

**Capacity, Skills and Culture**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director of Finance is a qualified accountant with over 20 years' experience.

The Council employs staff with professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc. and pays for junior staff to study towards relevant qualifications.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Head of Land and Property and the property team receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process.

**How investments are funded:**

Asset Investment Fund commercial property purchases are funded by borrowing. The borrowing is not directly taken out against each property but is managed through our Treasury Management function.

The rental income generated from the purchasing of commercial property is used to repay the borrowing before the net income is used in the supporting of services.

**Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

**Loan Commitments and Financial Guarantees**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council.

## Annual Minimum Revenue Provision Statement 2019/20

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Council to have regard to the MHCLG's Guidance on Minimum Revenue Provision updated in 2018. The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period which the asset provides benefits.

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

### Minimum Revenue Position Policy

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

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

MRP will commence in the financial year following the asset coming into use or after purchase.

Expenditure funded by borrowing where the project is being built and is not complete at 31st March 2018 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

### External Loans

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

Any loan or investment to an organisation defined as capital expenditure will not attract MRP. The original capital expenditure will be repaid from the capital receipts arising from the loan repayments made by the external organisation.

### Capitalisation Directions

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

### PFI/Leases

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

## Other Items

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

### Policy on use of Financial Derivatives

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

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

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

### Investment Training

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

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

### Investment Advisers

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

### Investment of Money Borrowed in Advance of Need

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

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

## Other options considered

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

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

## Appendix A – Arlingclose Economic and Interest Rate Forecast October 2018

### Underlying assumptions

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.
- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.
- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.
- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

### Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.65
<b>3-mth money market rate</b>														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.80	1.00	1.10	1.20	1.30	1.30	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.68
<b>1-yr money market rate</b>														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.05	1.25	1.35	1.40	1.50	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.69
<b>5-yr gilt yield</b>														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.15	1.20	1.25	1.35	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
<b>10-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
<b>20-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.90	1.95	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43
<b>50-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.80	1.85	1.85	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



## Appendix B - Existing Investment and Debt Portfolio Position

	30 Sept 2018 Actual Portfolio £m	30 Sept 2018 Average Rate %
<b>External Borrowing:</b>		
PWLB – Fixed Rate	44.3	5.76
Local Authorities	282.5	0.73
LOBO Loans	71.0	4.37
Long Term Borrowing	18.0	4.37
<b>Total External Borrowing</b>	<b>415.8</b>	<b>2.04</b>
<b>Other Long Term Liabilities:</b>		
PFI	122.2	n/a
Finance Leases	1.6	n/a
<b>Total Gross External Debt</b>	<b>539.6</b>	
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term Money Market Funds	23.4	0.65
Other Short Term investments	18.1	0.92
<i>Managed externally</i>		
Pooled Funds	25.0	3.80
Other Funds	4.0	0.89
<b>Total Investments</b>	<b>70.4</b>	<b>1.81</b>
<b>Net Debt</b>	<b>367.2</b>	

## Treasury Management Strategy 2019-20

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Capital Financing Strategy 2019/20
<b>Committee:</b>	Audit Committee
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Service Director for Finance)
<b>Author:</b>	Chris Flower, Finance Business Partner – Accountant for Capital and Treasury Management
<b>Contact details</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

---

**Purpose of the report:**

This report sets out the Capital Financing Strategy for 2019/20 and is a new requirement of The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services.

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**Corporate Plan**

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:**

The cost of capital affects the Treasury Management Strategy and the Council's budget in terms of borrowing costs and investment returns. The Capital Strategy provides an overarching policy framework for the Council's capital programme and planning, and will form part of a suite strategies which provide a holistic view of the Councils financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

The Capital Financing Strategy covers the capital programme; capital budget; governance; capital financing; affordability and risk management.

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

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

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Growing Caring and Confident City.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

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**Recommendations and Reasons for recommended action:**

- I. The Audit Committee recommends the Capital Financing Strategy 2018/19 to the Cabinet 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 rejected:**

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

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**Published work / information:**

Not Applicable

**Background papers:**

Not Applicable

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

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**Sign off:**

Fin	PL.18. 19.14 9	Leg	ALT/ 3050 8/2	Mon Off	ALT/ 3050 8/2	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Assistant Director													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

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## INTRODUCTION AND CONTEXT

This document will set out the Plymouth City Council Capital Financing Strategy for 2019/20. The Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

It is now a requirement as part of the amendments implemented in the 2018/19 Treasury Management Code that all Local Authority's will need to produce a Capital Strategy each year.

The strategy will provide an overarching policy framework for the Council's capital programme and planning, and will form part of a suite of strategies which provide a holistic view of the Council's financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

## CAPITAL FRAMEWORK

The Council approved the Plymouth Plan in 2015 which sets out the strategic direction for the city.

The Plan identifies specific strategic outcomes for the Council and its partners for the medium and longer-term; these outcomes align to those set in the Plymouth and South West Devon Joint Local Plan.

Performance is measured towards the delivery of the agreed outcomes and reported against on an annual basis.

In February 2018 the Council approved a budget which contained an uplift to the revenue budget of £0.250m to meet the increased costs associated with borrowing requirements to fund the capital programme. The MTFS approved by Council on 19 November contained proposals to further increase this sum by £0.450m in 2019/20, £0.800m and 2020/21 and £0.600m in 2021/22. The MTFS sets out a summary of schemes that the Council wishes to support and an indicative level of Council financial support which will assist in the delivery of those schemes which all deliver towards the city's outcomes.

## GOVERNANCE

The Financial Regulations detail how capital projects are approved and added into the capital programme.

All new schemes must be fully financed and receive relevant approval by Responsible Finance Officer; up to £0.200m, or by the Leader, on the recommendation of the City Council Investment Board (CCIB), when above this threshold. Each scheme will need to detail:

- the aim of the project and any other ways of achieving it
- effects on staffing
- legal, contractual and prudential borrowing code implications
- if the Council is acting through an agent or partnership, legal advice must be sought on whether it has the power to act this way
- if it is a key decision, any comments made during consultation and the Council's response
- the estimated amount and timing of any capital and revenue spending.

All proposed new schemes will need to demonstrate how they meet the requirements of the City by presenting a Business Case for approval and detail which of the City's outcomes are being achieved and how the scheme will address this need.

Due diligence is carried out on all new proposals to determine whether the scheme is deemed suitable. Financial and capital planning reviews are carried out prior to any Business Case being presented to the City Council Investment Board to provide members with the confidence that the schemes meet the expected requirements in line with the strategic direction of the city.

Once accepted, all new schemes, which will require both finance and legal sign-offs, are published in the Executive Decision along with the Leaders decision.

## **CAPITAL BUDGET**

The Capital Budget is the collective term which defines two key elements; the Capital Programme as approved by the Leader on recommendation of CCIB, and Future Income Assumptions which refer to the funding available for future projects yet to be approved.

The Capital Programme is the list of schemes which have a confirmed financing source and have been approved for capital investment by the Leader following consideration of a robust, evidence-based business case.

“Income Assumptions” is the term used to refer to funding that the Council expects to receive or allocate to finance schemes which have not yet been approved. Income Assumptions consist of both ringfenced and unringfenced resources.

Ringfenced resources are essentially those that can only be applied to a specific purpose and include specific grants and S106 contributions etc. Unringfenced resources can be applied to any project and include unringfenced grants and corporate borrowing etc.

## **CAPITAL PROGRAMME**

Once approved, schemes are added to the capital programme for delivery.

The table below details the Capital Programme as reported to Cabinet in November 2018, including, amongst others, the following schemes:

- Derriford Transport Scheme
- Forder Valley Link Road
- Northern and Eastern Corridor Improvements
- The Box
- Oceansgate
- Asset Investment Fund
- Central Park Improvements
- Bereavement Service
- Schools Basic Need

Any adverse variance to approved schemes are required to seek further approval, with identified funding, to enable authorisation for increased expenditure providing details of the variance.



Capital Programme by Directorate

Directorate	Service	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
<b>Customer and Corporate Services</b>	Customer and Corporate Services	0.240	0.306	-	-	-	0.546
	Executive Office	-	-	-	-	-	-
	Finance	6.501	3.535	0.210	-	-	10.246
	<b>Total</b>	<b>6.741</b>	<b>3.841</b>	<b>0.210</b>	<b>-</b>	<b>-</b>	<b>10.792</b>
<b>People</b>	Children, Young People and Families	-	-	-	-	-	-
	Community Connections	2.343	-	-	-	-	2.343
	Education, Participation and Schools	5.788	0.698	0.162	0.162	0.162	6.972
	Public Health	3.553	0.313	7.547	0.377	-	11.790
	Strategic Co-operative Commissioning	-	0.687	-	-	-	0.687
	<b>Total</b>	<b>11.684</b>	<b>1.698</b>	<b>7.709</b>	<b>0.539</b>	<b>0.162</b>	<b>21.792</b>
<b>Place</b>	Economic Development	97.879	47.269	22.851	0.022	-	168.021
	Strategic Planning and Infrastructure	33.412	30.928	4.591	0.220	-	69.151
	Street Services	10.226	5.323	2.000	2.000	2.000	21.549
	<b>Total</b>	<b>141.517</b>	<b>83.520</b>	<b>29.442</b>	<b>2.242</b>	<b>2.000</b>	<b>258.721</b>
<b>PLYMOUTH CITY COUNCIL TOTAL</b>		<b>159.942</b>	<b>89.059</b>	<b>37.361</b>	<b>2.781</b>	<b>2.162</b>	<b>291.305</b>

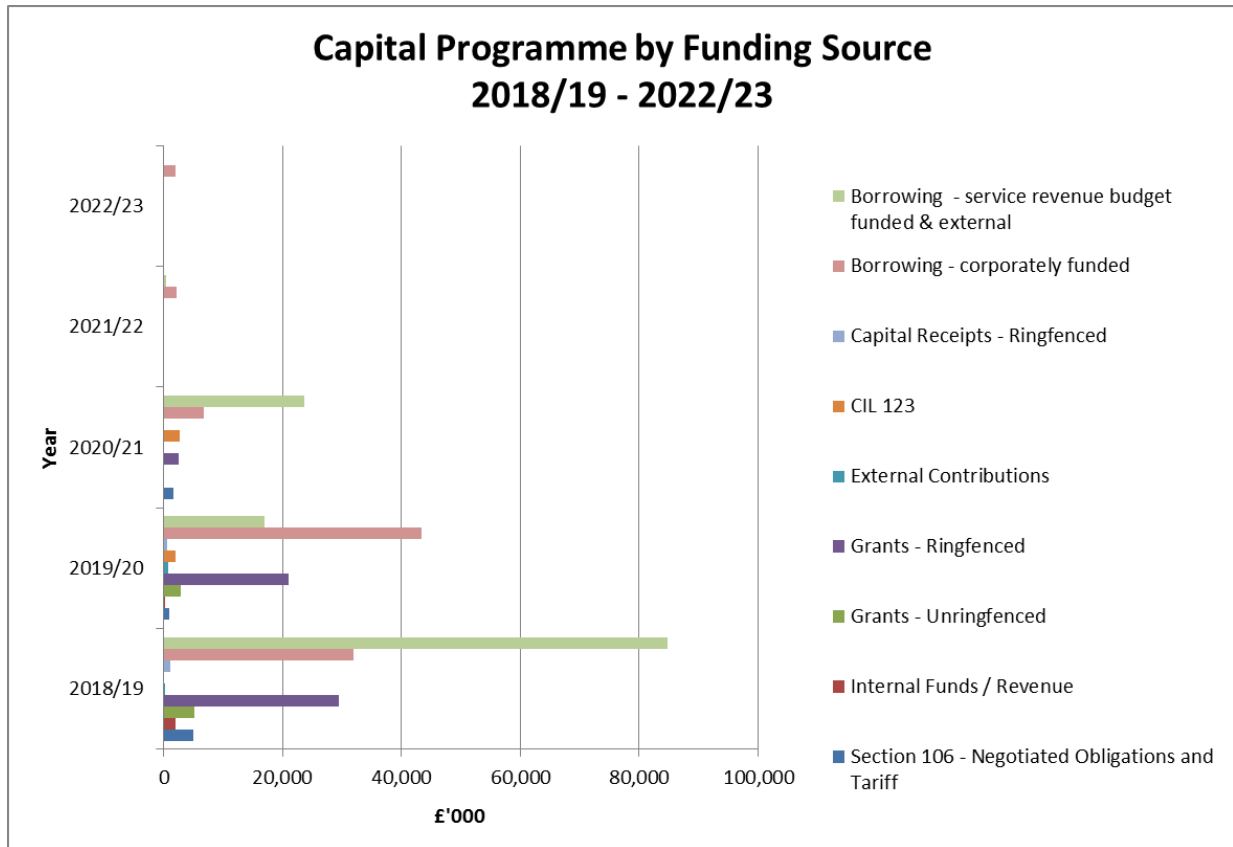
**CAPITAL EXPENDITURE AND FINANCING**

Capital expenditure is defined as money spent on assets, such as property or vehicles, which will provide a service benefit for more than one year. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 (land and buildings) and £5,000 (vehicles, plant or equipment) are not capitalised and are charged to revenue in year.

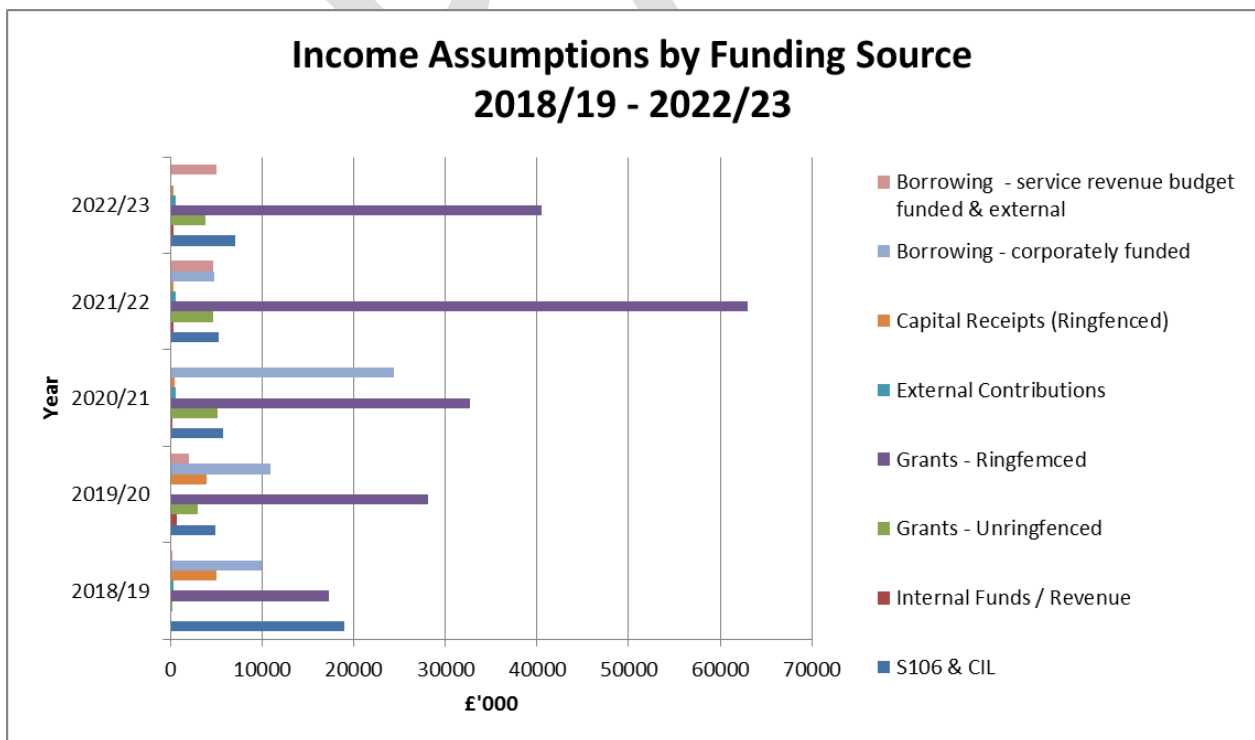
Capital expenditure is financed by a range of sources which may either be ringfenced or unringfenced. The source of financing is always identified and approved at the time of capital project approval. The capital programme is currently financed by:

- Capital Receipts;
- Grants and contributions;
- S106 and Community Infrastructure Levy (CIL);
- Revenue Contribution to Capital Outlay (RCCO);
- Borrowing – both funded corporately, or where schemes deliver a saving, this is offset against the project and repaid by service.

