



**Oversight and Governance**

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**AUDIT AND GOVERNANCE COMMITTEE**

Monday 9 December 2019  
3.00 pm  
Warspite - Council House

**Members:**

Councillor Parker-Delaz-Ajete, Chair  
Councillors Carson, Kelly, P Smith and Stevens.

**Independent Members:**

Mr Shipperley and Mr Stewart

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

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**Tracey Lee**

Chief Executive

## **Audit 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 - 10)**

To confirm the minutes of the meeting held on 23 September 2019.

**4. Chair's Urgent Business**

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

**5. Operational Risk & Opportunity Management Update Report (Pages 11 - 16)**

**6. Treasury Management Strategy 2020/21 (Pages 17 - 56)**

**7. Capital Financing Strategy 2020/21 (Pages 57 - 66)**

**8. Mid- Term Treasury Management Report 2019/20 (Pages 67 - 80)**

**9. Internal Audit Half Year Report 2019/20 (Pages 81 - 106)**

**10. Counter Fraud Services Half Yearly Report (Pages 107 - 116)**

**11. Statement of Accounts 2018/19 - Final Audited Published Accounts (To Follow)**

**12. Audit Findings report 2018/19 - Final Draft (To Follow)**

**13. Letter of Representation (To Follow)**

**14. Heart of the South West Joint Committee ToRs (Pages 117 - 120)**

**Audit and Governance Committee****Monday 23 September 2019****PRESENT:**

Councillor Parker-Delaz-Ajete, in the Chair.  
Councillors Carson, Kelly, P Smith, Stevens.

Co-opted Representatives: Mr Clarke, Mr Stewart and Mr Shipperley.

Also in attendance: Sian Millard (Oversight and Governance Manager), Andrew Hardingham (Service Director for Finance), Brenda Davis (Audit Manager), Julie Hosking (Corporate Risk Advisor), Lisa Evans (Principal Technical Accountant), Helen Foote (Finance Business Partner), Geri Daly (Grant Thornton), Helen Cocks (Customer Liaison Manager), Clare Cotter (Head of Health, Safety and Wellbeing Assurance), Kim Brown (Service Director for Human Resources and Organisational Development), Paul Barnard (Service Director for Strategic Planning and Infrastructure), Peter Ford (Head of Development Management), Linda Torney (Assistant Head of Legal Services) and Jamie Sheldon (Democratic Advisor).

The meeting started at 15:00 and finished at 17:00.

*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.*

**34. Declarations of Interest**

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

**35. Minutes**

The Committee agreed the minutes of the meeting held on 22 July 2019.

**36. Chair's Urgent Business**

The Chair thanked Mr Richard Clarke on behalf of the Committee for his 16 years as an Independent Member on the Committee and wished him well for the future.

The Chair welcomed Mr Ian Shipperley to the Audit and Governance Committee following his recent appointment by Council as Independent Member.

Asked the Audit and Governance Committee if they would discuss Heart of South West terms of reference at the Audit and Governance Sub Group before 18 November 2019 City Council.

The Audit and Governance Committee agreed the approach.

37. **Internal Audit Progress Report 2019/20**

Brenda Davis (Audit Manager) presented the Internal Audit Progress Report 2019/20 to the Committee.

The report provided Members of the Audit and Governance Committee with a position statement on the audit work carried out since April 2019. Based on work performed to date during 2019/20 together with previous years' audit, reasonable assurance was provided on the adequacy and effectiveness of the authority's internal control environment.

Following on from health and safety self-assessments, Devon Audit Partnership was providing support to the corporate Health, Safety & Wellbeing Team by undertaking system reviews within service areas to ensure compliance with Health & Safety Standards; including the management of the control of exposure to vibration.

Work was in progress to evaluate the adequacy and effectiveness of policy and procedures in respect of Gifts and Hospitality. To establish the level of understanding of existing arrangements questionnaires were developed for Members and staff; more than 500 responses had been received.

The Audit and Governance Committee noted the report.

38. **Strategic Risk and Opportunity Register**

Julie Hosking (Corporate Risk Advisor) presented the Strategic Risk and Opportunity Register to the Committee.

The report provided a summary of the latest formal monitoring exercise completed for the Strategic Risk and Opportunity Register for the period March 2019 to August 2019. It also provided the revised Strategic Risk and Opportunity Register showing the current status of each risk and the movement in risk score compared with the previous monitoring period. Overall, as a result of the review, the total number of risks now reported on the Register had decreased from 16 to 15.

The current red risks being reported were -

Red Risk SF2 – Delivering Council services within the envelope of the resources provided in 2019/20-2021/22 Medium Term Financial Plan (MTFP). Risk to services of not delivering within reduced budgets and to delivery of the Plymouth Plan from reduced revenue and funding of the Capital Programme.

Red Risk SF3 - Being unable to deliver Council services within the envelope of the resources provided in 2019/20

Red Risk SEPS1 – Reduction in the quality of education provision negatively affecting level of pupil attainment

Red Risk SCYPF2 – Projected in-year 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

The following risk was reduced –

Green Risk SSPII – Cladding issues on buildings in Plymouth above 18m that have the potential to contain, or have been identified as containing aluminium composite material (ACM) cladding that has a risk of combustion.

The Audit and Governance Committee approved the Strategic Risk and Opportunity Register.

39. **Risk and Opportunity Management Annual Report**

Julie Hosking (Corporate Risk Advisor) presented the Risk and Opportunity Management Annual Report to the Committee.

The report summarised the work carried out during 2018/19 to develop the council's approach to risk and opportunity management and covered the following areas:

- Risk and Opportunity Management Strategy
- Corporate and Operational Risk Management Groups
- Integrated Assurance
- Risk Management Fund
- Focus for 2019/2020

The Audit and Governance Committee -

1. Discussed and noted the Risk and Opportunity Management Annual Report.
2. Approved the Risk and Opportunity Management Strategy 2019-21.

40. **Integrated Commissioning - Finance Assurance Review Group - Annual Report 2018/19 including ASW Audit Programme for CCG**

Helen Foote (Finance Business Partner) and Lisa Evans (Principal Technical Accountant) presented this report to the Committee.

Under the terms of reference for the Integrated Commissioning Finance and Assurance Review Group (FARG), the Chair prepared an Annual Report and an Effectiveness Review on the activities of the FARG which was completed in the spring of each year. This report detailed the work undertaken during the financial year, the successes and risks and looked into the coming year to highlight key tasks. This formal report was presented to FARG for approval and onward distribution to Plymouth City Council's Federated Directorates Strategic Planning Commissioning Group meeting, the CCG Board and Plymouth City Council's Audit and Governance Committee.

On an Integrated Fund of £61.1m both the CCG and PCC each recorded an over spend against their budget share, resulting in the risk share on the Plymouth Integrated Fund of £0.157m payable from Plymouth City Council.

It was highlighted that during the year that both organisations were coming under considerable financial pressure, from the Children's Directorate within PCC and Acute sector plus contingency costs within the CCG.

Members questioned –

- Whether there were any penalties for recording an over spend against their respective budget shares on the Integrated Fund?
- Whether the CCG carry forward overspend into the next financial year?
- Whether the hospital being on red alert was impacting performance of other specialities?

The Audit and Governance Committee noted the report and endorse the next steps.

41. **Grant Thornton - Audit update (To follow)**

Geri Daly (Grant Thornton) presented this item to the Committee.

The Audit Findings Report presented the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

The auditors were responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The audit approach was based on a thorough understanding of the Council's business and was risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

The audit plan had not been altered or changed since it was communicated to the Committee on 11 March 2019, except as follows:

- an additional Value For Money Conclusion risk was identified during their fieldwork regarding the Council's acquisition of investment properties outside Plymouth
- a revision to the revenue risk rebuttal;

- Grant Thornton had undertaken detailed, further work, in relation to the recent McCloud high court ruling which had an impact upon the pension fund liability;
- additional work had been undertaken on the Council's opening balances, recognising that Plymouth City Council was a new audit for Grant Thornton.

Subject to satisfactory clearance of all outstanding items and work the financial statements, Grant Thornton anticipated issuing an unqualified audit opinion as detailed in Appendix D of the report.

Grant Thornton were in the process of using their own valuation expert to review the arrangements for the Tamar Bridge and so work in this area was not yet complete. It was recommended however, that a detailed technical revaluation of the Tamar Bridge takes place in 2019/20 by a specialist or expert. The Auditors also recommended that management enhanced the estimation uncertainty disclosure to ensure the bridge's current estimated value and clear to the reader.

Audit and Governance Committee noted the contents of the GTUK draft Audit Findings Report attached as Appendix A of the report.

42. **Analysis of Local Government and Social Care Ombudsman Annual Report 2018/19**

Helen Cocks (Customer Liaison Manager) presented this item to the Committee.

Every year the Local Government and Social Care Ombudsman (LGSCO) sent each council an annual review letter which outlined the Ombudsman's position in relation to complaints monitoring.

The publication of the 2018/19 annual report provided an opportunity to review and discuss complaints that have been received about Plymouth during the period 1 April 2018 to 31 March 2019.

The briefing provided analysis of the LGSCO annual review data and presented an annual summary for Plymouth comparing our local statistics with the relative benchmarks. It also highlighted the lessons learned, how individual teams and services have responded to LGSCO complaints and what the Council had done differently following LGSCO intervention.

After investigation, the LGSCO upheld 18 complaints of the 107 complaints they had made decisions about in relation to Plymouth City Council.

Members discussed –

the process was for signing off each complaint and whether there was a single individual who did this? . It was explained that the central team oversees all complaints at a high-level and each service area is responsible for responding to, and therefore signing off, each complaint.

The Audit and Governance Committee –

1. approved the recommendations set out in paragraph 2.3 of the report.
  - Monitor performance against Service Standards

- Provide guidance and training for staff undertaking investigations (Stage 1 and Stage 2)
- Review, approve and communicate the Acceptable Behaviour Policy.

2. noted the progress made to date and approved the proposals set out in paragraph 2.4 of this Report.

- Monitor performance against Service Standards
- Provide guidance and training for staff undertaking investigations (Stage 1 and Stage 2)
- Review, approve and communicate the Acceptable Behaviour Policy.

#### 43. **Health and Safety Annual Report**

Claire Cotter (Head of Health, Safety and Wellbeing Assurance) and Kim Brown (Service Director for Human Resources and Organisational Development) presented this item to the Committee.

The Health, Safety and Wellbeing Annual report for 2018-19 was presented to the Audit and Governance Committee as an important aspect of the Health, Safety and Wellbeing governance arrangements for the Council. The report identified the actions that had been taken in 2018-19 to improve our management arrangements for health, safety and wellbeing and what Plymouth City Council was planning to do in 2019-20.

The report included insights into the incidents and accidents which had occurred compared to previous years.

Statistical data showed that overall there had been an increase in the number of incidents reported from an accident and incident rate of 189 to 243 per 1,000 employees (rounded) with a particular increase in incidents of violence and aggression towards staff (39 to 56 per 1,000 employees) Caution should be exercised in concluding that more incidents are actually happening, rather than there continues to be a focus on embedding a positive reporting and learning culture.

Local steps were taken to investigate incidents at the appropriate level and to review risk assessments to ensure suitable and sufficient controls were in place. Near miss reporting was gradually improving, although more could be done to promote this. We would expect that our Business Plan for 2019-20 would have a positive effect on raising awareness further and encouraging people to report.

There was a continued upward trend of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations reportable incidents from four in 2015-16 to twenty six in 2018-19. In part this was due to the work on vibration and employees coming forward with diagnosis of Hand Arm Vibration Syndrome or Carpal Tunnel. There had also been a spike in over seven day absences attributed to a work related incident.

For the first time Plymouth City Council had been able to report lost time incidents, which also showed an increasing trend – work was ongoing to understand the data and was informing local actions in respect of addressing root causes.



The report provided detail about the top five incident types which were:

1. Unintentional violence
2. Verbal Violence
3. Road Traffic Accidents
4. Other
5. Slips trips and falls

In the light of the Health and Safety Executive Improvement Notice served in December 2017, Gleeds Ltd was commissioned to undertake an external review of The Council's Health, Safety and Wellbeing management arrangements. The overall purpose was to provide assurance in regards to our compliance with the Health and Safety at Work Act etc. 1974 and Management of Health and Safety at Work Regulations 1999 with four specific areas of focus:

- The Strategic framework for Health, Safety and Wellbeing
- Street Services
- Schools
- Safety Representatives engagement

The Reviewer was complimentary about the attitudes and approach of the people he met and the evidence he found

Members questioned –

If the level of engagement with the Trade Unions on the hand-arm vibration issues and their level of satisfaction with the actions undertaken. It was confirmed that the union representatives had been fully involved in discussions and had raised no concerns about the work undertaken.

The rise in RIDDOR rates and what were the causes for this. This was due to the work on vibration and employees coming forward with diagnosis of Hand Arm Vibration Syndrome or Carpel Tunnel. There had also been a spike in over seven day absences attributed to a work related incidents.

What was being done to reduce the high level of sickness rates in departments such as Street Services? In 2018-19 we estimated that 28% of our staff would have received a flu vaccination. This included Staff who worked in our Street Services Teams who attended an on-site clinic for vaccination.

The Audit and Governance Committee noted the report.

#### 44. **Planning Committee ToR's and Code of Good Practice**

Paul Barnard (Service Director for Strategic Planning and Infrastructure) and Peter Ford (Head of Development Management) presented this item to the Committee.

Asked Members for approval to amend the Terms of Reference and Code of Good Practice for Planning Committee as outlined in Appendix 1 and 2 of the report and to incorporate these changes into the Council's Constitution.

The Planning Committee Terms of Reference and Code of Good Practice formed part of the Council's Constitution and were reviewed on a regular basis. The last review was agreed at the Constitutional Review Group on 20 April 2017.

A review had taken place of the current Terms of Reference and Code of Practice having assessed the operation of the Planning Committee over the years since the code was last updated, considering any changes in legislation, drawing lessons from experience, and undertaking benchmarking and other analysis to suggest further modernisation and improvements to how it operated.

The proposed new Planning Committee Terms of Reference and Code of Good Practice, including tracked changes, were outlined in appendix 1 and 2 of the report.

Members discussed –

- Councillor Kelly raised concerns regarding the change to the call-in procedure from 57 councillors being able refer planning items to the Committee, this power will now be given only to a ward councillor whose boundary the application falls in or an adjacent ward Councillor, when the Chair chooses to use his / her discretion;
- Concerns were raised about transparency and accountability to the public by limiting the way Councillors who could call in an item;
- How the new arrangement whereby the Planning Committee could request a presentation by the applicant to the Planning Committee prior to the formal Planning Committee meeting would work and whether this would be minuted;
- Queries were raised regarding 3.4 Section 4 that had been updated to ensure that references to disclosable pecuniary interests and private interests properly reflect the legal definitions and the consistency in language used.

By means of recorded vote, the Audit and Governance Committee –

Agreed to recommend to Council the changes to the Planning Committee Terms of Reference as outlined at Appendix 1

For – 3 (Councillor Smith, Councillor Stevens and Councillor Parker Delaz – Ajete)

Against – 2 (Councillor Kelly and Councillor Carson)

Abstentions – 0

Approved the changes to the Code of Good Practice for Planning Committee as outlined in Appendix 2 of this report.

For – 3 (Councillor Smith, Councillor Stevens and Councillor Parker Delaz – Ajete)

Against – 0

Abstentions – 2 (Councillor Kelly and Councillor Carson)

45. **Contract Awards**

Linda Torney (Assistant Head of Legal Services) presented this item to the Committee.