The Council has approved medium-term capital expenditure of £291.305m as summarised below by funding source and year.



The following chart provides details of expected funding for future, unapproved capital schemes (Income Assumptions) by finance category as of November 2018.



## **ASSET INVESTMENT FUND**

The Asset Investment Fund has a mandate to invest up to £155 million (subject to approvals) in income-producing, direct development and forward funding commercial property schemes to deliver:

- Stimulation of economic and employment growth and regeneration in the City.
- Long-term income generation (via rental revenues) to support the wider financial position of the Council.

The Asset Investment Fund has a well-defined investment strategy to manage risk. A key pillar of this is establishing a diversified portfolio with regards to property sector (retail, office and industrial), tenant type and income-expiry profile. The investment approach is also to primarily target secure investments, which generate a net initial yield in excess of 5% per annum (before debt servicing). The Fund supports the affordability of the revenue budget through the generation of long term income realisation.

The adoption of an Asset Investment Framework provides a sound basis and evaluation criteria on which future property investment acquisitions can be assessed and the performance of the existing investments monitored. This will ensure that the Council's commercial estate will provide a secure long term income stream to help front line service delivery and support the economic development of the City.

## **AFFORDABILITY**

The Council considers all finances from a prudent perspective; this includes the assessment of affordability of all capital investments.

At the point of approval of a scheme, both the funding implications and any ongoing revenue implications are evaluated to enable informed decisions to be made regarding investment opportunities.

Project managers responsible for capital schemes requiring in excess of £0.500m will generally be expected to present a cost benefit analysis to support decision making.

The short, medium and longer-term impacts are all assessed taking into account any other wider policy implications which could impact on the decision.

As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing is linked to the Public Works Loan Board interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2019/20.

## **RISK MANAGEMENT**

The Council considers it's appetite to risk to be low. Risks are assessed continually from both an operational and financial perspective.

In carrying out due diligence, potential project risks are identified and relevant mitigation measures documented prior to approval.

All risks are then managed in line with the Council's risk management policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

Subject to careful consideration, the Council may consider investing in a higher risk initiative should there be a significant direct gain to the Council's resources or enable more effective delivery of statutory duties.

**KNOWLEDGE AND SKILLS**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director of Finance is a qualified accountant with over 20 years' experience.

The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc.

Where Council staff does not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

DRAFT

**PLYMOUTH CITY COUNCIL**

**Subject:** Internal Audit Half Year Report  
**Committee:** Audit and Governance Committee  
**Date:** 10 December 2018  
**Cabinet Member:** Councillor Lowry  
**CMT Member:** Andrew Hardingham (Service Director Finance)  
**Author:** Robert Hutchins, Head of Devon Audit Partnership  
Brenda Davis, Audit Manager  
**Contact details** Tel: 01752 306713  
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[brenda.davis@devonaudit.gov.uk](mailto:brenda.davis@devonaudit.gov.uk)  
**Ref:** Your ref. AUD/BD  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

This report provides Members of the Audit and Governance Committee with a position statement on the audit work carried out in the first half of 2018/19, reviews the performance and effectiveness of the Internal Audit services, and provides a mid-year audit opinion on the adequacy of the Authority's internal control environment. Our work delivers objective and relevant assurance and contributes to the effectiveness and efficiency of the governance, risk management and internal control processes.

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**Corporate Plan**

The internal audit service assists the Council in delivering robust standards of public accountability and probity in the use of public funds and 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.

Our work supports delivery of the values and priorities set out in Corporate Plan by ensuring that resources are used wisely and service areas understand and deliver quality public services which meet customer and community needs and keep people safe.

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**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.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Not required.

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**Recommendations and Reasons for recommended action:**

The Audit and Governance Committee note that:

- Based on work performed to date during 2018/19 and our experience from the current year progress and previous years’ audit, the Head of Internal Audit’s mid-year opinion is of “Significant Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.
- 

**Alternative options considered and rejected:**

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

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**Published work / information:**

Internal Audit Plan 2018/19 (March 2018)

**Background papers:**

None

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**Sign off:**

Fin	Pl.18.19.150	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Service Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

Internal Audit

# Half Year Audit Report 2018-19

## Plymouth City Council Audit Committee

December 2018

Robert Hutchins  
Head of Audit Partnership



Auditing for achievement

## Introduction

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

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

The Internal Audit plan for 2018/19 was presented and approved by the Audit Committee in March 2018. The following report and appendices set out the background to audit service provision; a review of work undertaken to date in 2018/19 provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides that opinion.

### Expectations of the Audit Committee from this annual report

Audit Committee members are requested to consider:

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

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see appendix 1) and satisfy themselves from this assurance that the internal control framework continues to be maintained at an adequate level to mitigate risks and inform the Executive for governance requirements.

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



## Opinion Statement

**Overall, based on work performed to date during 2018/19 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**

*This opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 1.*

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework. Heads of Service have been provided with details of Internal Audit's opinion on each audit review carried out in 2018/19 to date. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2018/19.

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

This statement of opinion is underpinned by:

### Internal Control Framework

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

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

Each year, core financial and administrative systems are 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. Formal business planning processes that are closer aligned with risk and performance management will further strengthen corporate governance and effective decision making. The risk management framework will be reviewed in quarter four to allow time for the changes to embed.

### Governance Arrangements

Governance arrangements are considered in key areas such as the Integrated Fund (Livewell and PCC) to ensure that the Council's interests are protected. Management also make very specific requests such as the review of the governance arrangements / relationships, both financial and legal for the Plymouth Energy Community (PEC).

### 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.

## Progress Against Plan

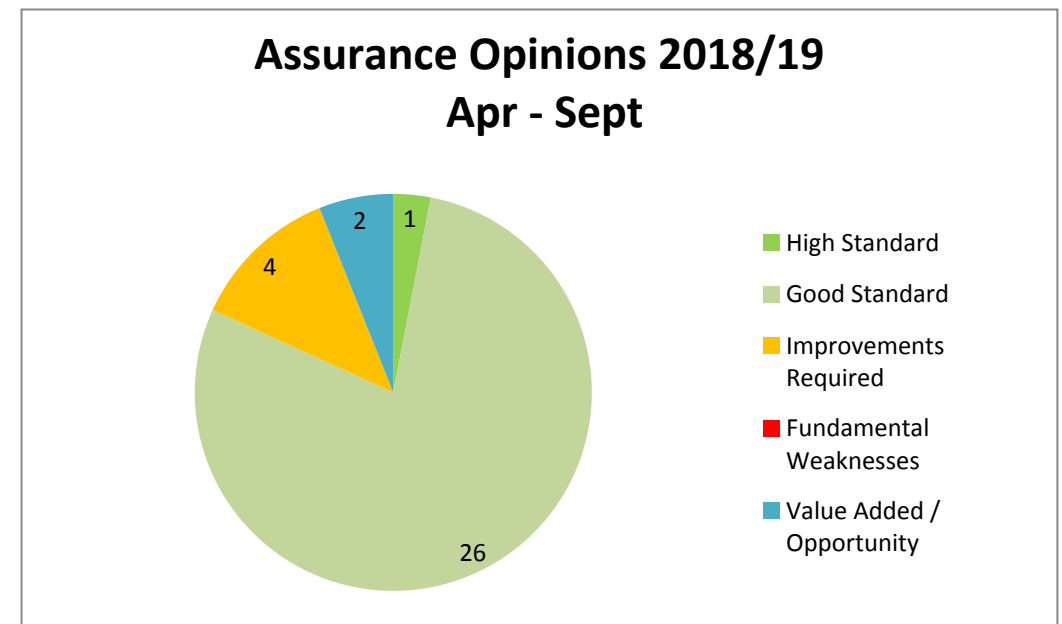
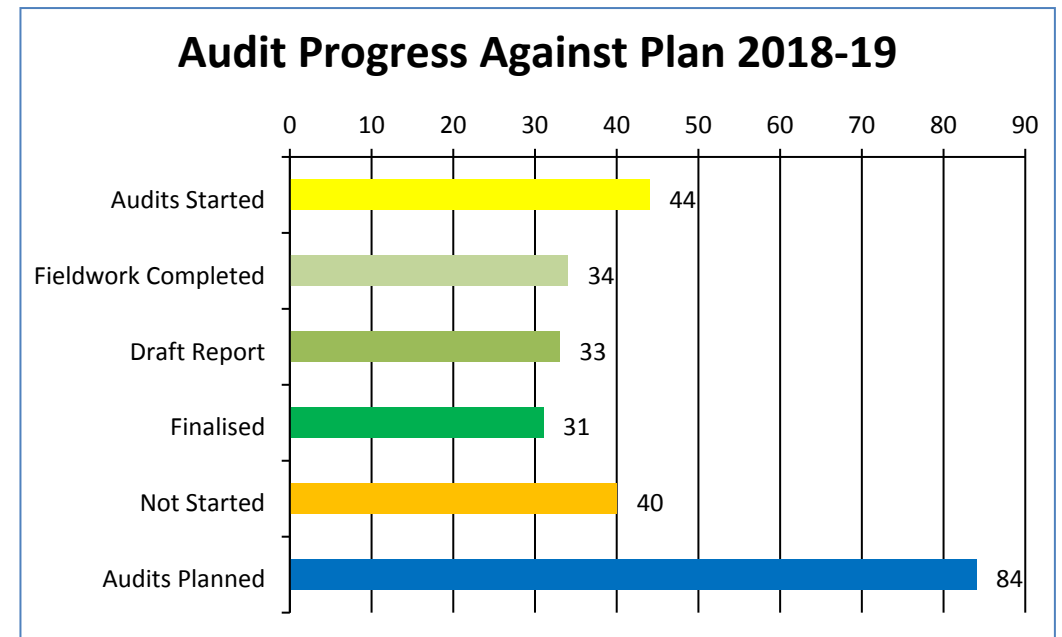
This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit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

The extent to which our work has been affected by changes to audit plans has not been notable during the first six months of the year. The level of irregularity work has been low which has not impacted on completion of the plan. The bar charts right show the status of audit progress against plan and audit the days delivered against target planned. The charts demonstrate that progress is largely in line with expectations for the first six months of 2018/19.

## Assurance Opinion

In our opinion based on our audit work for 2018/19, we are able to report that internal controls continue to operate effectively and where recommendations for improvements have been made, action plans have been agreed with management.

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



## 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 2018/19 exercise, DAP have co-ordinated the extract of relevant Council datasets, as defined by the Cabinet Office. Departments have supplied their datasets (listed below) and these were uploaded onto the NFI secure website in October in accordance with the NFI timetable. The subsequent matching reports are due back from the Cabinet Office in February 2019.

NFI datasets:

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

**Irregularities** – DAP have provided management with a range of advice and support on courses of action or improvements to controls. An investigation into employee conduct concluded that there was no cause for concern.

**Active Counter Fraud Investigation** - On 01/05/2018 the Plymouth City Council Corporate Fraud Team was transferred to the Devon Audit Partnership (DAP) and is now known as the Counter Fraud Services Team within DAP. The team continue to offer a full and comprehensive investigation service to Plymouth, whilst offering a commercialised service to other DAP partners in an attempt to give Plymouth City Council a return on its investment.

The team have produced a full annual report in June 2018 showing statistics for the previous 4 years as follows. The Corporate Fraud Team have dealt with over 1,500 allegations of fraud from internal sources as well as the public, resulting in 113 prosecutions, 298 formal cautions and 51 other forms of sanctions against offenders. In the same period our Compliance Officer has found 818 cases where the incorrect entitlement has been applied for various reasons that have since been adjusted. They have generated and or assisted in generating much needed savings in several areas of the Councils business in the form of proven cashable and non-cashable savings to the tune of £6,555,158.93 which is an incredible achievement for such a small professionally trained group.

Below are the financial results for the first 6 months of 18/19 which are the result of 139 allegations of fraud that have been investigated and resolved so far this financial year. The Compliance Officer has found 109 cases where incorrect information is held by PCC which have been adjusted. The team are currently dealing with a further 119 allegations across the business for Plymouth and the Compliance Officer continues to review various records.

### Statistical counter fraud figures for 18/19 to 06/11/2018

	Cashable	Non-Cashable	Total
<b>Blue Badge</b>	£0.00	£11,500.00	£11,500.00
<b>Concessionary Travel</b>	£0.00	£3,500.00	£3,500.00
<b>Council Tax</b>	£26,133.09	£15,266.15	£41,399.24
<b>CTS</b>	£79,601.30	£41,514.72	£121,116.02
<b>Insurance</b>	£0.00	£0.00	£0.00
<b>Social Care</b>	£0.00	£0.00	£0.00
<b>Tenancy</b>	£0.00	£1,082,040.00	£1,082,040.00
<b>Notices</b>	£0.00	£6,000.00	£6,000.00
<b>Other</b>	£5,958.56	£14,781.46	£20,740.02
<b>Total</b>	£111,692.95	£1,174,602.33	£1,286,295.28

*(All values used are as advised by the Cabinet Office 2018)*

The above figures exclude Housing Benefit (HB), as the Department for Work and Pensions (DWP) are now responsible for the investigation and sanctioning of HB fraud. A further saving to the public purse has been generated by the team as a result of the investigations they have undertaken for the related allegations above resulting in the figures below.

	Cashable	Non-Cashable	Total
<b>Housing Benefit</b>	£96,577.71	£150,061.08	£246,638.79

Therefore the actual figure for 6 months counter fraud work so far this year has resulted in **£1,532,934.07** savings to the public purse.

The team has implemented an eLearning Counter Fraud and Corruption package which as at creation of this report 40.10% of all PCC staff have completed.

A new Counter Fraud, Bribery and Corruption Policy has been produced by the team as well as the accompanying Strategy and Response Plan, these documents are in the process of being adopted by PCC at this time.

## Appendix 1 – Assurance Opinion and extract Executive Summaries – Up to 31 October 2018

### 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 Progress Key for Project Work

Green – progressing well  
 Amber – continuing to progress but some issues to address  
 Red – significant delays or issues to address

### Assurance Progress Key Where Report Issued

Green – action plan agreed with client for delivery over an appropriate timescale  
 Amber – agreement of action plan delayed or we are aware progress is hindered  
 Red – action plan not agreed or we are aware progress on key risks is not being made  
 \* report recently issued, assurance progress is of managers feedback at debrief meeting

Appendix 5 provides definition of assurance opinions.


Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Audit Report		
		Residual Risk / Audit Comment	Assurance Opinion	Assurance Direction of Travel
<b>Transformation and Change</b>				
<b>Core Assurance – Key Financial System</b>				
Creditors	ANA – High	The objective of this audit is to evaluate the adequacy of controls, processes and procedures operating within the Purchasing and Creditors systems to ensure the Council's financial data is appropriate, complete and accurate.	In-progress	
Business Rates	ANA - Low	The review includes a follow-up of the 2017/18 report and a walk-through of the system to ensure that the design of each key control is effective and proportionate. The review will look in more detail at: <ul style="list-style-type: none"> <li>• Collection rates;</li> <li>• Award of Hardship Relief</li> <li>• Enterprise Zone.</li> </ul>	In-progress	
The following key financial reviews will be commenced in the second half of 18/19				
➤ Civica Financials: <ul style="list-style-type: none"> <li>❖ Main Accounting ANA - High</li> <li>❖ Debtors ANA – Medium</li> </ul>		➤ Academy Revs & Bens: <ul style="list-style-type: none"> <li>❖ Housing Benefits ANA - High</li> <li>❖ Council Tax ANA - Medium</li> </ul>		

➤ iTrent – Payroll ANA - Medium

- Treasury Management ANA – Medium
- I.T.Systems ANA - High

Due to a pending software upgrade, it has been agreed with management that the review of Cash/Bank Receipting (ANA – Medium) will be undertaken in the next financial year once the new system is implemented.


**Core Assurance - Other**

Corp Information Management <ul style="list-style-type: none"> <li>• ILOG, FoI, DPA, Policies &amp; P's, EDRMS, End User Computing</li> </ul>	ANA – High	<p>DAP continues to provide “trusted advisor” support to the Information Lead Officers Group (ILOG) and Management Information Security Forum (MISF). Excellent work continues to be conducted by ILOG and the Information Governance Manager. We anticipate a good working relationship will be formed with the new Corporate Records Manager which will mirror the strong relationship with the previous incumbent.</p> <p>The Council is facing many challenges in the form of ever increasing cyber security threats, managing its data effectively and compliantly. The Corporate Information Manager has conducted a considerable amount of work to embed new processes, procedures and documentation to meet with the requirements of the new Data Protection Act 2018 (commonly referred to as the GDPR). Work is to be conducted later in the year to review and support this work.</p>	Status: On-going	N/A
ICT Operation and Security (Cyber)	ANA - High	Reported to October Committee.	Good Standard Status: Final	
Management of Employee Data	ANA – High Client Request	<p>We continue to liaise with HR &amp; OD as they work to develop a corporate framework to ensure that all personnel and supervision records are held securely, formally passed to the employee’s new manager if the employee changes their role within the Council and archived when an employee leaves the Authority. Once this policy and associated documentation has been finalized and approved by the Corporate Management Team, a period will be allowed for implementation prior to audit commencing further work in the next financial year to assess policy compliance.</p>	On-going	

Client Financial Services	ANA – High Client Request	<p>This audit has commenced with discussions having taken place with key members of staff involved with Client Financial Assessments and Adult Social Care. Testing is now underway. The purpose of the audit is to review the adequacy of controls, processes and procedures operating within Client Financial Services Team to ensure that service users receive timely and accurate financial assessments; are charged accordingly and outstanding debts are followed up.</p>	In-Progress	
Deputyships	ANA – Medium Client Request	<p>Our findings indicate that although the work of the Deputyship team is performed to a good standard some referrals have not been processed in a timely manner. Reasons for delays include insufficient financial information on the initial referral from adult social care workers and workloads within the Deputyship team. Referrals do not always make clear the reasons why the Council who is deemed to be the “option of last resort” should take on the role of Deputy.</p> <p>The Deputyship bank account is a header account under PCC’s name and there are “virtual” sub accounts which sit underneath for each individual. Some occupational pension companies are not happy making pension payments into a PCC named account creating additional work for the Deputyship team who have to re-send the Court Order every year to confirm that they are still acting as Deputy.</p> <p>National Savings &amp; Investments (NS&amp;I) will only deal with one person within PCC’s Customer Service team on the administration of client accounts. It is recommended that the service investigate what other accounts are available in the market to ensure that there is no “single point of failure” and to strengthen controls.</p>	Improvements Required Status: Draft	*
Contract Management	ORR – Amber ANA - High	<p>Whilst work to develop a contract management framework which included supporting guidance and processes was undertaken in 2013, subsequent changes to staffing and structures resulted in finalisation and publication not occurring. Therefore, at present no guidance is available to staff who are carrying out Contract Management and no formal owner of contract management processes and standards.</p> <p>Due to the lack of defined ownership of contract management, the procurement function has not been able to include future contract managers in the procurement phase. This has resulted in a reduced ability for contract managers to understand the intricacies of what was agreed, in turn leading to an increased risk of poor delivery or even contract failure.</p>	Value Added Status: Final	



		<p>Training has been available in the past but the quality of the package was not sufficient to give staff the required skills to maximise the benefits of good contract management. Given the number of contracts in place and the need to ensure that they are providing value for money in a commercial environment, this is an area that when addressed should deliver immediate benefits to the Council.</p> <p>The ongoing changes to Procurement within the Council provide a basis with which to integrate and improve contract management by assigning to them responsibility for contract management standards. The earlier that interactions and internal relationships are developed, the greater the likelihood that ongoing contract management will facilitate the achievement of strategic priorities in a timely and cost-effective manner.</p>		
Purchasing Cards	ANA – Medium	<p>Spot checks have been undertaken on purchasing card use and it was found that not all purchases are supported by valid VAT receipts, particularly Amazon transactions. However, improvements have been seen since the last review with regard to hotel bookings where our sampling showed VAT being correctly identified and coded.</p> <p>Where receipts were not attached to the Barclaycard Spend Management system the majority of those tested were supported by manual receipts.</p> <p>Our work is not yet completed and any additional findings will be reported at a later date.</p>	In-Progress	
Travel & Subsistence	ANA – Medium Client Request	<p>We are nearing completion of a high-level review of travel and subsistence to test compliance with VAT requirements now that officers are required to retain receipts. Despite guidance being readily available and clearly stated on claim forms, we have identified that there remains a lack of understanding by some officers. There is also a lack of guidance relating to the retention of receipts when someone leaves the organisation.</p>	In-Progress	
Devon Business Rate Pilot	ANA - High	<p>Plymouth is currently the lead authority for the Devon Business Rates Pool which consists of Devon County Council, Plymouth City Council, Torbay Council and the 8 District councils. As the lead authority Plymouth successfully submitted a Pilot bid to the Department of Communities and Local Government on behalf of all Devon Authorities for 100% Business Rates Retention in 2018/19.</p> <p>Work is underway to review the governance arrangements in operation with assurance to be provided to the other members of the Pool.</p>	In-Progress	







Schools Financial Value Standards (SFVS)	Statutory ANA - Low	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2017/18 submitted to the Department for Education.	Good Standard Status: Final	
The following reviews will be commenced in the second half of 18/19				
<ul style="list-style-type: none"> <li>➤ ICT Operation and Security (Cyber) - ANA – High</li> <li>➤ e-Budgeting - ANA – High, Client Request</li> <li>➤ Risk Management - ANA - High</li> </ul>		<ul style="list-style-type: none"> <li>➤ Retained Client ICT – ANA -Medium</li> <li>➤ Retained Client Shared Services – ANA – High, Client Request</li> </ul>		
<b>Executive Office</b>				
<b>Core Assurance - Other</b>				
Community Grants	ANA – Medium Client Request	<p>We will review the arrangements in place for the administration and delivery of the Community Grant Scheme and will consider the following areas:</p> <ul style="list-style-type: none"> <li>• How well the scheme is fulfilling its objectives;</li> <li>• If community benefits are optimised and value for money delivered;</li> <li>• That processes and controls adequately safeguard all stakeholders involved in administering the scheme;</li> <li>• That processes and procedures ensure compliance and consistency in application of the policy and, the core objectives of the scheme.</li> </ul> <p>We will also consider the synergy in operation between Community Grants, the Living Street Fund and CrowdFund Plymouth to ensure that benefits to local communities are maximised and that there is clarity and transparency across the schemes.</p>	In-Progress	
Data Quality & Customer Feedback	ANA – High, Client Request	<p>The objective of our work is to provide an opinion on the effectiveness of the fifteen individual indicators that form the Customer Experience Theme within the Corporate Plan Indicators.</p> <p>We will assess:</p> <ul style="list-style-type: none"> <li>• The accuracy and integrity of the source data sets used;</li> <li>• The effectiveness/ integrity of the process used to collect and publish the indicator;</li> </ul>	In-Progress	

		<ul style="list-style-type: none"> <li>• Whether or not the service area 'learn' from service standard performance and use the 'intelligence' to re-design, plan and enable improvement to service delivery and customer experience;</li> <li>• How the indicators influence the Council and link up to the broader Customer Experience Programme initiative.</li> </ul> <p>We also have time in the audit plan for "Customer Feedback" and have agreed that this work will focus on the framework for the administration of "corporate" complaints. Where appropriate the review will engage with the broader Customer Experience Programme, set up to respond to the findings of the recent Peer Review.</p>		
Purchasing Self-Service	ANA – Medium Client Request	Audit is working with the project team developing the controls and guidance for purchases up to £25k.	On-going	
<b>People</b>				
<b>Core Assurance – Key Financial System</b>				
Income Collection (Deferred Payments) – Follow-Up	ORR - Amber ANA – High	Reported to October Committee.	Good Standard Status: Final	
The following reviews will be commenced in the second half of 18/19				
<ul style="list-style-type: none"> <li>➤ Payments (Care Leavers) – ANA – Medium</li> <li>➤ Payments (Fostering) - ANA – Medium</li> </ul>				
<b>Core Assurance - Other</b>				
Livewell South West	ANA – High Client Request	Reported to October Committee.	Good Standard Status: Final	
Pre-Paid Cards - Direct Payments (Adults) Follow-up	ANA - Medium	Reported to October Committee.	Good Standard Status: Final	
Pre-Paid Cards - Direct Payments Delivery Method (Children's)	ANA - Medium	Reported to October Committee.	Good Standard Status: Final	
Legal Care Proceedings (Children's)	ANA – Medium	Reported to October Committee.	Improvements Required Status: Final	
Finance & Assurance Review Group (FARG)	ANA – High Client Request	DAP continues to monitor and support the actions of the Integrated Fund. Assurance has been sought, and support provided through attendance	Ongoing	N/A

		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.		
The following reviews will be commenced in the second half of 18/19				
<ul style="list-style-type: none"> <li>➤ Extra Care Housing - ANA – Medium</li> <li>➤ Children's Safeguarding Board (PSCB) -</li> </ul>		<ul style="list-style-type: none"> <li>➤ Carefirst Dashboard - ANA – Medium</li> <li>➤ Community Connections - ANA – Medium</li> </ul>		
The following audits have been deferred or cancelled at the request of the client:				
<ul style="list-style-type: none"> <li>➤ Plan for Education (ANA – Medium, Client Request)</li> <li>➤ Deficit Budgets (Early Years)</li> <li>➤ On Course South West Contract</li> </ul>		<ul style="list-style-type: none"> <li>➤ Multi-Agency Hub - SRR – Amber ANA – High, Client Request</li> <li>➤ Children's Services (Contractual Arrangements with Torbay) - SRR – Red ANA – High, Client Request</li> </ul>		
<b>Public Health</b>				
Bereavement Service	ANA – Medium Client Request	<p>The objective of this audit is to evaluate the adequacy of the financial controls, processes and procedures operating within the Bereavement Service.</p> <p>The work undertaken within this area is being finalised, however, DAP consider that existing controls regarding the system for raising payments and receiving income and existing processes and procedures regarding the service's interactions with its customers are operating to a good standard.</p> <p>There are no significant matters arising from the audit and any recommendations made will serve to strengthen the reliable procedures already in place with a view to assisting the service's modernisation and its proposed move to a new, purpose built facility.</p>	In-Progress	
Licensing	ANA – Medium Client Request	<p>The focus of this audit was to review the administrative processes in operation within the Licencing service to ensure that they adequately manage risk and meet regulatory requirements whilst being as efficient and streamlined as possible.</p> <p>The work undertaken within this area is being finalised, however, DAP consider that existing controls are operating at a good standard with the service having recently reviewed and refreshed its procedures, all of which are fully documented and available to staff.</p>	In-Progress	

Environmental Protection	ORR - Amber ANA – Medium Client Request	<p>We have assessed the systems and processes necessary for the Service to ensure that there is adequate separation of duties taking into account:</p> <ul style="list-style-type: none"> <li>the regulatory enforcement activities undertaken,</li> <li>the business advice the service provides, and</li> <li>the requirement to grow commercial income.</li> </ul> <p>Income generation is a priority but it is essential that a simple governance framework is in place to enable the service to demonstrate that it has acted ethically and in the best interests of its clients; thereby protecting the reputation of the Council and officers working within the Public Protection Service (PPS). Audit has advised that this can be achieved through implementing the following recommendations:</p> <ul style="list-style-type: none"> <li>Where business advice / coaching services are provided, managers should check business records and wherever possible allocate the work to an officer who has had no involvement with the particular business and / or business owner in the previous 12 months;</li> <li>That managers have the flexibility to allocate the work where it is not possible to meet the above standard but always strive to avoid allocating to a member of staff who conducted the most recent piece of work with the business.</li> </ul> <p>Work undertaken across PPS and previous input from the Commercial Enterprise Team has identified that there is potential for a significant increase in commercial activity and income generation across the service but this would require a resource with the commercial experience and skill-sets to drive sales and income. Recommendations have also been made on the potential benefits of presenting a more commercial and co-ordinated offering but this would need additional resource to what the service currently has. and expertise to ‘own’ and co-ordinate this process.</p>	Improvements Required Status: Draft	 *
Business Continuity Within the Supply Chain	SRR - Amber ANA – High Client Request	<p>Our review 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</p>	Improvements Required Status: Final	

		should be undertaken.  Recommendations relate to the identification of key suppliers, maintenance of the Council's contract register and the identification of an appropriate contract manager for each contract.		
The Business Continuity Follow-Up will be deferred until 18/19 to allow sufficient time for the agreed action plan to be implemented.				
<b>Place</b>				
Concessionary Fares	ANA – Medium Client Request	Work is underway to review the effectiveness of the procedures and controls in operation for the administration of Concessionary Fares to ensure that payments to bus operators are calculated and processed using the correct reimbursement rates and concessionary fare usage.	In-Progress	
Building Control	ANA – Medium Client Request	<p>The Building Control Service operates to a good standard, in accordance with legislation, procedure and best practice. The service has recently been awarded ISO 14001 Quality Assurance Certification by Local Authority Building Control (LABC).</p> <p>The Building Control Team are very customer focused and have a good reputation which is reflected in the above average (67%) market share of 80% this has remained consistent even in a very competitive market. Demands on the service are increasing with a 51% increase in applications received as at the end of August 2018 compared to the same period in 2017. Service demands due to significant development across the city and the ongoing impact of the Hackitt Review continue to increase.</p> <p>The service has implemented a new management information system and moved to smart working and there is an opportunity to further develop use of these systems and to make better use of management information. This along with implementation of risk-based processes and robust succession planning will enable the service to make better use of resources, develop capacity to proactively manage service demand and improve service delivery.</p>	Good Standard Status: Draft	 *
Highways Management – Works Ordering	ANA – High SRR – Red Client Request	Reported to October Committee.	High Standard Status: Final	
Fleet Management System Follow-Up	ANA - Medium	Work is ongoing to confirm progress made with the service area with initial findings indicating that there have been improvements made in	In-Progress	

		respect of stock control. There is also scope for the system to be utilised more effectively to improve the efficiency and resilience of key processes such as the annual validating of driving licences.		
Trade Waste Follow-Up	ANA - Medium	Reported to October Committee.	Improvements Required Status: Final	
Commercial Properties	ANA - Medium	Reported to October Committee.	Position Statement Status: Complete	
Plymouth Energy Community	ANA – Medium Client Request	The scope and objective of this review is to establish and evaluate the existing governance arrangements and financial and legal relationships with Plymouth Energy Community to inform future risks and opportunities for Strategic Planning and Infrastructure management to take into account when considering the future partnership arrangement between Plymouth Energy Community & Plymouth City Council.	In-Progress	
The following review will be commenced in the second half of 18/19				
➤ Street Services (Financial Management System) - ANA –High, Client Request				
The following review has been deferred or cancelled at the request of the client.				
➤ Highways (Ability to Defend Insurance Claims) - SRR – Red, ANA – High, Client Request				
<b>Cross Cutting</b>				
The following reviews will be commenced in the second half of 18/19				
General Data Protection Regulation (GDPR) - SRR – Amber, ANA – High, Client Request				
Health & Safety - ANA – High, Client Request				
<b>Grants</b>				
Families with a Future (Payment by Results)	Statutory Client Request	DAP have verified and certified seven claims in the year to date and continue 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.	Certified Status: Ongoing	