The Committee was asked to consider the approach that should be adopted in relation to disclosure of the available budget when tendering for services and make recommendations to Cabinet about this.

The Audit and Governance Committee agreed the following recommendation –

(iii) To make decisions about whether to disclose the available budget on a project by project basis taking into account the commercial factors that apply.

The Committee was also asked to consider the approach that should be adopted in relation to the award of tenders in future in light of the issues highlighted in the report and make recommendations to Cabinet about this.

The Audit and Governance Committee agreed the following recommendation –

(ii) To have a general approach to announce the name of the successful tenderer at Cabinet in all cases apart from those where an existing tenderer has put in a tender for a follow on contract.

46. **Review of Outside Bodies**

Sian Millard (Oversight and Governance Manager) presented this item to the Committee.

Plymouth City Council currently appointed representative members to 53 outside bodies. Outside bodies are organisations which are independent from the council, but had an impact on our services or help us to fulfil our responsibilities.

Following the Annual General Meeting of Council in May 2019 it was agreed that a review of the current list of outside bodies was required.

This paper required agreement of the principles for appointments to outside bodies, prior to undertaking a full review on the basis of those agreed principles.

Processes and procedures for ensuring effective updating and management of membership of outside bodies going forward would also be revised and strengthened.

The Audit and Governance committee approved the principles for appointments to outside bodies as follows:

a. Appointments to outside bodies are confirmed at the Annual General Meeting of Council each year, with the exception of appointments of Cabinet members to outside bodies which are confirmed by the Leader.

b. Responsibilities of councillors on outside bodies will depend on the type of body in which a member is involved. These appointments create obligations on the council and individual councillors, particularly where a councillor is asked to be a member or director of an outside

body. Therefore consideration needs to be given to ensure these obligations are proportionate to the relationship between the Council and that outside body.

c. Appointments should be made based on the insight/connection that the appointee can bring, for instance some outside bodies are more relevant to councillors of specific Wards. Consideration should be given as to whether a link or specific interest exists between the appointee and the outside body.

d. There should be a memorandum of understanding between the outside body and the appointed representative so that each is aware of and understands their role and obligations. This could include a letter of appointment, provision of insurance cover, expectations as to attendance at meetings etc.

e. Where appropriate, outside bodies should be asked to provide suitable insurance cover for those appointed when acting on behalf of that organisation. This is particularly important where the councillor will be a director or trustee with statutory responsibilities and/or whether they may be taking financial or employment decisions on behalf of the outside body.

f. Members appointed to outside bodies should receive sufficient support from officers to ensure they have the information they need to maximise their contribution to these organisations.

g. Members on outside bodies should provide regular feedback to officers/Council as appropriate and for larger outside bodies and those of strategic importance, this may be by way of an annual or biannual report to a meeting of Full Council.

h. Consideration should be given as to whether an elected member is the most appropriate appointment or whether a Council officer could fulfil the role, especially where outside bodies do not have decision making powers.

i. Where councillors are invited to join an outside body, consideration should be given as to whether undertaking an alternative role as a 'friend' to the body could be more appropriate. This allows support for the outside body and its causes without legal responsibility. An outside body could also opt to appoint a 'Council Representative' to act as a liaison and point of contact for the body, without necessarily requiring full attendance at Board meetings.

2. Audit and Governance Committee establish a cross-party working group to review the current list of outside bodies, to include membership requirements, Terms of Reference, strategic fit, omissions and monitoring of membership requirements of outside bodies, in line with the principles as set out above.

# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Operational Risk &amp; Opportunity Management Update Report</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Julie Hosking, Corporate Risk Advisor
Contact Email:	Julie.hosking@plymouth.gov.uk
Your Reference:	SM/JKH
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

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

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

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

The total number of operational risks now reported has increased from 111 to 112, comprising of two high (red) risks, 67 medium (amber) risks and 43 low (green) risks.

## Recommendations and Reasons

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.

### Relevance to the Corporate Plan and/or the Plymouth 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.

### Implications for the Medium Term Financial Plan and Resource Implications:

None arising specifically from this report but control measures identified in risk and opportunity registers could have financial or resource implications.

### Carbon Footprint (Environmental) Implications:

None arising specifically from this report.

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

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.

### Appendices

*\*Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Operational Risk Monitoring Briefing							

### Background papers:

*\*Add rows as required to box below*

*Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.*

Title of any background paper(s)	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7
Operational Risk Registers							

**Sign off:**

Fin	pl.192 0.175	Leg	ALT/ 3050 8/27	Mon Off	Click here to enter text.	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Giles Perritt											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 19/11/2019											
Cabinet Member approval: <i>Councillor Mark Lowry</i> Date approved: 27/11/2019											

**Appendix A – Operational Risk Monitoring Briefing****1.0 Introduction**

- 1.1 The position with regard to Operational Risk Register monitoring was last reported to this Committee on [22 July 2019](#) and this report now provides a summary of the latest monitoring exercise covering the position as at 30 November 2019.

**2.0 Background**

- 2.1 Plymouth City Council's Risk and Opportunity Management [Strategy](#) is reviewed each year and updated to ensure it remains fit for purpose. The latest version was endorsed by this Committee on 23 September 2019.
- 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 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 implemented across the organisation in March 2018. Service Directors reviewed their business plans during 2019.
- 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 2019/20-2021/22 Medium Term Financial Plan - Risk to Services of not delivering within reduced budgets</b></p>	<p>The Council is estimating a £3.466m overspend at the end of the second quarter of the financial year. This needs to be set in the context of Plymouth having to deliver over £17m of savings in 2019/20 in addition to the £11m of reductions delivered in 2018/19. The main pressures are within Children's due to unprecedented demands within the Service. Other pressures include non-delivery of legacy savings within Customer and Corporate and increased borrowing costs within the Treasury Management Budget. In addition, there are over £4m of savings planned that have not been fully delivered and are at risk. 2019/20 is the last year of the current four year Settlement. To date Plymouth has no indication as to the level of funding it will receive in 2020/21 or future years. This makes medium term financial planning extremely difficult.</p>
<p><b>Comments/Mitigation:</b> The Council is in the process of setting by a new Transformation Team to modernise the way services work. The programme will look at the way the Council works to operate in a modern and efficient way to meet customer's expectations. This will include examining current budget and actual spend; contracts; income opportunities and any synergies and efficiencies across the whole council. A Brexit Office has been set up with Departmental Representatives assessing the potential impact of Brexit upon services. Regular reports are reported to Corporate Management Team and Scrutiny. The Council will continue to model future cost pressures and estimated future funding levels as part of the development of the Medium Term Financial Plan.</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</b></p>	<p>Plymouth's position for Children's Services is similar to other parts of the country. There has been a significant increase in the cost of specialist residential placements and high cost care packages.</p>



<b>residential care placements with high levels of staffing.</b>	
<p><b>Comments/Mitigation:</b> Regular monitoring of all care plans and review of residential placements. Children, Young People and Families Service Improvement Plan. Development of an integrated targeted support offer will enable families needing help to be identified earlier and offered the right help at the right time.</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 line with the Council's risk appetite statement, operational risks scored 16 and above that are classed in the low risk appetite categories of 'Finance', 'Reputation' and 'Compliance, Regulation and Safeguarding' were presented to the Corporate Management Team on 19 November 2019. This approach ensures a high level of management oversight is focussed in the areas which could potentially be more damaging should the risk materialise.
- 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 Brexit Risks

- 6.1** Brexit Organisational and City specific risk registers have been produced and reported through the Brexit, Infrastructure and Legislative Change Overview and Scrutiny [Committee](#).
- 6.2** All departments have reviewed Business Continuity Plans and all of our suppliers have been contacted to ensure they have continuity arrangements in hand.
- 6.3** The Assistant Chief Executive has been designated the Brexit Lead Officer who acts as the principal contact point with other regional leads and central government.