Grants x 10	Regulatory Requirement	Grants certified without amendment <ul style="list-style-type: none"> <li>• Derriford Transport Scheme – Growth Fund</li> <li>• Derriford Hospital Interchange – Growth Fund</li> <li>• Northern Corridor Improvement – Growth Fund</li> <li>• Eastern Corridor SCN – Growth Fund</li> <li>• Oceansgate – Growth Fund</li> <li>• Ocean Studio - Arts Council</li> <li>• Highways Maintenance Challenge Fund</li> <li>• Pothole Action – Local Transport Block Fund</li> <li>• National Productivity Investment – Local Transport Block Fund</li> <li>• Integrated Transport &amp; Highway Maintenance – Local Transport Block Fund</li> </ul>	Certified Status: Complete	

## Appendix 2 - Audit Standards and Customer Delivery

### 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.

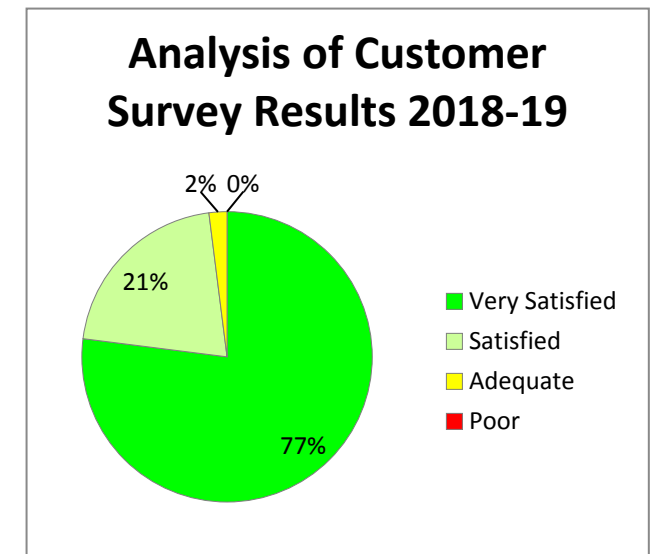
**Improvement Programme** – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review.

### Customer Service Excellence

DAP maintains accreditation by G4S Assessment Services of the CSE standard during the year. 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. 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.

### Inherent Limitations

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





## Appendix 3 – Performance Indicators

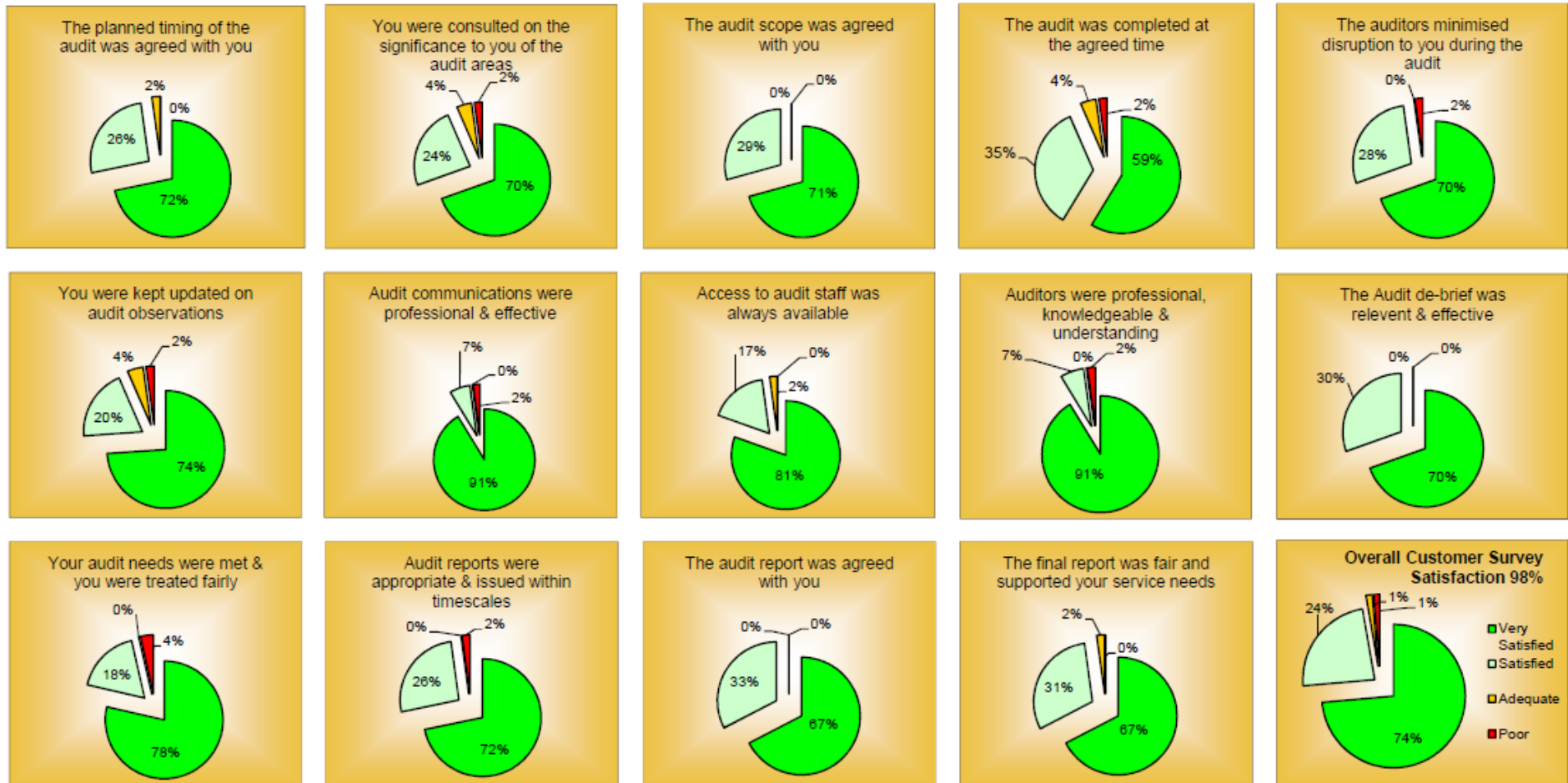
There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

<b>Local Performance Indicator (LPI)</b>	<b>2016/17</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>
	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Full Year Target</b>	<b>Six Month Actual</b>
Percentage of Audit plan Commenced	100%	99%	100%	100%	100%	57.8%
Percentage of Audit plan Completed	93%	95%	93%	96%	93%	43.1%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On Target
Percentage of chargeable time	65%	71.4%	65%	71.5%	65%	66%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	98%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	95%	90%	97%	90%	97.8%
Final reports produced within target number of days (currently 10 days)	90%	98%	90%	100%	90%	97.7%
Average level of sickness absence (DAP as a whole)	2%	3.2%	2%	4% *	2%	1.4%
Percentage of staff turnover (DAP as a whole)	5%	21%	5%	11% **	5%	3.3% *
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

\* 1 New starter, an apprentice.

## Appendix 4 - Customer Service Excellence

### Customer Survey Results April - September 2018



## Appendix 5 - Definitions

### Definitions of Audit Assurance Opinion Levels

### Confidentiality under the Government Security Classifications

Assurance	Definition	Marking	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.	Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.	Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.	Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.		

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## Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk) .

# Audit Progress Report and Sector Update

Plymouth City Council  
Year ending 31 March 2019

Committee Date: 10 December 2018



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# Introduction



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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website ([www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)) where we have a section dedicated to our work in the public sector and where you can download copies of our publications.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at 20 November 2018

## Financial Statements Audit

We will commence our detailed planning in December 2018. This will include meetings with officers and review of Council (and other committee) papers.

We will set out audit risks in our Audit Plan and our proposed testing to address each of the risks identified.

Following the production of our Audit Plan in January 2019, we will undertake an interim audit. This will include:

- Review of the Council's control environment;
- Updating our understanding of the Council's financial systems;
- Review of Internal Audit reports on core financial systems;
- Early work on emerging accounting issues;
- Early substantive testing;
- A detailed review of going concern; and
- A detailed review of significant accounting estimates.

As a firm we are introducing a new audit approach in 2018/19. We will discuss this early with your finance team to ensure they are aware of what is required and what impact this might have.

We will report any findings from the interim audit to you in our Progress Report at the subsequent Audit and Governance Committee meeting.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirms the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

At present the NAO requirements remained unchanged from those in 2017/18.

We plan to undertake our initial risk assessment from December 2018 – January 2019.

We will set out the significant risks in our Audit Plan and report the findings of our work in the Audit Findings Report by the deadline in July 2019.

## Other areas

### Engagement with Predecessor Auditors

We have arranged to visit the offices of your predecessor auditors (BDO) on 4 December 2018. We will review their 2017/18 audit files in order to ascertain the assurance available regarding the opening balances for 2018/19.

We will provide a verbal update to the Audit and Governance Committee on 10 December.

### Meetings

As part of our audit planning, we have met with your Chief Finance Officer on a number of occasions.

We have arranged a meeting with key members of your finance team on 21 November to help plan our 2018/19 audit.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will ensure members and officers receive timely invites to all events. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.



# Audit Deliverables

2018/19 Deliverables	Planned Committee Date*	Status
<p><b>Fee Letter</b></p> <p>We wrote to the Council's Chief Executive confirming the audit fee for 2018/19 in April 2018.</p>	October 2018	Complete
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018/19 financial statements.</p>	March 2019	Not yet due
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2019	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit and Governance Committee.</p>	July 2019	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	July 2019	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	October 2019	Not yet due
<p><b>Annual Certification Letter</b></p> <p>This letter reports any matters arising from our certification work carried out in 2018/19.</p>	December 2019	Not yet due

\* The dates will be confirmed once the Committee's meeting dates for the remainder of 2019 have been confirmed.

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Local Government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.

# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

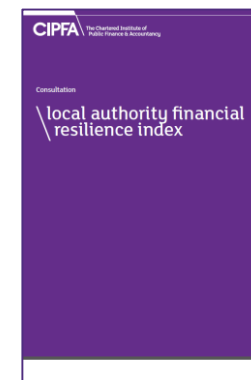
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Challenge question:

Has your Head of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

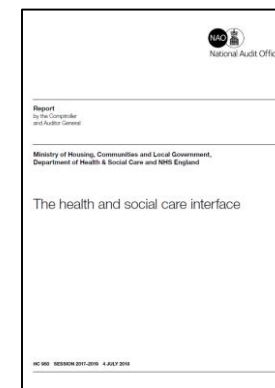
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## The health and social care interface

### Challenge question:

Has the Council considered the 16 challenges to joint working and what can be done to mitigate these?



# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)



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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Operational Risk and Opportunity Management Update Report
<b>Committee:</b>	Audit and Governance Committee
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Giles Perritt, Assistant Chief Executive
<b>Author:</b>	Julie Hosking, Corporate Risk Advisor
<b>Contact details</b>	Tel: 01752 304495 Julie.hosking@plymouth.gov.uk
<b>Ref:</b>	PR/JKH
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

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

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

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

The total number of operational risks now reported has decreased from 121 to 114, comprising of 2 high (red) risks, 69 medium (amber) risks and 43 low (green) risks.

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**Corporate Plan**

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

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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 but control measures identified in risk and opportunity registers could have financial or resource implications.

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

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

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Not required.

**Recommendations and Reasons for recommended action:**

The Audit and Governance Committee is recommended to:

- Note and endorse the current position with regard to operational risk and opportunity management.

**Alternative options considered and rejected:**

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

**Published work / information:**

Previous Operational Risk Monitoring Reports to the Audit and Governance Committee

**Background papers:**

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

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

**Sign off:**

Fin	pl.18.19. 142.	Leg	31665 /LT	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Assistant Chief Executive													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

**1.0 Introduction**

1.1 The position with regard to Operational Risk Register monitoring was last reported to this Committee on 30 July 2018 and this report now provides a summary of the latest monitoring exercise covering the position as at November 2018.

**2.0 Background**

2.1 Plymouth City Council’s Risk and Opportunity Management Strategy is continuously reviewed each year and updated to ensure it remains fit for purpose.

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

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

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

**3.0 Operational Risk and Opportunity Registers and Analysis of Risks Identified**

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

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

3.3 Risk identification has been further enhanced by the business planning process introduced across the organisation in February and implemented in March 2018. Service Directors reviewed their business plans during September in light of the budget setting process for 2019/20 and Medium Term Financial Strategy refresh.

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

**4.0 Red Risks**

4.1 Detail on the red risks reported is shown below:-

<p><b>Delivering Council services within the envelope of the resources provided in 2018/20-2021/22 Medium Term Financial Strategy - Risk to Services of not delivering within reduced budgets</b></p>	<p>The estimated revenue overspend is £5.192m. The overall forecast net spend equates to £190.747m against a budget of £185.555m, which is a variance of 2.8%. This needs to be read within the context of needing to deliver in excess of £11m of savings in 2018/19 on the back of balancing the 2017/18 revenue</p>
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	budget where £18m of net revenue reductions were successfully delivered.
<p><b>Comments/Mitigation:</b> All options and innovative solutions will continue to be explored so further reductions can be made to the forecast overspend. The Section 151 Officer (Senior Officer responsible for the proper administration of the Council's financial affairs) is meeting all Strategic Directors and undertaking a 'deep dive' of all budgets. A Budget Recovery Group has been set up to respond to current in-year pressures.</p>	
<p><b>Projected overspend in children's social care caused by unprecedented demand and level of support needed to keep young people safe, such as specialist residential care placements with high levels of staffing.</b></p>	<p>A budget monitoring report was considered by Cabinet on 13 November reporting a £5.2 million overspend. There has been a significant increase in young people's placement cost accounting for £4.1m. We are experiencing a big rise in the number of vulnerable children needing care, the cost of the care is particularly high due to the level of support needed to keep young people safe, such as specialist residential care placements with high levels of staffing. Our position reflects a national problem and similar rises in demand and costs are being experienced by many other authorities around the county.</p>
<p><b>Comments/Mitigation:</b> Although the main drivers contributing to the council's total over spend are the demand led services, urgent work is under way to find £5.2 million savings across the Council to close the funding gap for 2018/19. Led by the Strategic Directors and Cabinet, all staff are working hard to deal with the projected overspend and this is being dealt with as a whole council problem. It is anticipated that the projected over spend will reduce with each future monitoring review.</p>	

## 5.0 Risk and Opportunity Register Information

- 5.1** Operational Risk and Opportunity Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case.
- 5.2** In light of the in-year budget challenges described above, a further review of all strategic and operational risks has been undertaken to assess the implications of savings being offered to the delivery of services.
- 5.3** More detailed information on individual services' risk and opportunity registers can be obtained from the Corporate Risk Advisor, departmental risk champions or Heads of Service.

## 6.0 Conclusion

- 6.1** The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 6.2** The Council recognises that it is operating in a climate of unprecedented financial pressure and that it needs to substantially reduce operating costs and ensure maximum possible investment in achieving its objectives and therefore needs to be innovative, resourceful, customer focused and provide greater value for money. The achievement of delivery plan actions to deliver budget savings continues to be closely monitored by Services with regular reporting on a risk rated basis to the Corporate Management Team.

- 6.3** One of the responsibilities of the Audit and Governance Committee is to seek and receive assurances that the Council has an effective internal control framework in place which includes arrangements for the management of risk at both strategic and operational level.
- 6.4** The Risk and Opportunity Management Strategy will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed.
- 6.5** The Operational Risk Management Group is continuing to work with departmental Risk Champions to further develop consistent application of risk management considerations across all operations of the Council.
- 6.6** The next operational risk report will be presented to Audit and Governance Committee in July 2019.

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**PLYMOUTH CITY COUNCIL**

**Subject:** Whistleblowing Policy  
**Committee:** Audit and Governance Committee  
**Date:** 10 December 2018  
**Cabinet Member:** Councillor Lowry  
**CMT Member:** Andrew Hardingham (Service Director for Finance)  
**Author:** Robert Hutchins, Head of Devon Audit Partnership  
Brenda Davis, Audit Manager  
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[brenda.davis@devonaudit.gov.uk](mailto:brenda.davis@devonaudit.gov.uk)  
**Ref:** Your ref. AUD/BD  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

An updated Whistleblowing Policy was last approved by the Audit Committee in June 2013 and that policy has now been subject to a further refresh.

The Whistleblowing Policy applies to all employees and Councillors of Plymouth City Council, including temporary and agency staff and is intended to encourage and enable individuals to raise serious concerns within the Council rather than overlooking a problem.

Paragraph 2.1 of the policy has been updated to make clear that although the policy extends to any other individual who wants to raise an allegation of perceived wrong doing, including consultants, contractors, sub-contractors who are engaged in work for the Council, workers who are not direct employees of Plymouth City Council may not receive the same protection under the Public Interest Disclosure Act. Whilst the Council will endeavour to provide appropriate advice and support wherever possible in this eventuality, the policy does recommend that advice is sought from a trade union representative or from 'Protect' formerly Public Concern at Work (an independent charity set up to provide advice and guidance about whistleblowing issues).

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**Corporate Plan**

The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework. The Whistleblowing Policy supports the Council's values through the promotion of good governance and can play an important role in deterring and detecting malpractice, building public trust and achieving the City's ambitions.

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**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:**

None.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Yes

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**Recommendations and Reasons for recommended action:**

The updated Whistleblowing Policy be approved.

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**Alternative options considered and rejected:**

None. The Authority needs to maintain and promote the Whistleblowing Policy to comply with best practice and to ensure a high level of awareness of, and confidence in, the Council's whistleblowing arrangements.

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**Published work / information:**

[Public Interest Disclosure Act 1998](#)  
[PCC Whistleblowing Policy](#)

**Background papers:**

None.

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**Sign off:**

Fin	pl.18.19.152	Leg	31661/LT	Mon Off		HR	AM.18.11.26	Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Service Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													



# WHISTLEBLOWING POLICY

Devon Audit Partnership - December 2018



## WHISTLEBLOWING POLICY

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## WHISTLEBLOWING POLICY

### 1. POLICY STATEMENT

- 1.1 Plymouth City Council is committed to the highest possible standards of honesty, openness and accountability in public life.
- 1.2 All organisations face the risk of things going wrong or of unknowingly harbouring malpractice. We have a duty to identify and take measures to remedy all malpractice, particularly regarding issues of fraud and corruption, and this policy has been developed to help employees share concerns that they may have. The policy has been developed in accordance with the provisions of the [Public Interest Disclosure Act 1998](#) and in support of the Council's Anti-Fraud, Bribery and Corruption Policy.
- 1.3 By promoting a culture of openness within the Council, we want to encourage individuals to feel confident and come forward to raise both disclosures and serious allegations of wrongdoing; this may involve the actions of the Council's employees, its Councillors, contractors or any aspect of the Council's activities. Disclosures can be made through established internal channels, without fear of victimisation, detriment or risk to job security.

### 2. SCOPE AND AIMS OF THE POLICY

#### 2.1 In Scope

This whistleblowing policy applies to all [employees](#) and Councillors of Plymouth City Council, including temporary and agency staff.

Whilst this policy also extends to any other individual who wants to raise an allegation of perceived wrong doing, including consultants, contractors, sub-contractors who are engaged in work for the Council, workers who are not direct employees of Plymouth City Council may not receive the same protection under the Public Interest Disclosure Act.

Although the Council will endeavour to provide appropriate advice and support wherever possible in this eventuality, it is recommended that advice is sought from a trade union representative or from Protect (formerly Public Concern at Work) an independent charity set up to provide advice and guidance about whistleblowing issues. Contact details for [Protect](#) are given in Section 10 below.

#### 2.2 Out of Scope

If your concern relates to your own treatment as an employee, you should raise the matter under the Council's Grievance Policy.

If a customer of the Council has a concern about services provided to him/her, it should be raised as a complaint to the Council.

2.3 This policy is intended to cover reasonably serious concerns that fall outside the scope of other procedures. That concern may be about the following:

- A criminal offence that has been, is being, or is likely to be committed;
- Fraud, Bribery or Corruption;
- Unauthorised use of Public Funds;
- A failure to comply with a legal obligation;
- A health and safety risk relating to any individual;
- A miscarriage of justice;
- A damage to the environment;
- Actions that are contrary to the Council's Standing Orders, Financial Regulations or any other approved policies;
- Actions or behaviour that falls below established standards of practice;
- Abuse and welfare of clients and/or staff;
- Harassment or victimisation of either staff or clients;
- Any actions or concerns regarding practice that could result in a financial loss to the Authority;
- The deliberate concealment of information relating to any of the above matters;
- Other unethical conduct.

(This list is not exhaustive)

2.4 This Policy aims to:

- Encourage employees, councillors and contractors to feel confident in raising concerns and to question and act upon their concerns;
- Provide avenues for employees to raise these concerns and receive feedback on any action taken;
- Allow employees to take the matter further if they are dissatisfied with the Council's response; and
- Provide reassurance that there will be protection from reprisals or victimisation for whistleblowing in good faith in accordance with this procedure.

### **3. SAFEGUARDS**

#### **3.1 Harassment or Victimisation**

The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for, or suspected of, the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect staff when they raise a concern

in good faith. This does not mean that if a member of staff is already the subject of disciplinary or redundancy procedures, those procedures will be halted because of their 'Whistleblowing'.

### **3.2 Confidentiality**

The Council will do its utmost, subject to any over-riding legal obligations, to protect an individual's identity when they raise a concern and do not want their name to be disclosed. It must be realised and appreciated, however, that the investigation process itself may well reveal the source of the information, and, depending on the outcome, a formal statement by the individual may be required as part of the evidence.

### **3.3 Anonymous Allegations**

This policy is designed to encourage staff to put their names to allegations. If you do not tell us who you are, it will be much more difficult for us to protect an individual's identity or to give feedback. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Council. In exercising this discretion, the factors to be considered would include:

- The seriousness of the issue raised;
- The credibility of the concern; and
- The likelihood of confirming the allegation from attributable sources.

### **3.4 Untrue Allegations**

If an employee makes an allegation in good faith, reasonably believing it to be true, but it is not confirmed by the investigation, no action will be taken against them. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered and implemented.

## **4. RAISING A CONCERN**

4.1 Initially, employees are encouraged to raise concerns with:

- their immediate manager or their superior; or
- for school staff, with the Headteacher or Chair of Governors.

If this is not considered appropriate due to the nature of the concerns, the individual can raise their concerns with:

- A Head of Service;
- A Service Director;
- A Strategic Director;
- The Chief Executive.

4.2 Employees who are unsure about reporting or do not feel at ease raising the concern through any of the above routes are encouraged to seek advice from one of the following:

- The Head of Devon Audit Partnership;
- The Head of Legal Services;
- Service Director for Human Resources & Organisational Development.

4.3 Employees may also invite their Trade Union or professional association to raise the concern on their behalf.

4.4 Concerns are better raised in writing. The background and history of the concern should be set out, giving names, dates and places where possible, and the reason why the individual is concerned about the situation. Those who do not feel able to put their concerns in writing may raise the matter verbally with the appropriate officer.

4.5 Although staff are not expected to prove the truth of their concern, they will need to demonstrate to the person contacted that there are sufficient grounds for concern.

## **5. HOW THE COUNCIL WILL RESPOND**

5.1 Within ten working days of a concern being received, the relevant Service Director from the Council will contact the employee:

- Acknowledging that the concern has been received;
- Indicating how it proposes to deal with the matter;
- Telling the employee whether any initial enquiries have been made;
- Telling the employee whether further investigations will take place, and if not, why not.

5.2 The action taken by the Council will depend on the nature of the concern.

The matters raised may:

- Be investigated internally;
- Be referred to the Police;
- Be referred to the External Auditors;
- Form the subject of an independent inquiry by the Ombudsman.

5.3 To protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of other, existing, procedures (e.g. child protection or discrimination issues) will normally be referred for consideration under those procedures.

5.4 Some concerns may be resolved without the need for investigation. Where a formal investigation is required, it is likely to take the form of an investigation by a manager or by Devon Audit Partnership. In certain cases, the matters raised may be referred to the Police or the Council's external auditors for investigation or an independent inquiry could be set up

5.5 The amount of contact between the managers considering the issues raised and the complainant will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided.

5.6 When any meeting is arranged, staff have the right, if they so wish, to be accompanied by a Trade Union or professional association representative or a friend who is not involved in the area of work to which the concern relates.

5.7 The Council will take steps to minimise any difficulties which staff may experience as a result of raising a concern. For instance, if staff are required to give evidence in criminal or disciplinary proceedings, the Council will advise them about the procedure.

5.8 The Council accepts that staff need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, members of staff will receive information about the outcomes of any investigations.

5.9 If an employee is not assured that the matter has been properly addressed, they should contact the Head of Devon Audit Partnership, or consider an alternative method of taking forward a complaint as per 6.1 below.

## **6. ALTERNATIVE METHODS OF TAKING FORWARD A COMPLAINT**

6.1 This policy is intended to provide employees with an avenue to raise concerns within the Council. If an individual is not satisfied, and feels it is right to take the matter outside this process, possible contact points are listed below including Protect (formerly Public Concern at Work), an independent charity set up to provide advice and guidance about whistleblowing issues.

- The local Council member (if you live in the area of the Council);
- The External Auditor;
- Relevant professional bodies or regulatory organisations;
- Individuals' solicitors;
- A relevant charity or voluntary organisation such as Public Concern at Work;
- The Police.

6.2 If an employee does take the matter outside the Council, they need to ensure that they do not disclose confidential information or that disclosure would be privileged. This should be checked with one of the designated contact points, Devon Audit Partnership, Legal Services, Human Resources or if preferred, an outside organisation such as the Ombudsman or Protect.

## **7. THE RESPONSIBLE OFFICER**

7.1 The Head of Devon Audit Partnership has overall responsibility for the maintenance and operation of this policy.

7.2 The Head of Devon Audit Partnership will maintain a record of concerns raised and the outcomes (in an anonymous format) and will report as necessary to the Audit and Governance Committee.

## 8. REVIEW AND MONITORING

8.1 This policy is to be reviewed and monitored every 2 years; the next review date is October 2020.

8.2 The Head of Devon Audit Partnership will monitor this policy. In this regard managers, councillors and trade union representatives must inform Devon Audit Partnership immediately should concerns falling under the scope of this policy be raised with them.

## 9. RELATED POLICIES AND DOCUMENTS

- Anti-Fraud, Bribery and Corruption Policy
- Anti-Fraud, Bribery and Corruption Strategy and Response Plan
- Anti-Bullying and Harassment Guidance
- Grievance Policy
- Employee Handbook

## 10. KEY CONTACT INFORMATION

<b>Devon Audit Partnership:</b>	Internal Audit Team Tel: 01752 306710 Email: <a href="mailto:intaudit@plymouth.gov.uk">intaudit@plymouth.gov.uk</a>
	Counter Fraud Team Tel: 01752 304450 Email: <a href="mailto:corporate.fraud@plymouth.gov.uk">corporate.fraud@plymouth.gov.uk</a>
<b>Legal Services:</b>	Tel: 01752 304330
<b>Human Resources (HR):</b>	HR Helpdesk Tel: 01752 304444 - Option 5
<b>Protect (formerly Public Concern at Work)</b>	Tel: 020 3117 2520 Website: <a href="https://www.pcaw.org.uk/advice-line/">https://www.pcaw.org.uk/advice-line/</a>
<b>Local Government and Social Care Ombudsman</b>	Tel: 0300 061 0614 Website: <a href="https://www.lgo.org.uk">https://www.lgo.org.uk</a>



# EQUALITY IMPACT ASSESSMENT



## STAGE 1: WHAT IS BEING ASSESSED AND BY WHOM?

<p><b>What is being assessed - including a brief description of aims and objectives?</b></p>	<p>Whistleblowing Policy - 'refresh' of an existing policy and applies to all employees and Councillors, including temporary and agency staff. The policy is intended to encourage and enable individuals to raise serious concerns of perceived wrongdoing within the Council, rather than overlooking a problem.</p> <p>This Policy aims to:</p> <ul style="list-style-type: none"> <li>• Encourage employees, councillors and contractors to feel confident in raising concerns and to question and act upon their concerns;</li> <li>• Provide avenues for employees to raise these concerns and receive feedback on any action taken;</li> <li>• Allow employees to take the matter further if they are dissatisfied with the Council's response; and</li> <li>• Provide reassurance that there will be protection from reprisals or victimisation for whistleblowing in good faith in accordance with this procedure.</li> </ul> <p>The Whistleblowing Policy has been developed in accordance with the provisions of the Public Interest Disclosure Act 1998 and in support of the Council's Anti-Fraud, Bribery and Corruption Policy.</p>
<p><b>Author</b></p>	<p>Brenda Davis</p>
<p><b>Department and service</b></p>	<p>Devon Audit Partnership for Plymouth City Council</p>
<p><b>Date of assessment</b></p>	<p>27/11/2018</p>

## STAGE 2: EVIDENCE AND IMPACT

Protected characteristics (Equality Act)	Evidence and information (eg data and feedback)	Any adverse impact See <a href="#">guidance</a> on how to make judgement	Actions	Timescale and who is responsible
<p><b>Age</b></p>	<p>Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements</p>	<p>No adverse impact is anticipated.</p>	<p>N/A</p>	<p>N/A</p>

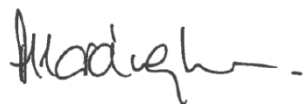
<b>Disability</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A
<b>Faith/religion or belief</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A
<b>Gender - including marriage, pregnancy and maternity</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A
<b>Gender reassignment</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A
<b>Race</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A
<b>Sexual orientation - including civil partnership</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact is anticipated.	N/A	N/A

**STAGE 3: ARE THERE ANY IMPLICATIONS FOR THE FOLLOWING? IF SO, PLEASE RECORD ACTIONS TO BE TAKEN**

Local priorities	Implications	Timescale and who is responsible
<b>Reduce the gap in average hourly pay between men and women by 2020.</b>	No implications	N/A
<b>Increase the number of hate crime incidents reported and maintain good satisfaction rates in dealing with racist, disablist, homophobic, transphobic and faith, religion and belief incidents by 2020.</b>	No implications	N/A
<b>Good relations between different communities (community cohesion)</b>	No implications	N/A
<b>Human rights</b> Please refer to <a href="#">guidance</a>	No implications	N/A

**STAGE 4: PUBLICATION**

Responsible Officer



Date 29/11/2018

Andrew Hardingham - Assistant Director for Finance

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Anti-Fraud, Bribery and Corruption Policy, Strategy and Response Plan
<b>Committee:</b>	Audit and Governance Committee
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Service Director for Finance)
<b>Author:</b>	Robert Hutchins, Head of Devon Audit Partnership Ken Johnson, Counter Fraud Manager
<b>Contact details</b>	Tel: 01752 306710 email: <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> <a href="mailto:ken.johnson@devonaudit.gov.uk">ken.johnson@devonaudit.gov.uk</a>
<b>Ref:</b>	Your ref. AUD/KJ
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

Fraud is a major drain on the Public Purse and it is therefore imperative that all public-sector staff work to prevent fraudulent activity and understand the threats and risks involved to the country's economy and specifically the local economy. The public are entitled to expect the local authority to conduct its affairs with honesty and openness and to demand the highest levels of integrity and conduct from its staff, members and partners.