## 7.0 Conclusion

- 7.1** The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 7.2** The Council recognises that it is operating in a climate of unprecedented financial pressure and that it needs to substantially reduce operating costs and ensure maximum possible investment in achieving its objectives and therefore needs to be innovative, resourceful, customer focused and provide greater value for money. The achievement of delivery plan actions to deliver budget

savings continues to be closely monitored by Services with regular reporting on a risk rated basis to the Corporate Management Team.

- 7.3** One of the responsibilities of the Audit 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.
- 7.4** The Risk and Opportunity Management Strategy will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed.
- 7.5** 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.
- 7.6** The next operational risk report will be presented to Audit and Governance Committee in July 2020.

# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Treasury Management Strategy 2020/21</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	Chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

This report sets out the Treasury Management Strategy for 2020/21 and includes the Annual Investment Strategy, the 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.

## Recommendations and Reasons

1. The Audit Committee recommends the Treasury Management Strategy 2020/21 (incorporating the authorised limits, operational boundaries and prudential indicators) to the Council for approval.

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

## Alternative options considered and rejected

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

## Relevance to the Corporate Plan and/or the Plymouth 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.

## Implications for the 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.

### Carbon Footprint (Environmental) Implications:

No direct implications.

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

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

### Appendices

*\*Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable)						
		<i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A								
B								

### Background papers:

*\*Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable)						
	<i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

**Sign off:**

Fin	PL.19. 20.17 7	Leg	ALT/ 3050 8/22	Mon Off	ALT/ 3050 8/22	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 21/11/2019											
Cabinet Member approval: Cllr Mark Lowry approved by email Date approved: 27/11/2019											

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# TREASURY MANAGEMENT STRATEGY 2020/21



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



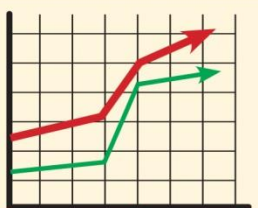
Borrowing to fund the investment. Investing surplus funds



Who do we borrow from?

**NEW**  
Can we use new borrowing methods to save cost?

What is the limit for different types of investment?



How we achieve good investment returns



How we monitor credit status

Who do we invest with?



Do we pay fixed or variable interest?

**CAN WE RESTRUCTURE OUR DEBT TO SAVE COST?**



How do we get long term low borrowing costs?

**Security is paramount**



## This section explains how we invest and borrow

### Introduction

Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the effects of changing interest rates.

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 2018.

### 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

<b>Statutory and Performance Framework</b>  <i>Rules that guide us</i>	<b>Investments</b> <ul style="list-style-type: none"> <li>• Sterling only</li> <li>• Can use UK Government, Local Authority or a body of high credit quality</li> <li>• The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher and domiciled in UK</li> </ul>
	<b>Counterparties and Limits</b> (see table on page 20)
	<b>Investment Limits – subject to credit ratings table on page 21</b> <ul style="list-style-type: none"> <li>• <b>No limit</b> UK Government</li> <li>• <b>£25m</b> any single organisation</li> <li>• <b>£45m</b> any group of organisations</li> <li>• <b>£30m</b> per pooled fund manager</li> <li>• <b>£25m</b> negotiable instruments per broker</li> <li>• <b>£25m</b> per registered provider</li> <li>• <b>£20m</b> unrated corporates and pooled funds</li> <li>• <b>£60m</b> money market funds</li> </ul>
<b>Approach</b>  <i>Choices made within the framework</i>	<b>Key Council Budget Assumption for 2019/20</b> <ul style="list-style-type: none"> <li>• Investments make an average rate of return of 1.49%</li> </ul>
	<b>Objective</b> - Security first, Yield second and then Liquidity <b>Strategy</b> - to maximise returns, reduce risk and diversify investments <b>Risk Assessment and credit ratio</b> - Our advisors monitor credit ratings daily so any new investments will be made using the latest credit information <b>Other information on security of Investments</b> - 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

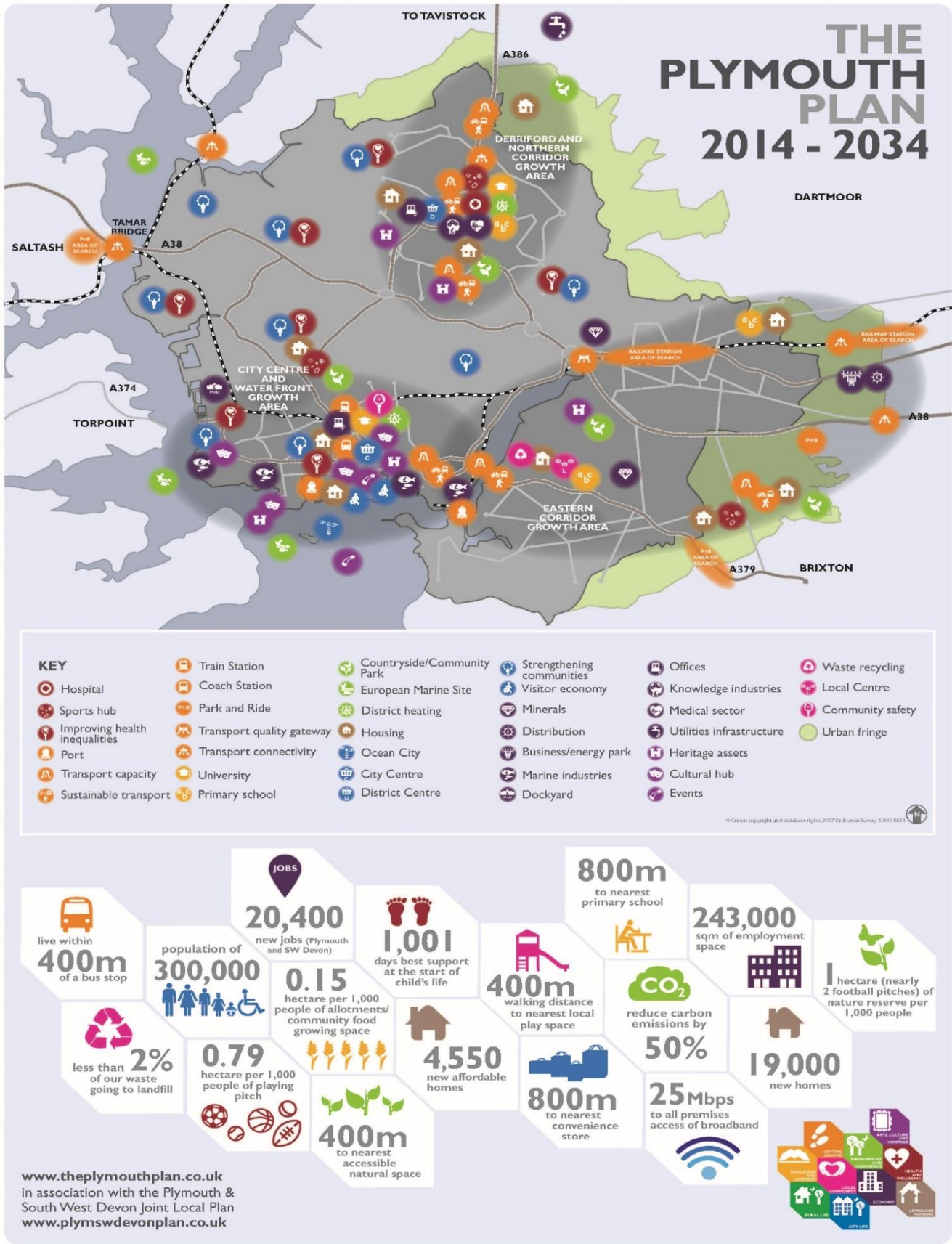
- To achieve the best secure investment returns
- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