The Council is committed to clear accountability in the use of resources to achieve desired outcomes for service users and communities. Making sure that the opportunity for fraud, bribery and corruption is reduced to the absolute practical minimum enables the Council to protect the money that is needed to deliver responsive and effective frontline services.

The Anti-Fraud, Bribery and Corruption Policy sets out the expectations of Plymouth City Council, describes what is meant by fraud, bribery and corruption and outlines the responsibilities of the Corporate Management Team, operational managers, officers and elected members.

The Anti-fraud, Bribery and Corruption Strategy and Response Plan details the actions the Council will undertake to prevent fraud, bribery and corruption from happening in the first place. How alleged or suspected occurrences will be investigated and the sanctions available to the Council when it is able to prove an offence beyond reasonable doubt or the offender confesses to having committed a criminal offence against the Authority.

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**Corporate Plan**

The work of the Counter Fraud Team is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework. The Anti-Fraud, Bribery & Corruption Policy together with the associated Strategy and Response Plan supports the Council's values through

the promotion of good governance and plays a key role in the prevention, detection and pursuit of economic crimes, building public trust and achieving the City’s ambitions.

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

None.

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

None.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Yes

**Recommendations and Reasons for recommended action:**

The updated Anti-Fraud, Bribery and Corruption Policy and the associated Strategy and Response Plan be approved.

**Alternative options considered and rejected:**

None. The public are entitled to expect the Council to display honesty and openness and the highest levels of integrity and conduct from its staff, members and partners. The Anti-Fraud, Bribery and Corruption Policy, Strategy and Response Plan reflect the Council’s commitment to making sure that the opportunity for fraud, bribery and corruption is reduced to the lowest possible level.

**Published work / information:**

**Background papers:**

None.

**Sign off:**

Fin	pl.18.19.153	Leg	31660/LT	Mon Off	HR	AM.18.11.26	Assets	IT	Strat Proc
Originating SMT Member Andrew Hardingham, Service Director for Finance									
Has the Cabinet Member(s) agreed the contents of the report? Yes									

# **ANTI FRAUD, BRIBERY AND CORRUPTION POLICY**

Devon Audit Partnership Counter Fraud Team – December 2018



**CHANGES**

December 2018: Revised due to review of our corporate approach to fraud

**Contacts**

If you have any questions regarding this policy please contact the Counter Fraud Team at Devon Audit Partnership [corporate.fraud@plymouth.gov.uk](mailto:corporate.fraud@plymouth.gov.uk)

**Policies are available in large print, Brail or other languages**

If you would like help understanding the contents of this policy, please speak to your line manager or contact the HR Policy Team for assistance.



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## **1. Anti-fraud, bribery and corruption statement.**

- 1.1. Fraud in all its forms is now the most common criminal offence in the UK costing the economy £193 Billion a year. This equates to £3,000 per head of population in the UK (or £7,000 per household). It is estimated to cost Local Authorities anywhere between £2.2 and £4 Billion annually, losses that council front line services can ill afford and which can contribute to council tax increases year on year. The cost of fraudulent activity impacts most markedly on those requiring the most help in our society, it is therefore imperative that we combat this criminal activity appropriately and effectively.
- 1.2. Fraud, bribery and corruption are by definition crimes and should not be tolerated. Any fraud against Plymouth City Council is a fraud against the public purse and therefore we will build processes and policies that will prevent and detect fraud and pursue those who would commit fraud; maximising our resources and ensuring that the public retain confidence in Plymouth City Council.
- 1.3. The public are entitled to expect the local authority to conduct its affairs with honesty and openness and to demand the highest levels of integrity and conduct from its staff, members and partners. The policy is part of an inter connected approach by Plymouth City Council, which is committed to making sure that the opportunity for fraud, bribery and corruption is reduced to the lowest possible level. The Council will pursue and endeavour to bring to justice those who commit fraud, and its related offences, whether the perpetrators are from inside the organisation (members and employees) or outside the Council.

## **2. Introduction**

- 2.1. The Council's elected members and employees play an important role in creating and maintaining a culture which requires everyone to act honestly and with integrity at all times and to safeguard the resources for which they are responsible. Plymouth City Council's policy is that:
  - any level of fraud, corruption or bribery in or against the Council will not be tolerated;
  - every attempt will be made to deter and prevent fraud;
  - opportunities for fraud and corruption will be reduced to the lowest possible level;
  - elected members and employees will be made aware of their obligation to report suspicions of fraud;
  - mechanisms will be in place for elected members and employees to report fraud;
  - any suspicion of fraud will be thoroughly investigated and dealt with appropriately;
  - any evidence of criminal activity will be reported to the Devon Audit Partnership Counter Fraud Team; and
  - mechanisms will be in place for seeking redress in respect of money defrauded.
- 2.2. Plymouth City Council also expects that individuals and organisations (e.g. suppliers, contractors and service providers) that it interacts with will act towards Plymouth City Council with integrity and without thought or actions involving fraud. Where relevant, Plymouth City Council will include appropriate clauses in its contracts about the consequences of fraud, bribery and corruption; evidence of such acts is likely to lead to a termination of the particular contract and may lead to prosecution or other sanction.

### 3. What is Fraud?

3.1. There are a number of criminal offences that relate to what might commonly be termed as 'fraud' that are covered by the [Theft Act 1968](#) and the [Theft Act 1978](#). However the [Fraud Act 2006](#) created a new general offence of fraud with three definitions:-

- Fraud by false representation, i.e. if an individual dishonestly makes a false representation and intends by making the representation to make gain for himself or another, or to cause loss to another or expose another to risk of loss;
- Fraud by failing to disclose information, i.e. if an individual dishonestly fails to disclose to another person information which he is under a legal duty to disclose and intends, by means of abuse of that position, to make a gain for himself or another, or to cause loss to another or expose another to risk of loss; and
- Fraud by abuse of position, i.e. if an individual occupies a position in which he is expected to safeguard, or not to act against, the financial interests of another person, and he dishonestly abuses that position, and intends, by means of the abuse of that position, to make a gain for himself or another, or to cause loss to another or expose another to a risk of loss.

### 4. What is Bribery?

- 4.1. Broadly, the [Bribery Act 2010](#) defines bribery as giving or receiving a financial or other advantage in connection with the "improper performance" of a position of trust, or a function that is expected to be performed impartially or in good faith.
- 4.2. Bribery does not have to involve cash or an actual payment exchanging hands and can take many forms such as a gift, lavish treatment during a business trip or tickets to an event.
- 4.3. Some simple examples are:
- Bribery in order to secure or keep a contract.
  - Bribery to secure an order.
  - Bribery to gain any advantage over a competitor.
  - Bribery of a local, national or foreign official to secure a contract.
  - Bribery to turn a blind eye to a health safety issue or poor performance or substitution of materials or false labour charges.
  - Bribery to falsify an inspection report or obtain a certificate.
- 4.4. [Section 2 of the Bribery Act 2010](#) makes it an offence to accept a bribe.

### 5. What is Corruption?

- 5.1. Corruption is the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.
- 5.2. '[Misconduct in a public office](#)' is a common law offence and is committed when the holder of a public office acts, or omits to act, in a way contrary to his duty.

## 6. Avenues for Reporting Fraud, Bribery and Corruption

- 6.1. Plymouth City Council has in place avenues for reporting suspicions of fraud, bribery and corruption. Employees, elected members, members of the public, contractors and partners should report any concerns or suspicions to:

Counter Fraud Team Manager at Devon Audit Partnership

By telephone – 01752 304450 or 01752 306710

By email [corporate.fraud@plymouth.gov.uk](mailto:corporate.fraud@plymouth.gov.uk)

In writing – Counter Fraud Services Manager, Devon Audit Partnership, Floor 4  
Midland House, Notte Street, Plymouth PL1 2EJ

Employees can also report their concerns to their line manager (for school employee's head teacher, Chair of Governors), trade union representative or the Head of Legal Services. [Public Concern at Work](#), an independent charity provides free, confidential and practical advice if someone is unsure of how to raise a concern. They operate a Whistleblowing Advice Line - Tel: 020 7404 6609

- 6.2 All matters will be treated seriously and dealt with in a professional manner. If you ask us to treat the matter in confidence, we will do our utmost to respect your request but it is not possible to guarantee confidentiality. Vigorous and prompt investigations will be carried out into all cases of actual or suspected fraud discovered or reported.

## 7. Responsibilities

- 7.1. The Chief Finance Officer as "Section 151 Officer" has a statutory responsibility under [Section 151 of the Local Government Act 1972](#) to ensure the proper arrangements for the Council's financial affairs and, together with the Chief Executive and members of the Corporate Management Team, has overall responsibility for Plymouth City Councils counter-fraud policy and procedures, and for establishing and maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives.
- 7.2. The system of internal control is based on an ongoing process designed to identify the principle risks, to evaluate the nature and extent of those risks and to manage them effectively. Managing fraud risk will be seen in the context of the management of this wider range of risks.
- 7.3. Responsibilities include:
- Developing a fraud risk profile and undertaking a regular review of the fraud risks associated with each of the key organisational objectives in order to keep the profile current;
  - Establishing an effective anti-fraud policy and fraud response plan, commensurate to the level of fraud risk identified in the fraud risk profile;
  - Designing an effective control environment to prevent fraud commensurate with the fraud risk profile;
  - Establishing appropriate mechanisms for:
    - reporting fraud risk issues;
    - reporting to the Audit and Governance Committee
  - Liaising with Risk Management and the Audit and Governance Committee;

- Ensuring that [Plymouth City Councils recruitment policy](#) is adhered to and that effective steps are taken at recruitment to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts.
- Making sure that all staff are aware of the Organisation's anti-fraud policy and know what their responsibilities are in relation to combating fraud;
- Ensuring that appropriate counter-fraud training is available and provided to staff;
- Ensuring that vigorous and prompt investigations are carried out if fraud occurs or is suspected;
- Ensuring that appropriate legal and / or disciplinary action is taken against perpetrators of fraud;
- Taking appropriate disciplinary action against supervisors/managers where supervisory/managerial failures have contributed to the commission of fraud;
- Taking appropriate disciplinary action against staff who intentionally fail to report fraud;
- Taking appropriate action to recover assets;
- Ensuring that appropriate action is taken to minimise the risk of similar frauds occurring in future.

7.4. Operational managers / supervisors are responsible for:

- Ensuring that an adequate system of internal control exists within their areas of responsibility and that controls operate effectively;
- Preventing and detecting fraud;
- Assessing the types of risk involved in the operations for which they are responsible;
- Reviewing and testing the control systems for which they are responsible regularly;
- Ensuring that controls are being complied with and their systems continue to operate effectively;
- Implementing new controls to reduce the risk of similar fraud occurring where frauds have taken place.

7.5. Every member of staff and elected member of the council is responsible for:

- Acting with propriety in the use of Plymouth City Council's resources and the handling and use of funds whether they are involved with cash or payments systems, receipts or dealing with suppliers and or customers;
- Being alert to the possibility that unusual events or transactions could be indicators of fraud;
- Reporting details immediately through the appropriate channel if they suspect that a fraud has been committed or see any suspicious acts or events;
- Complying with the Plymouth City Council [Employee Handbook](#) and the Plymouth City Council's [Code of Conduct](#) specifically in respect of the declaration of 'Gifts and Hospitality' and potential conflicts of interest.
- Cooperating fully with those conducting internal checks, reviews or fraud investigations.

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# ANTI FRAUD, BRIBERY AND CORRUPTION STRATEGY / RESPONSE PLAN

Devon Audit Partnership Counter Fraud Team – December 2018



## CHANGES

December 2018: Revised following a review of the corporate approach to fraud

## Contacts

If you have any questions regarding this policy please contact the Counter Fraud Team at Devon Audit Partnership [corporate.fraud@plymouth.gov.uk](mailto:corporate.fraud@plymouth.gov.uk)

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## **Plymouth City Council's Commitment to Prevent Fraud and Corruption in all areas of the Council's Business.**

### **I. Strategy/Response Plan**

- I.1 Fraud is a major drain on the Public Purse it is therefore imperative that all Public Sector Staff prevent fraudulent activity and understand the threats and risks involved to the country's economy and specifically the local economy. This Strategy will assist Plymouth City Council in becoming more resilient to current threats and those identified in the future. The aim is to minimise fraudulent activity with a zero tolerance approach to those who commit criminal acts of fraud against Plymouth City Council whether the threat is from outside or internally within the Council.
- I.2 Tackling fraud is an integral part of putting finances back on a stable footing and ensuring that tax-payers' hard earned money is used to protect resources for frontline services. Fraud has a serious effect on all parts of the economy and costs the UK in the region of £73 billion per year. The cost of fraud to local government is estimated at £2.2 - £4 billion a year.
- I.3 This Strategy aligns with the [Council's Mission, Values and Priorities](#) and should be read in conjunction with the Anti-Fraud, Bribery and Corruption Policy 2018.
- I.4 Through its arrangements with [Devon Audit Partnership](#), the Council has a dedicated Counter Fraud Team which delivers professional counter fraud advice, guidance and investigatory work. The team will endeavour to exceed the expectations of the local population in combating fraud; this in turn will allow the Council to use its resources on frontline services for those who legitimately need them as well as promoting re-investment in Britain's Ocean City.
- I.5 Plymouth City Council will Acknowledge, Prevent and Pursue any threats posed by fraudulent activity whether by individuals or organisations with a view to making the most of its finances and promoting fairness and opportunity within the City.
- I.6 The Strategy's key objectives are to:
  - Assess and understand the fraud risks faced by Plymouth City Council;
  - Commit the correct support and resource to tackle fraud risk areas identified;
  - Maintain a consistent and robust anti-fraud response;
  - Make better use of information and technology to counter threats of fraud;
  - Ensure all fraud controls and processes are effective and continue to enhance these;
  - Further develop an effective anti-fraud culture;
  - Pursue fraud debt recovery and the use of Civil Sanctions when appropriate;
  - Further develop capability and capacity to address and deter fraudsters;
  - Embrace/encourage collaboration across all Local Authorities and Law Enforcement Agencies in the fight against fraudulent activity;
  - Promote a zero tolerance approach to fraud.

## 2. Acknowledge

2.1 Plymouth City Council acknowledges that it is not immune from fraud and that it has a duty to implement measures to protect the public purse in all areas of its business. Fraud is a hidden crime and the Council should not enable fraudulent or corrupt activity to remain hidden.