### Market Intelligence

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

<p style="text-align: center;"><b>Statutory and Performance Framework</b></p> <p style="text-align: center;"><i>Rules that guide us</i></p>	<p><b>Borrowing</b></p> <ul style="list-style-type: none"> <li>• <b>£220m</b> Total Capital Expenditure</li> <li>• <b>£962m</b> Capital Finance Requirement (need to borrow)</li> <li>• <b>£990m</b> Total Debt (loans and private finance initiative)</li> <li>• <b>£1010m</b> Operational Boundary (practical ceiling on borrowing)</li> <li>• <b>£1095m</b> The Authorised Limit (absolute maximum debt approved)</li> </ul>
	<p><b>Prudential Indicators</b></p> <ul style="list-style-type: none"> <li>• <b>9.3%</b> Ratio of finance costs to net revenue stream (borrowing costs as a proportion of net revenue budget)</li> <li>• <b>£19.50</b> Hypothetical increase in Council Tax affordability. (this is technical measure; the Council has made no future years tax decisions)</li> </ul>
	<p><b>Treasury Management Indicators</b></p> <ul style="list-style-type: none"> <li>• <b>100%</b> Limit on Fixed Interest Exposure</li> <li>• <b>100%</b> Limit on Variable Interest Rate</li> <li>• <b>0% to 90%</b> Maturity Structure of Borrowing, exposure in any duration</li> </ul>
	<p><b>Minimum Revenue Provision Policy</b></p> <ul style="list-style-type: none"> <li>• Annuity Method</li> <li>• 50 year repayment for capitalisation directives</li> <li>• PFI/Leases determined by the specific agreement</li> <li>• No MRP on capital loans or investments</li> <li>• Option for capital receipts to be used towards repaying debt</li> </ul>
	<p><b>Key Council Budget Assumption for 2019/20</b></p> <ul style="list-style-type: none"> <li>• New long-term loans will cost an average rate of 3.25%</li> </ul>
<p style="text-align: center;"><b>Approach</b></p> <p style="text-align: center;"><i>Choices made within the framework</i></p>	<p><b>Objective</b> - Balance low interest rates with long term certainty</p> <p><b>Strategy</b> – to borrow short term now and lock in long term when appropriate</p> <p><b>Sources of Finance</b> - 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 &amp; Lease back</p> <p><b>LOBOs</b> will be repaid if there is a NPV saving and if there is agreement with the lenders</p> <p><b>Municipal Bonds Agency</b> Council will use where appropriate</p> <p><b>Debt Restructuring</b> A present value calculation based on current rates for the same period of loan may result in a discount or premium.</p> <ul style="list-style-type: none"> <li>• Council will re-schedule if it reduces cost or risk</li> </ul>

**Delivering the Plymouth plans explains why we are borrowing and investing**



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

#### A GROWING CITY

- \_\_\_\_\_ A clean and tidy city
- \_\_\_\_\_ An efficient transport network
- \_\_\_\_\_ A broad range of homes
- \_\_\_\_\_ Economic growth that benefits as many people as possible
- \_\_\_\_\_ Quality jobs and valuable skills
- \_\_\_\_\_ A vibrant cultural offer
- \_\_\_\_\_ A green, sustainable city that cares about the environment.

#### A CARING COUNCIL

- \_\_\_\_\_ Improved schools where pupils achieve better outcomes
- \_\_\_\_\_ Keep children, young people and adults protected
- \_\_\_\_\_ Focus on prevention and early intervention
- \_\_\_\_\_ People feel safe in Plymouth
- \_\_\_\_\_ Reduced health inequalities
- \_\_\_\_\_ A welcoming city.

### HOW WE WILL DELIVER

Listening to our customers and communities.

Providing quality public services.

Motivated, skilled and engaged staff.

Spending money wisely.

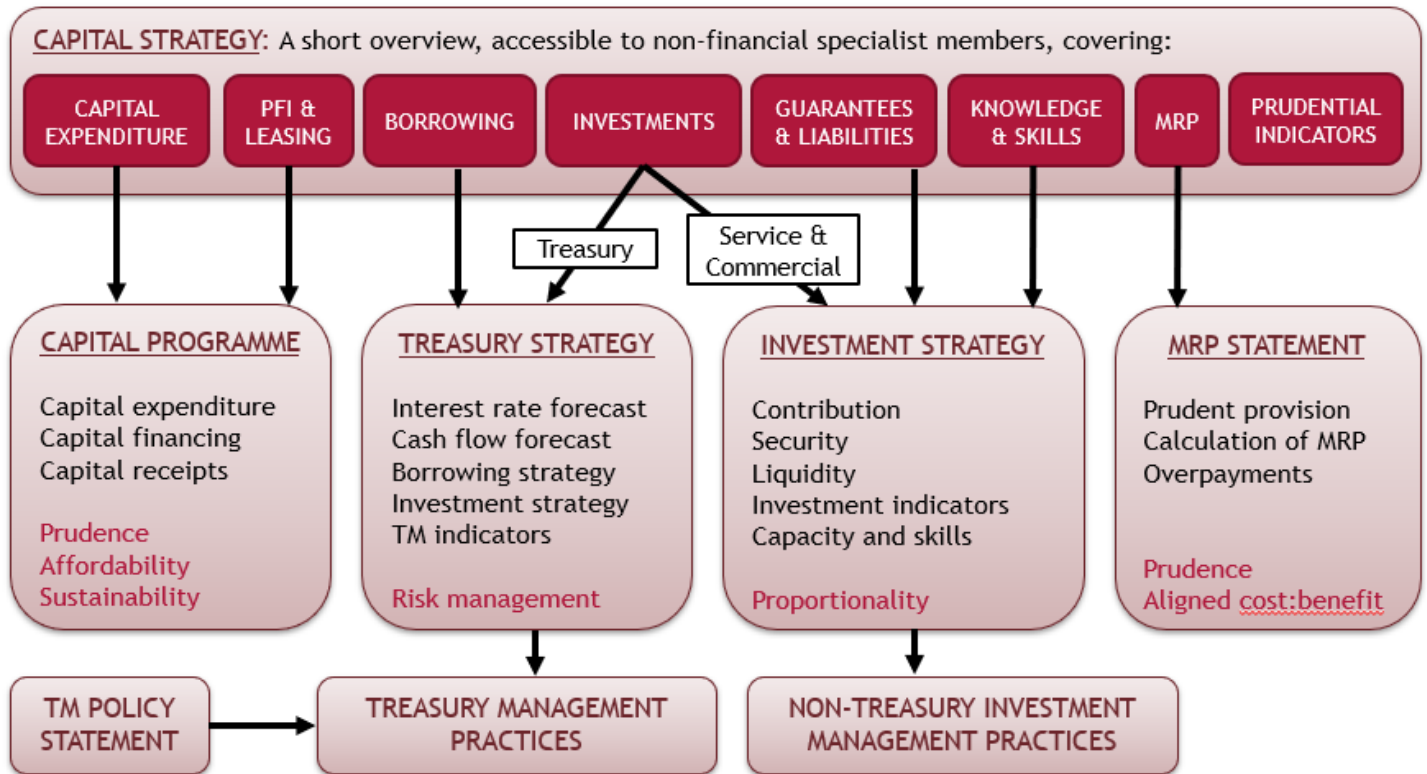
A strong voice for Plymouth regionally and nationally.



[www.plymouth.gov.uk/ourplan](http://www.plymouth.gov.uk/ourplan)

**The diagram below shows how Capital expenditure affects the Treasury Management Strategy**

## 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 as at November 2019**

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 Council’s treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August.

The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.