2.2 The Council commits to:

- Involving the Chief Executive in championing the fight against fraud and corruption;
- Engaging with the Audit and Governance Committee, seeking their endorsement for counter fraud and corruption work in the Council;
- Committing appropriate resources to identify, assess, detect and prevent fraud and corruption throughout all areas of business within the Council;
- Assessing and trying to understand the fraud, bribery and corruption risks facing the Council now and in the future;
- Maintaining a robust counter fraud and corruption response;
- Keeping records of all suspected and confirmed cases of fraud and corruption;
- Working with all available internal and external partners and law enforcement agencies with a view to reducing the risk of fraud across all areas of the Council's business;
- Using appropriate data matching tools available to deter and detect fraudulent/corrupt activity;
- Supporting and passing on best practice to other Authorities in respect of counter fraud and corruption work;
- Adopting best practice and learning from other Authorities in respect of counter fraud and corruption work;
- Ensuring that all staff understand how, where and when to report suspicions of fraudulent activity.

2.3 Only through its acknowledgment that it faces the continuing threat of fraud and corruption can the Council effectively counter the threat. The Council has, through its arrangements with Devon Audit Partnership, committed to retaining a qualified counter fraud investigative capability; acknowledging the potentially wider risks from corporate fraud and corruption and its obligation to investigate all types of fraud.

## 3. Prevent

3.1 The best way to fight fraud is to prevent it from happening in the first place. Prevention extends beyond making sure that there are appropriate systems and process controls in place. It also depends upon the development of an effective anti-fraud and corruption culture that reinforces a zero tolerance and deters criminals from committing fraud in the first place.

3.2 The Council commits to:

- Make better use of information and technology in the analysis and prediction of fraudulent or corrupt activity in all areas of the Council's business;
- Use all internally available data to maximise detection of fraud and corruption;
- Encourage other Local Authorities and stakeholders to share their data in order to maximise the detection of fraud and corruption;
- Share intelligence with other Authorities and relevant Law Enforcement Agencies in order to combat fraud and corruption;

- Use all areas of the [National Fraud data matching Initiative](#) to best effect;
- Support local and national initiatives to support the fight against fraud and corruption;
- Use the [National Anti-Fraud Network \(NAFN\)](#) to maximise information gathering in order to combat fraud and corruption;
- Implement the local government counter fraud and corruption strategy '[Fighting Fraud and Corruption Locally](#)', to improve the Council's resilience to fraud and corruption;
- Arrange Fraud Awareness training to be offered out to all internal staff and Members as well as, where appropriate, 3rd parties linked to the Council's business;
- Maximise publicity through advertising campaigns in diverse media areas to discourage those who would potentially commit fraud;
- Encourage publication of court convictions in order to dissuade potential future offenders;
- Ensure that there is a clear reporting route available for staff and the public to report suspicions of fraudulent and corrupt activity;
- Ensure that where a criminal offence is suspected that it is referred to the DAP Counter Fraud Team;
- Ensure that the DAP Counter Fraud Team are identified as a reporting line within the Whistleblowing Policy if the whistle-blower feels that this would be the most effective route.

3.3 A strong anti-fraud culture that is driven from the top down must underpin any preventative approach. This requires continuous active promotion and needs to include staff, members of the public and 3<sup>rd</sup> parties involved in the provision and procurement of the Council's services. An anti-fraud culture will seek to motivate staff and ensure that they understand the importance of tackling fraud and corruption, recognise fraud and corruption and know how and where to report it.

3.4 The Council will seek to change attitudes and behaviours towards fraud and corruption, positively re-enforcing individuals' responsibility for preventing, detecting and reporting fraud, and deterring future criminal activity against the Council.

#### 4. Pursue

4.1 Prevention is always preferable. However, determined fraudsters will evade even the best controls, and where fraud and corruption does occur enforcement must be comprehensive. The Counter Fraud Team will appropriately investigate all allegations to a conclusion, ensuring that where relevant the offender is prosecuted or other appropriate sanction is applied.

4.2 The Council will ensure that the public, and potential fraudsters, are made aware that when public funds are stolen, every effort will be made to recover losses and confiscate assets gained as a result of criminal activity.

4.3 The Council commits to:

- Using the services of a dedicated Counter Fraud Team to investigate all allegations of fraud and corruption concerning Plymouth City Council;
- Ensuring that the Counter Fraud investigators (either employed or contracted) are trained to the appropriate standard, with investigations carried out in a professional manner and evidence collected and retained in accordance with the law;
- Encouraging a higher priority for the recovery of fraudulent losses, to include the use of civil sanctions;
- Ensuring legal capability and capacity is sufficient to pursue fraudsters;

- Aid in the creation a more collaborative and supportive law enforcement response across Plymouth and Devon to encourage co-operation and joint working (e.g. across all 10 Devon Local Authorities, Trading Standards, the DWP, HMRC, UK Border Agency and the NHS etc;
- Consider the use of Compensation Orders or the Proceeds of Crime Act to recover profits made by fraudulent means;
- Use publicity from successful Prosecutions to deter others who could potentially commit similar offences in the future.

## 5. Information Technology and Data Matching

5.1 The Council undertakes to make better use of the information that it already holds for various Council activities in order to drive out fraud from its systems. It will look to continuously improve and expand its ability to acknowledge, prevent and detect fraud in all areas of its business through:

- The use of internal Data Matching checks to proactively Prevent/Detect fraudulent activity.
- Information Sharing: Intelligence is key in the modern fight against fraud. All appropriate Internal /External Data warehousing / matching opportunities will be explored and maximised
- Using a proactive/joined up approach to investigations across the Council and Cross boundary (if appropriate) that will generate income and savings;

## 6. Sanctions Guidelines

6.1 The Council seeks to provide value for money services to the public, and has a statutory duty to protect the Public Purse.

6.2 In the interest of making fair and balanced decisions, the Council will refer to sanction guidelines, taking into account various factors, not only the monetary value of the offence. All cases will be evaluated on their own merit and any mitigating circumstances will be taken into account.

6.3 The Council will co-operate with other agencies such as the Department for Work and Pensions, the Police and the Crown Prosecution Service to secure the conviction of offenders. Plymouth City Council will also instigate criminal proceedings independently of these organisations where appropriate.

6.4 These guidelines will assist in determining the appropriate action to be taken in relation to each case. The initial recommendation on what action is most appropriate to take lies with the Investigator. The Counter Fraud Team Manager will then make a recommendation based on the evidence for consideration by the Head of Devon Audit Partnership in accordance with the Public Interest test.

## 7. Legislative Framework

7.1 These guidelines take into account the requirements of the following legislation:-

- [The Social Security Administration Act 1992](#)
- [The Social Security Administration \(Fraud\) Act 1997](#)
- [Regulation of Investigatory Powers Act 2000](#)
- [Police and Criminal Evidence Act 1984](#)
- [Data Protection Act 2018](#)

- [Local Government Act 2000](#)
- [Criminal Procedures Investigation Act 1996](#)
- [Criminal Justice and Public Order Act 1994](#)
- [Human Rights Act 1998](#)
- [Fraud Act 2006](#)
- [Theft Act 1968 & 1978](#)
- [Prevention of Social Housing Fraud Act 2013](#)
- [Proceeds of Crime Act 2002 \(POCA\)](#)
- [Equality Act 2010](#)

## 8. Sanctions available to the Local Authority

8.1 When the Local Authority is able to prove an offence beyond reasonable doubt, or the offender makes a full confession that they have committed a criminal offence against the authority, the Council may have the following sanctions available to it and should consider which is most appropriate:

- Administer a Local Authority Formal Caution
- Administer a fixed penalty
- Prosecution through the Magistrates Court
- Orders following conviction such as:
  - Compensations Orders
  - Rent Repayment Orders
  - Criminal Behaviour Orders
- Seizure and liquidation of assets via POCA

## 9. Standards of Evidence

9.1 The Council will use the most appropriate deterrent against future fraudulent activity. This requires each referred case to be looked at on its individual merits; making reference to any previous sanction or convictions if applicable, before deciding on any further action.

9.2 Prosecution and the alternatives to prosecution have to follow the rules of law. Criminal offences have to be proved “beyond reasonable doubt” and not on the “balance of probability” rules applied to civil matters.

9.3 Substantive evidence is essential before the Council can determine if a sanction is justified. Evidence must be legally admissible and put forward in a legally acceptable form. The Council must therefore be satisfied that evidence is of a quality which would withstand scrutiny in a court of law. In the first instance the Counter Fraud Team Manager will assess the quality of evidence gained in the course of an investigation, ensuring that the evidence is:

- Clear
- Admissible
- Substantial
- Reliable

9.4 The Counter Fraud Team Manager will also check the case in the first instance to ensure:

- That there is sufficient evidence to show action, knowledge and, where appropriate, intent, by the individual concerned;
- That all the evidence has been obtained in accordance with the relevant legislation.

## 10. Formal Cautions

10.1 Formal cautioning is based on the principle that no prosecuting authority is under an obligation to prosecute. The use of formal cautions is purely administrative and there is no legislation covering their use.

10.2A Formal Caution may only be offered if an admission of guilt has been made, and cannot be offered if the claimant refutes or denies the allegation. It is given as an official warning to a person who has committed a fraud related offence against the Council.

10.3A Formal Caution will only be considered and administered when:-

- There is sufficient evidence to justify instigating criminal proceedings;
- The offence has been admitted during an interview under caution (A caution should never be considered purely on the basis that the claimant “will accept a caution”);
- The offender has no unspent relevant previous convictions, cautions etc;
- The person agrees to sign documentation in which they admit the offence;
- The person agrees to be cautioned and acknowledges the caution;
- Cautions will not be administered to a person under the age of 18.

10.4 For a case where the Investigating Officer has recommended a caution, the recommendation will be reviewed and sanctioned by the Counter Fraud Team Manager. The caution may be administered by the Counter Fraud Team Manager (an appropriate Accredited Counter Fraud Specialist may administer a caution in the absence of the aforementioned).

10.5 If the person is subsequently prosecuted for another offence, the caution may be cited in court. If the person refuses to accept a caution, the alternative course of action should be criminal proceedings. Therefore, the quality of evidence for a caution must be of the same standard as that required for a prosecution.

## 11. Administering a fixed or civil penalty

11.1 Currently the DAP Counter Fraud Team has not been authorised to administer fixed or civil penalties for offences. However, this may change in the future depending on changes in overarching policies.

## 12. Prosecutions

12.1 The Council recognises that it is likely to be appropriate to prosecute where there is clear evidence that an offence has been committed. In taking such action, the Council will make fair and consistent decisions, and will ensure that there is sufficient evidence to make conviction more likely than acquittal.

12.2 If one or more of the following factors are apparent within a case, that case may be considered for prosecution as the first option:

- The defendant is alleged to have committed the offence while under an order of the Court;
- The gross adjudicated cost to Plymouth City Council or its partners is £5000 or over. (In line with the minimum sentencing guidelines for fraud offences);

- False identities or other personal details have been used;
- False or forged documentation has been used;
- Official documents have been altered or falsified;
- The person concerned occupied a position of trust;
- The person concerned assisted or encouraged others to commit offences;
- There is evidence of premeditated or organised fraud;
- The person concerned has relevant previous convictions;
- The person has previously been convicted of fraud;
- The offer of a formal caution or other sanction or solution has been refused;
- There is evidence of collusion.

### **13. Factors for consideration by the officer responsible for the final case review and decision on whether to prosecute**

13.1 In all cases where the Investigating Officer and the Counter Fraud Team Manager have, based on evidence, concluded that an individual should be prosecuted, a number of factors need to be taken into consideration when deciding whether to instigate the prosecution action.

13.2 The presence within a case of any of the Public Interest factors referred to in 14.1 below may preclude it from prosecution, downgrade it to an alternative sanction or a decision to take no further action; each case will be assessed individually.

### **14. Public Interest**

14.1 If the evidence obtained justifies proceedings, the Council must then consider whether this would be in the public interest, taking into account [The Code for Crown Prosecutors](#) which gives guidance on the general principles to be applied when making a decision regarding prosecutions.

Common factors include:

- Age
- Social factors
- Mental illness
- Physical illness
- Voluntary disclosure
- Technical factors

### **15. Summary**

15.1 The guidelines outlined in this strategy cover the main areas that the Council consider when dealing with alleged fraudulent activity. As well as the above Plymouth City Council is committed to improving fraud awareness throughout its own organisation and those of its partners.

15.2 Whilst the Council appreciates the majority of people are honest, it will continue to fight abuse of the 'Public Purse' by those who falsely claim/apply for money/property/support to which they are not entitled. All investigations will be undertaken by trained staff that will respect the rights of all customers, abide by the law and act in the public interest.

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# EQUALITY IMPACT ASSESSMENT



## STAGE 1: WHAT IS BEING ASSESSED AND BY WHOM?

<b>What is being assessed - including a brief description of aims and objectives?</b>	Counter Fraud, Bribery and Corruption Policy, an update of the previous policy dated Feb 2009. This policy is intended to minimise fraud losses and ensure that all staff are aware of what is required of them.
<b>Author</b>	Ken Johnson
<b>Department and service</b>	Devon Audit Partnership for Plymouth City Council
<b>Date of assessment</b>	30/10/2018

## STAGE 2: EVIDENCE AND IMPACT

Protected characteristics (Equality Act)	Evidence and information (eg data and feedback)	Any adverse impact See <a href="#">guidance</a> on how to make judgement	Actions	Timescale and who is responsible
<b>Age</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A
<b>Disability</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A
<b>Faith/religion or belief</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their	No adverse impact possible positive impact	N/A	N/A

	needs and requirements			
<b>Gender - including marriage, pregnancy and maternity</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A
<b>Gender reassignment</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A
<b>Race</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A
<b>Sexual orientation - including civil partnership</b>	Legal requirement under CPIA/PACE and other legislation to treat individuals in accordance with their needs and requirements	No adverse impact possible positive impact	N/A	N/A

**STAGE 3: ARE THERE ANY IMPLICATIONS FOR THE FOLLOWING? IF SO, PLEASE RECORD ACTIONS TO BE TAKEN**

<b>Local priorities</b>	<b>Implications</b>	<b>Timescale and who is responsible</b>
<b>Reduce the gap in average hourly pay between men and women by 2020.</b>	No implications	N/A
<b>Increase the number of hate crime incidents reported and maintain good satisfaction rates in dealing with racist, disablist, homophobic, transphobic and faith, religion and belief incidents</b>	No implications	N/A

by 2020.		
<b>Good relations between different communities (community cohesion)</b>	No implications	N/A
<b>Human rights</b> Please refer to <a href="#">guidance</a>	No implications	N/A

**STAGE 4: PUBLICATION**

Responsible Officer



Date 29/11/2018

Andrew Hardingham - Assistant Director for Finance

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**PLYMOUTH CITY COUNCIL**

**Subject:** Review of Petitions Guidance  
**Committee:** Audit and Governance Committee  
**Date:** 10 December 2018  
**Cabinet Member:** Councillor Peter Smith, Deputy Leader  
**CMT Member:** Giles Perritt, Assistant Chief Executive  
**Author:** Linda Torney, Assistant Head of Legal Services  
**Contact details:** linda.torney@plymouth.gov.uk  
**Ref:**  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

The purpose of this report is to provide information to the Audit and Governance Committee for its review of the Petitions Guidance.

To ensure that the petitions guidance is suitable and to maintain open and transparent decision making.

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**Corporate Plan:**

Maintenance of the Constitution is a central element of the Democratic process of the Council which supports the Democratic values of the Corporate Plan.

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

As this is a change to internal business processes there are no anticipated financial implications.

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

None.

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**Equality and Diversity:**

Has an Equality Impact Assessment been undertaken? No

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**Recommendations and Reasons for recommended action:**

Review the Petitions guidance contained within the constitution and agree whether it remains fit for purpose.

**Reason:** To ensure that the current guidance remains fit for purpose.

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**Alternative options considered and rejected:**

Not reviewing the petitions guidance would not allow democratic scrutiny of this element of the constitution.

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**Published work / information:**

None

**Background papers:**

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

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**Sign off:**

Fin	pl. 18. 19. 161	Leg	lt/31 677/ 3011	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Giles Perritt													
Has the Cabinet Member(s) agreed the content of the report? Yes													

## **1.0 Background**

Council has established guidance on how to deal with petitions. Following a recent petition the Audit and Governance Committee has been asked to review that guidance.

### **1.1 Key elements of the guidance**

The guidance says that the Council will consider all petitions received and will arrange for a debate about the issues raised in the petition if the petition has more than 2,500 signatures.

### **1.2 Petitions with more than 5,000 signatures**

If the petition has received 5,000 signatures it will automatically trigger a debate at the next ordinary city Council meeting. In this case, we will confirm the date of the next meeting and the petition organiser will be given five minutes to present the petition and put forward his / her case for the action requested.

At the meeting, Councillors will decide how to respond to the petition and the petition organiser will receive written confirmation of this decision, which will also be published on the Council's website as part of the minutes for that meeting.

### **1.3 Petitions with more than 2,500 signatures**

If the petition contains at least 2,500 signatures, the person organiser can ask for a senior Council officer (Chief Executive, Assistant Chief Executive, Directors and Assistant Directors) to give evidence at one of the Council's Scrutiny Panels (eg to explain progress or to explain the advice given to Councillors to assist their decision making). The Panel may also require the relevant Cabinet Member to attend the meeting. Panel members will ask the questions at this meeting. The organiser can suggest questions to the Chair of the Panel by contacting the Democratic Support team before the meeting.

### **1.4 Arrangements in neighbouring authorities**

In Cornwall they will consider all petitions that have a minimum number of 250 signatures and decide what to do on an individual basis. In Devon they will consider all petitions received and will arrange for a debate at Council if a petition has more than 6000 signatures. In Torbay any petition with more than 25 signatures will be seen at Council and the petition organiser will have the opportunity to speak on the matter. The petition will then be referred to the decision maker for a decision. Petitions with 1000 or more valid signatures can be presented to Council for a full debate.

## **2.0 Issues for Review**

2.1 Is 5000 signatures the correct level of response to require a debate at Council in Plymouth?

2.2 Is 2500 signatures the correct level of response to lead to a Scrutiny meeting in Plymouth?

2.3 What must be included in a petition?

Petitions must include:

- a clear statement covering the subject matter
- what the petitioners want the Council to do and
- the name, address and signature of everyone supporting the petition.

Now that petitions can be sent in by email what do we mean by the requirement for a person to give an address – is it sufficient for the petitioner to give their city of residence plus contact details or is a postal address also wanted? Would it be better to ask for a postcode and email address?

Should we include any other requirements?

**What is excluded?**

A petition will not be accepted or dealt with:

- if it is considered to be vexatious, abusive or otherwise inappropriate
- it relates to matters where there are ongoing legal proceedings
- it targets individuals
- it applies to a matter where there is already a right of appeal (e.g. planning or licensing Applications or statutory petitions (such as that for requesting a referendum on having an elected mayor) will be dealt with under separate arrangements

Are these the correct criteria to be used?

**Remedies**

If a person feels that the Council has not dealt with his or her petition properly, the petition organiser has the right to ask the relevant scrutiny panel to review the Council's response. The petition organiser should give a short explanation as to why the Council's response is not felt to be adequate.

That scrutiny panel will try to consider the request at its next meeting. Once the appeal has been considered the petition organiser will be informed of the results within 5 working days and they will be published on the Council's website as part of the minutes for that meeting.

Does this continue to be the correct remedy?



**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Civic Event Calendar 2019
<b>Committee:</b>	Audit and Governance
<b>Date:</b>	10 December 2018
<b>Cabinet Member:</b>	Councillor Pete Smith
<b>CMT Member:</b>	Giles Perritt
<b>Author:</b>	Siân Millard, Oversight and Governance Manager
<b>Contact details</b>	Tel: 01752 304870 email: sian.millard@plymouth.gov.uk
<b>Ref:</b>	Civic Calendar 2019
<b>Key Decision:</b>	No
<b>Part:</b>	N/A

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**Purpose of the report:**

This report provides the draft 2019 Civic Calendar.

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**Corporate Plan**

Civic events contribute across the spectrum of the Corporate Plan, particularly with regards city pride, reputation and community engagement.

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**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:**

All civic events are fully risk assessed.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Yes. As part of planning for all civic events a risk assessment is undertaken, part of which relates to accessibility requirements.

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**Recommendations and Reasons for recommended action:**

That Audit and Governance Committee note the draft dates for the 2019 Civic Calendar.

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**Alternative options considered and rejected:**

OFFICIAL

N/A The Civic Calendar is prepared each year.

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**Published work / information:**

N/A

**Background papers:**

N/A

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

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**Sign off:**

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Siân Millard													
Has the Cabinet Member agreed the contents of the report? Yes													



## CITY OF PLYMOUTH

## CIVIC EVENTS 2019

DATE	TIME	EVENT	Venue
<b>JANUARY 2019</b>			
Sunday 27 January	2-5 pm	Holocaust Memorial Day	Peace Garden on the Hoe Reception at Lord Mayor's Parlour
<b>MARCH 2019</b>			
Sunday 10 March	TBC	Lord Mayor's Civic Church Service	Engage South West, St Levans Road, Milehouse
Monday 11 March	10am	Commonwealth Flag Raising	Guildhall Flag Poles/Guildhall Steps
<b>MAY 2019</b>			
Friday 17 May	10.30am 7.30pm	Council AGM/Lord Mayor's Choosing Lord Mayor's Choosing Dinner	The Guildhall, Plymouth HMS DRAKE, Plymouth
Sunday 19 May	10am	The Lord Mayor's Civic Church Service	The Minster Church of St Andrew, Plymouth
Saturday 25 May	Noon	Lord Mayor's Day	Plymouth City Centre
<b>JUNE 2019</b>			
Monday 24 June	10am	Armed Forces Flag Raising Ceremony	Guildhall Flag Poles
Saturday 29 June	9.30am	Armed Forces Day 100 <sup>th</sup> Anniversary of RAF	The Hoe, Plymouth
<b>JULY 2019</b>			
TBC (2 <sup>nd</sup> wk July)	TBC	The Annual Survey of the Waterworks and Fishing Feast	Burrator, Headweir & Marquee
<b>SEPTEMBER 2019</b>			
Tuesday 3 September	TBC	Merchant Navy Day – Unveiling of Merchant Navy Monument	The Hoe, Plymouth
<b>NOVEMBER 2019</b>			
Sunday 10 November	11am	Remembrance Sunday Laying of wreaths at the RN Memorial, Civilian Memorial & Polish Memorial	The Hoe, Plymouth
<b>DECEMBER 2019</b>			
Friday 13 December	7.30pm	The Lord Mayor's Carol Service	The Minster Church of St Andrew, Plymouth

## Other key dates in 2019/2020

- 06.06.1944 75<sup>th</sup> Anniversary The Normandy landings were the landing operations on Tuesday, 6 June 1944 of the Allied invasion of Normandy in Operation Overlord during World War II.  
**Date:** 6 June 1944  
**Location:** Normandy, France  
**Result:** Decisive Allied victory  
**Combatants:** UK, USA, Nazi Germany, Canada
- 28.06.1919 Treaty of Versailles – WWI officially ends – treaty + reparation  
 The **Treaty of Versailles** was signed on June 28, 1919, in the Hall of Mirrors of the Palace of **Versailles**. Based on this clause, the Allies imposed reparations for war damage.  
**Dates:** 28 Jun 1919 – 21 Jan 1920  
**Signed:** 28 June 1919  
**Condition:** Ratification by Germany and four Principal Allied Powers  
**Effective:** 10 January 1920  
**Location:** Paris, France  
**Languages:** French and English
- 01.12.1919 Nancy Astor took her seat in Parliament (3pm)  
 Lady Astor is elected as a Member of the Parliament, and is the first woman to sit in the House of Commons. (Countess Markievicz, the first to be elected, refused to sit.) (28th Nov 1919)
- 85<sup>th</sup> anniversary appointment of Plymouth's 1<sup>st</sup> Lord Mayor in 1934, James Elliot Pillar.

10th	The British Military's operation in Iraq officially ends after six years of combat. The Basra
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	Province is handed over to American forces in a special ceremony, ahead of the withdrawal of British troops in the summer. <b>(30th Apr 2009)</b>
30th	A human crush occurs at Hillsborough Stadium, home of Sheffield Wednesday, in the FA Cup Semi Final, resulting in the deaths of 96 Liverpool F.C. fans. <b>(15th Apr 1989)</b>
50th	British yachtsman Sir Robin Knox-Johnston completes the first solo non-stop circumnavigation of the world. (22nd Apr 1969)
50th	The first British-built Concorde 002 makes its maiden flight from Filton to RAF Fairford. (9th Apr 1969)
70th	Twelve nations sign the North Atlantic Treaty creating the North Atlantic Treaty Organization. (4th Apr 1949)
75th	Allied convoy T4, forming part of amphibious Exercise Tiger (a full-scale rehearsal for the Normandy landings) in Start Bay off the Devon coast, is attacked by E-boats, resulting in the deaths of 749 American servicemen. (28th Apr 1944)
80th	Military Training Act (coming into force 3 June) introduces conscription; men aged 20 and 21 must undertake six months military training. (27th Apr 1939)
45th	New Year's Day was celebrated as a public holiday for the first time. (1st Jan 1974)
15th	The coroner's inquest into the death of Diana, Princess of Wales and her lover Dodi Al-Fayed is officially opened. (6th Jan 2004)
95th	Margaret Bondfield becomes the first woman to be appointed a government minister. (23rd Jan 1924)
25th	Queen Elizabeth II and French President François Mitterrand officiate at the opening of the Channel Tunnel. (6th May 1994)
40th	A Provisional IRA bomb kills Louis Mountbatten and three others while they are boating on holiday in Sligo, Republic of Ireland. Shortly after, 18 British Army soldiers are killed in an ambush near Warrenpoint, Northern Ireland (27th Aug 1979)
50th	Operation Banner: British troops are deployed in Northern Ireland. (14th Aug 1969)

70th	The treaty creating NATO goes into effect. (24th Aug 1949)
75th	The Education Act, promoted by Rab Butler, creates a Tripartite System of secondary education in England and Wales with Secondary Modern, Technical, and Grammar schools, entrance being determined in most cases by the results of the Eleven plus exam. (3rd Aug 1944)
80th	Evacuation of children from major UK cities begins. (30th Aug 1939)
80th	The United Kingdom and Poland form a military alliance in which the UK promises to defend Poland in case of invasion by a foreign power. (25th Aug 1939)
80th	Emergency Powers (Defence) Act 1939 gives full authority to 'defence regulations'. Parliament recalled, Army reservists called up and Civil Defence workers placed on alert. (24th Aug 1939)
70th	Allied military authorities relinquish control of former Nazi Germany assets back to German control. (6th Sep 1949)
75th	World War II: The British submarine HMS Tradewind torpedoes Juny? Maru, 5,600 killed. (18th Sep 1944)
75th	World War II: RAF bombing raid on Darmstadt and the following firestorm kill 11,500. (11th Sep 1944)
75th	World War II: London is hit by a V2 rocket for the first time. (8th Sep 1944)
75th	World War II: the British 11th Armoured Division liberates the Belgian city of Antwerp. (4th Sep 1944)
80th	Fascist politician William Joyce begins broadcasting Nazi propaganda under the name Lord Haw-Haw. (18th Sep 1939)
80th	World War II: A German U-boat U 29 sinks the British aircraft carrier HMS Courageous. (17th Sep 1939)
80th	World War II: The submarine HMS Oxley is mistakenly sunk by the submarine HMS Triton near Norway and becomes the Royal Navy's first loss. (10th Sep 1939)
80th	World War II: a Bristol Blenheim is the first British aircraft to cross the German coast following the declaration of war and German ships are bombed. (4th Sep 1939)
80th	France, the United Kingdom, New Zealand and Australia declare war on Germany after the invasion of Poland, forming the Allies. (3rd Sep 1939)

20th	Britain's House of Lords votes to end the right of hereditary peers to vote in Britain's upper chamber of Parliament. (26th Oct 1999)
50th	Concorde breaks the sound barrier for the first time. (1st Oct 1969)
20th	British Aerospace and Marconi Electronic Systems merge to form BAE Systems, Europe's largest defence contractor and the fourth largest aerospace firm in the world. (30th Nov 1999)
100th	King George V of the United Kingdom proclaims Armistice Day (later Remembrance Day). The idea is first suggested by Edward George Honey. (17th Nov 1919)
250th	Dartmouth College is founded by the Rev. Eleazar Wheelock, with a Royal Charter from King George III, on land donated by Royal Governor John Wentworth. (13th Dec 1769)

Women's Engineering Society was formed in 1919 against this backdrop of political and social change, with several of our founders being at the forefront of campaigns for women's rights.

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## Audit & Governance Committee – Tracking Resolutions

Minute No.	Resolution	Progress
1 October 2018  Minute 41. Delegation of Functions to the Audit and Governance Committee	The Audit and Governance Committee agreed to recommend that Council authorises the Audit and Governance Committee to approve changes to the Constitution, set out in Appendix One to the report; subject to Council retaining responsibility for the core documents in the Constitution.	Approved at 19 November 2018 City Council.

	Greyed out box = action completed
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### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	A	M
Draft Statement of Accounts 2017/18 and Annual Governance Statement	Carolyn Haynes			*										
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	John Finch						*							
Annual Report on Treasury Management Activities for 2017/18	Chris Flower	*												

### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	A	M
Treasury Management Practices, Principles and Schedules 2019/20	Chris Flower											*		
Mid-Year Treasury Management Report 2018/19	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	*												

### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	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

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	A	M
External Audit Progress Report	External Auditor GT								*					
Planning Report (External Auditor)	External Auditor GT											*		
Annual Audit Letter	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											*		
Terms of Reference for Audit & Governance Committee	Andrew Hardingham/ Sian Millard	*												

### Audit Committee Work Plan 2018/19

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	A	M
Independent Remuneration Panel Review	Siân Millard	*												
Review of Rolling Work Plan	Lead Officer/DSO	*												
Whistle Blowing and Anti Fraud	Ken Johnson								*					
Strategic Risk Register	Julie Hosking						*							
Councillor Long Service Award	Siân Millard						*							
Delegation of functions to Audit and Governance Committee	Linda Torney						*							
Honorary Alderman Criteria	Siân Millard											*		
Motions on Notice	Ross Jago											*		
Voter Id	Glenda Favor-Ankersen								*					
Petition Arrangements	Linda Torney								*					
The Operational Risk Monitoring Report	Julie Hosking								*					
Civic Calendar	Siân Millard								*					
Capital Strategy report	Chris Flower								*					
Surveillance, Covert Activities and the Regulation of Investigatory Powers Act 2000 (RIPA)	Alex Fry											*		

**Audit Committee Work Plan 2018/19**

		2018							2019					
Item	Lead Officer	M 31	J	J 30	A	S	O 1	N	D 10	J	F	M 11	A	M
New election offences	Glenda Favor-Ankersen / Linda Torney											*		
<b>Items to be Scheduled</b>														