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

#### Credit Outlook

Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

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

#### Interest Rate Forecast

The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

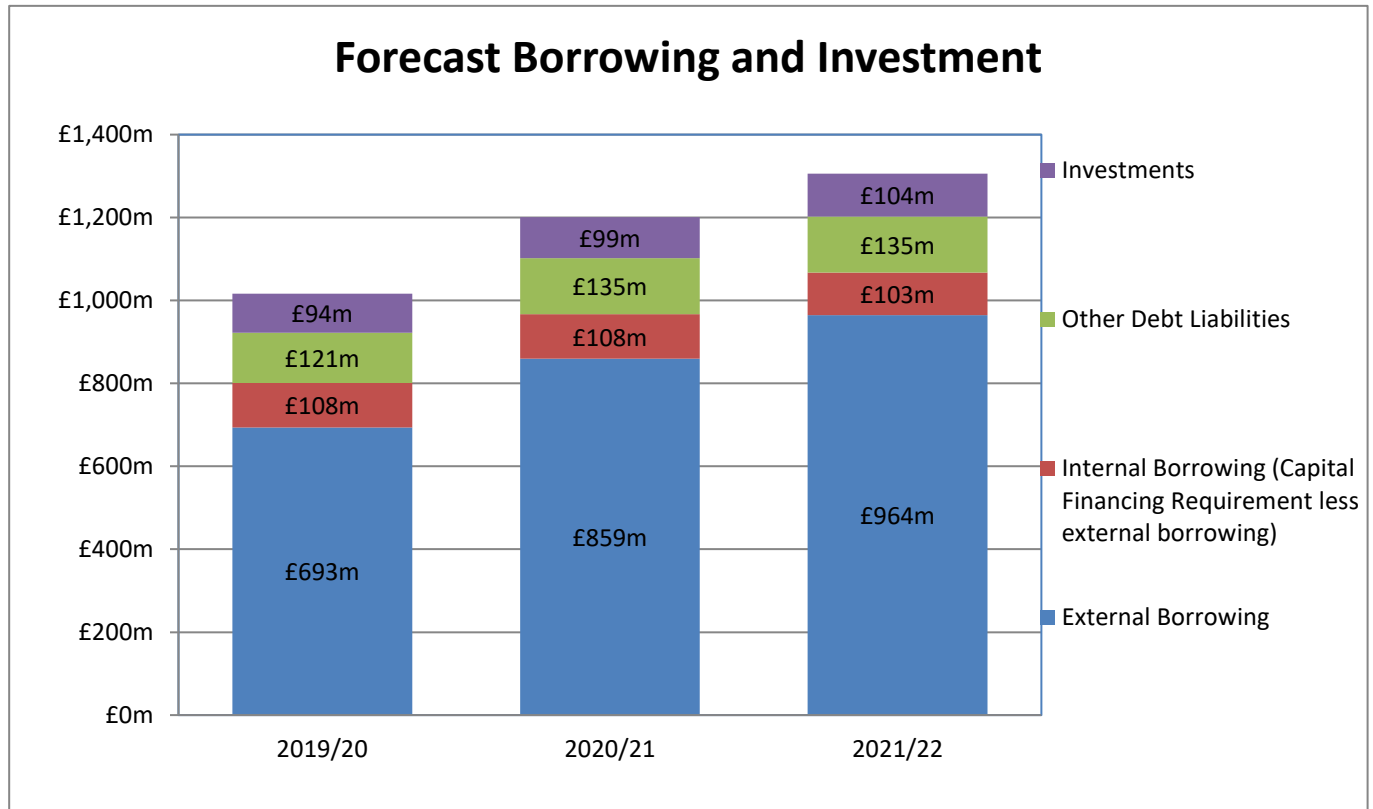
A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 3.0%, 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 debt and investments we expect to have in the next three years



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 £465 million of loans in as at 31 March 2019. This was an increase of £98 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 £855m in 2020/21. The total borrowing must not exceed the authorised limit set by the Council of £950 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

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources and to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

Short term borrowing is the cheapest option but leaves the Council exposed to refinancing risk, which can be divided into interest rate risk (the risk that rates will rise) and availability risk (the risk that no-one will lend to the Council).

Long-term fixed rate loans remove the interest rate risk by fixing the rate for the term of the loan. These have been popular among local authorities but are relatively expensive.

The Council is looking to continue rolling short-term borrowing and to look at taking interest rate swaps. This combines the main benefit of short-term borrowing (the low margin) with the main benefit of the long-term fixed rate borrowing (the fixed rate).

The government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will continue to borrow short term but if it decides to take long-term loans, it will look at other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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
- Any other UK public sector body
- 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 Council's TM advisors
- A Plymouth City Council bond or similar instruments

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

### 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)**

The Council holds £64m 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 will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

**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 interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

**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 2020/21

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	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund	134.005	285.955	219.830	158.500
<b>Total Expenditure</b>	<b>134.005</b>	<b>285.955</b>	<b>219.830</b>	<b>158.500</b>
Capital Receipts	2.325	2.330	2.330	2.000
Grants and Contributions	32.078	55.000	88.000	55.000
Reserves	-	-	-	-
Revenue	0.885	1.500	1.500	1.500
Borrowing	98.717	228.567	161.000	100.000
Leasing and PFI	-	-	-	-
<b>Total Financing</b>	<b>134.005</b>	<b>285.955</b>	<b>219.830</b>	<b>158.500</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 19 Actual £m	31 Mar 20 Estimate £m	31 Mar 21 Estimate £m	31 Mar 22 Estimate £m
General Fund	572.620	801.187	962.187	1062.187
<b>Total CFR</b>	<b>572.620</b>	<b>801.187</b>	<b>962.187</b>	<b>1062.187</b>

The CFR is forecast to rise by £261m over the next two 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 20 Estimate £m	31 Mar 21 Estimate £m	31 Mar 22 Estimate £m
Borrowing	695.000	855.000	955.000
PFI liabilities & Finance Leases	121.000	135.000	135.000
<b>Total Debt</b>	<b>816.000</b>	<b>990.000</b>	<b>1090.000</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	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	750.000	875.000	975.000
Other long-term liabilities	125.000	135.000	140.000
<b>Total Debt</b>	<b>875.000</b>	<b>1010.000</b>	<b>1115.000</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	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	795.000	950.000	1025.000
Other long-term liabilities	130.000	145.000	145.000
<b>Total Debt</b>	<b>925.000</b>	<b>1095.000</b>	<b>1170.000</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	7.3%	8.4%	9.3%

**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	£18.10	£20.30	£19.50

**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.



## Treasury Management Investment Strategy

**This explains the types of Investments under the CIPFA and MHCLG rules including non-Treasury Management Investments**

### Introduction

The Council 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 meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

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

The Council holds significant 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 £70m and £95m million, and is expected to remain about the same in the forthcoming year.

### Objectives

Both the CIPFA Code 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.

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 2020/21 financial year.

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 or if unrated an assessment will be made from the financial information available.

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

**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-	£6m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£6m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£6m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£6m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
Unrated pooled funds, corporates and real estate investment trusts	£20m per fund or trust				
Unrated investments in equity, quasi-equity, debt or otherwise	£5m per investment for 10 years				

This table must be read in conjunction with the notes below

### 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 and investments to unrated corporates and pooled funds	£25m in total
Money Market Funds	£60m in total
Real estate investments trusts	£10m in total
Unrated investments in equity, quasi-equity, debt or otherwise	£5m 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 2020/21

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

## 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 above, 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

### **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:

	2020/21	2021/22	2022/23

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:

	2020/21	2021/22	2022/23
Limit on principal invested beyond one year	£40m	£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 (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 2020/21 for treasury management investments are covered in the preceding sections of this document.

### Service Investments

#### Loans

The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities or housing associations etc. to support local public services and stimulate local economic growth. For example the Council has given a loan to Plymouth Community Energy to support the construction of the solar energy farm at Ernesettle.

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.

Loans are treated as capital expenditure for accounting treatment.

**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 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 loan agreements are reviewed by our legal team to ensure that they are legally compliant and includes any safeguards for the Council;
5. if an organisation has a credit rating we will carry out a credit check to assist;
6. State Aid rules are 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 holding cash in its Money Market Fund and being able to borrow short term loans from other local authorities.

### **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 and regional, commercial and residential property with the intention of making a profit, after paying the borrowing costs that will be spent on local public services.

#### Property held for investment purposes

<b>Asset Investment Fund</b>	<b>Actual 2018/19</b>	<b>Estimate 2019/20</b>	<b>Forecast 2020/21</b>
Commercial Property	£129.137m	£200.000m	£240,000m
Net Income	£2.794m	£4.000	£4.800m
Net Return	2.2%	2.2%	2.2%

**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 take 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

	2018/19 Actual
Gross expenditure on provision of services	£531.681
Gross Investment income	£2.794m
Proportion	0.53%

### 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 Council 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) a 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 2020/21

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 Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision (the MHCLG Guidance) updated in 2018.

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

For assets acquired after 31 March 2008 MRP will be determined by charging the expenditure over the expected useful life of the asset on an annuity basis, 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 to repay debt.

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.

For capital expenditure incurred before 1st April 2008, for supported capital expenditure incurred on or before that date, MRP will be charged on an annuity basis over 50 years, incorporating an "Adjustment A" in accordance to the guidance.

Investment properties will be charged MRP for properties that have reduced in value at the year-end valuation. For investment properties that have increased in value at the year-end valuation these will have nil MRP charge in that year. The investment properties are required to have life cycle maintenance and therefore are assumed to increase in value over time. This will extend the life of the assets and therefore it would not be appropriate to charge MRP.

All investment properties that are sold by the Council will use the capital receipts to repay the outstanding loan finance for that property before any balance of capital receipts is available for other capital projects.

### 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.

In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

**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** - For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet 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.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

### 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.

### Markets in Financial Instruments Directive

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

## 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.

### 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.

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

## Appendix A – Arlingclose Economic and Interest Rate Forecast November 2019

### Underlying assumptions

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

### Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.



	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>3-month money market rate</b>														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>1yr money market rate</b>														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.60
<b>5yr gilt yield</b>														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	0.37
Arlingclose Central Case	0.50	0.50	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.56
<b>10yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.00	1.00	0.88
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.45
<b>20yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45
<b>50yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45

**Appendix B - Existing Investment and Debt Portfolio Position**

	<b>31 Oct 2019 Actual Portfolio £m</b>	<b>31 Oct 2019 Average Rate %</b>
<b>External Borrowing:</b>		
PWLB – Fixed Rate	44.3	5.76
Local Authorities	442.0	0.91
LOBO Loans	64.0	4.34
Long Term Borrowing	18.0	4.37
<b>Total External Borrowing</b>	<b>415.8</b>	<b>1.78</b>
<b>Other Long Term Liabilities:</b>		
PFI, Finance Leases and other liabilities	120.5	n/a
Other loans	11.7	n/a
<b>Total Gross External Debt</b>	<b>647.0</b>	
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term Money Market Funds	40.0	0.68
Other Short Term investments	19.8	0.92
<i>Managed externally</i>		
CCLA Pooled Funds	25.0	3.80
Other Pooled Funds	25.0	2.75
<b>Total Investments</b>	<b>109.8</b>	<b>1.88</b>
<b>Net Debt</b>	<b>537.0</b>	

**Treasury Management Strategy 2020-21**

Published by:  
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# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Capital Financing Strategy 2020/21</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	Chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

## **Purpose of Report**

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

## **Recommendations and Reasons**

- I. The Audit Committee recommends the Capital Financing Strategy 2020/21 to the Council for approval.

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

## **Alternative options considered and rejected**

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

## **Relevance to the Corporate Plan and/or the Plymouth 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.

## **Implications for the 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.

**Carbon Footprint (Environmental) Implications:**

[Click here to enter text.](#)

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council’s duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

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

**Appendices**

*\*Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A								
B								

**Background papers:**

*\*Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

**Sign off:**

Fin	PL.19 .20.1 78	Leg	ALT/ 3050 8/22/ I	Mon Off	ALT/ 3050 8/22/ I	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 21/11/2019											
Cabinet Member approval: by Cllr Mark Lowry by email Date approved: 27/11/2019											

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# CAPITAL FINANCING STRATEGY 2020/21



## INTRODUCTION AND CONTEXT

This capital strategy report gives 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 has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

It is now a requirement as part of the amendments implemented in the 2017/18 Treasury Management Code of Practice Guidance 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 2019 the Council approved a budget which contained an uplift to the revenue budget of £0.450m 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 £0.800m in 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 2019, 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	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m	£m
People	8.274	0.187	0.172	0.172	-	<b>8.805</b>
Place	141.407	85.511	28.273	18.836	7.851	<b>281.878</b>
Transformation & change	9.935	2.565	-	-	-	<b>12.500</b>
Public Health	6.423	4.844	-	-	-	<b>11.267</b>
<b>Total</b>	<b>166.039</b>	<b>93.107</b>	<b>28.445</b>	<b>19.008</b>	<b>7.851</b>	<b>314.450</b>

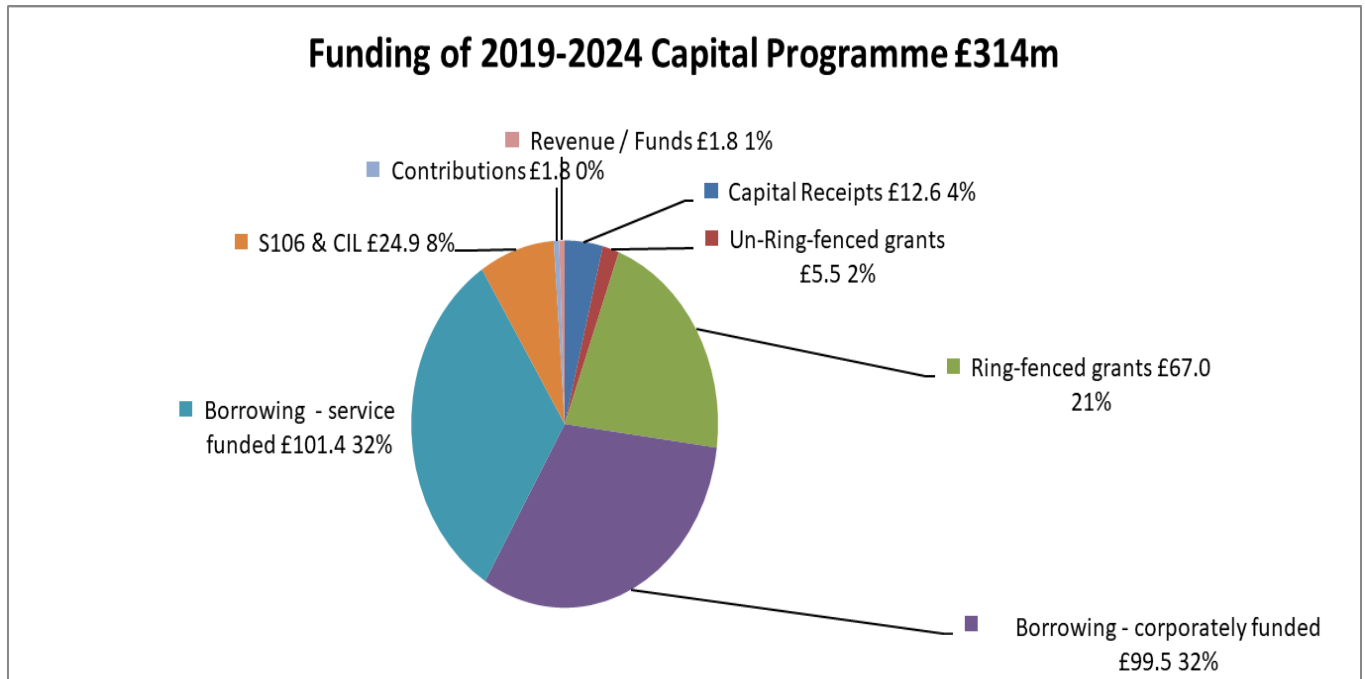
**CAPITAL EXPENDITURE AND FINANCING**

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 £314.450m as summarised below by funding source.



## ASSET INVESTMENT FUND

The Asset Investment Fund has invested £167 million 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 (PWLB) interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2020/21.

## **RISK MANAGEMENT**

The Council considers its 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.

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# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Mid- Term Treasury Management Report 2019/20</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	Chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of 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 2019/20 was approved by full Council at its budget meeting on 15 February 2019.

This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2019. 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.

## Recommendations and Reasons

- I. The Mid-Year Treasury Management Report 2019/20 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.

## Relevance to the Corporate Plan and/or the Plymouth 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.

**Implications for the Medium Term Financial Plan and Resource Implications:**

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.

**Carbon Footprint (Environmental) Implications:**

No direct Impact.

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council’s duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

N/A

**Appendices**

*\*Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applic If some/all of the information is confidential, you must indi why it is not for publication by virtue of Part 1 of Schedule of the Local Government Act 1972 by ticking the relevant						
		1	2	3	4	5	6	7
A								
B								

**Background papers:**

*\*Add rows as required to box below*

*Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.*

Title of any background paper(s)	Exemption Paragraph Number (if applicable) If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.						
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**Sign off:**

Fin	PL.19 .20.1 53	Leg	ALT/ 3050 8/29	Mon Off	ALT/ 3050 8/29	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 24/10/2019											
Cabinet Member approval: <i>Mark Lowry verbally</i> Date approved: 04/11/2019											

## Mid-Year Treasury Management Report 2019/20

### 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 2019.
- 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 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy and the Council's Treasury Management Strategy for 2019/20 were approved by full Council on 25 February 2019.
- 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.

### 2. External Context as at 1st October 2019

- 2.1 **Economic background:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.
- 2.2 The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.



- 2.3 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. There will be an election on 12 December 2019 and the EU have given the government an extension on Brexit until 31 January 2020.
- 2.4 Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September, the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.
- 2.5 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit. This could go in either direction depending on what happens after the election.

### **3. Financial markets:**

- 3.1 After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.
- 3.2 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.
- 3.3 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to

remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

#### **4. Credit background:**

- 4.1 Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.
- 4.2 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

#### **5. Local Context**

- 5.1 At 31<sup>st</sup> March 2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £573m, while usable reserves £57m. The Council had £449m of borrowing and £85m of investments.
- 5.2 The Council has an increasing CFR over the next 5 years due to the capital programme, but will maintain their investments and will therefore require borrowing of up to £420m over the forecast period.

#### **6. Borrowing Strategy**

- 6.1 At 30/9/2019 the Council held £503m of loans, (an increase of £54m from 31/3/2019), as part of its strategy in funding the capital programme.

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

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

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

## 7. Borrowing activity in during the half year

- 7.1 The Council’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 7.2 At 30/9/2019 the Council held £503m of loans, (an increase of £54m on 31/3/2019), as part of its strategy for funding the capital programme.

The 30th September 2019 borrowing position is show in the table below.

	Balance at 01/04/2019 £m	Movement £m	Balance at 30/09/2019 £m
Short Term Borrowing	323	54	377
LOBO	64	-	64
Public Works Loans Board	44	-	44
Other long term loans	18	-	18
<b>Total Borrowing</b>	<b>449</b>	<b>54</b>	<b>503</b>
Long Term Investments	38	15	53
Short Term Investments	20	-	20
Cash and Cash Equivalents	26	5	31
<b>Total Investments</b>	<b>84</b>	<b>20</b>	<b>104</b>
Net Borrowing	365	36	401

- 7.3 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.
- 7.4 In keeping with these objectives new borrowing was kept to a minimum. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 7.5 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.
- 7.6 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 decided to take advantage of falling interest rates and it borrowed an additional £54m short term loans.

#### 7.7 **PWLB**

On 8 October 2019 the government increased the PWLB rates by 1%. HM Treasury explained that the main reason for doing this was due to the increase in the use of PWLB loans at some authorities in recent months as the cost of borrowing has fallen to record lows.

The Council is not currently planning to borrow from PWLB and it obtains most of its borrowing from other Local Authorities, which have increased their rates because of the PWLB interest rate rise.

#### 7.8 **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.

#### 7.9 **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 2019/20.

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.

### 7.10 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 2019, the total debt was £106m including PFI £104m Finance leases £2m. The Council has raised no additional PFI borrowing during the period to 30<sup>th</sup> September 2019.

## 8. Investment Activity

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

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

### Investment Activity

Investments	Balance on 01/04/2019 £m	Movement Movement £m	Balance on 30/09/2019 £m
<b>Short Term Investments</b>			
Other Investments	20	0	20
Money Market Funds	26	5	31
<b>Long Term Investments</b>			
CCLA Pooled Funds	25	0	25
Other Funds	13	15	28
<b>TOTAL INVESTMENTS</b>	<b>84</b>	<b>20</b>	<b>104</b>
Increase/ (Decrease) in Investments £m			20

8.3 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.

8.4 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.

## **9. Budgeted Income and Outturn**

- 9.1 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.
- 9.2 The Council's budgeted investment income for the year is estimated at £1.794m. The Council is currently anticipating delivering this by the year end.

## **10. Non-Treasury Investments**

- 10.1 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.
- 10.2 The Council also holds £167.488m of investments in directly owned property as part of the Asset Investment Fund as at 30<sup>th</sup> September 2019. This represents an increase in the first six months of the year of £26.985m.
- 10.3 The non-treasury investments in the Asset Investment Fund are forecast to generate £2.724 (budget £1.800m) of investment income for the Council after taking account of direct costs and service borrowing, representing a rate of return of 2.2%.

## **11. Compliance with Prudential Indicators**

### **11.1 Prudential Indicators 2019/20**

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.

- 11.2 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**

	30.9.19 Actual	2019/20 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	✓

**12. Debt Limits**

12.1 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	30.09.19 Actual £m	2019/20 Target £m	Complied
Borrowing	503	720	✓
Other long-term liabilities	121	122	✓
<b>Total Debt</b>	<b>624</b>	<b>842</b>	<b>✓</b>

The Council confirms that during 2019/20 the Operational Boundary has not been breached.

12.2 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	30/09/19 Actual £m	2019/20 Target £m	Complied
Borrowing	503	775	✓
Other long-term liabilities	121	145	✓
<b>Total Debt</b>	<b>624</b>	<b>920</b>	<b>✓</b>

Total debt as at 30/9/2019 was £624m. The Council confirms that during 2019/20 the Authorised Limit was not breached at any time.

### 13. Treasury Management Indicators

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

#### 13.1 Security:

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

	30.09.19 Actual	2019/20 Target	Complied
Portfolio average credit rating	A	A	✓

#### 13.2 Liquidity

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

#### 13.3 Interest Rate Exposures:

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

	30.09.19 Actual	2019/20 Target	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓



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

	30.09.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	72%	90%	0%	✓
12 months and within 24 months	1%	40%	0%	✓
24 months and within 5 years	0%	40%	0%	✓
5 years and within 10 years	7%	25%	0%	✓
10 years and above	20%	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.

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

	30.09.19 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.

## 14. Investment Training

- 14.1 During the period to 30 September 2019 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

## 15. Outlook for the remainder of 2019/20

- 15.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.
- 15.2 There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.
- 15.3 Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.
- 15.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.
- 15.5 Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependent on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities

	Dec-2019	Mar-2020	Jun-2020	Sep-2020	Dec-2020	Mar-2021	Jun-2021	Sept-2021	Dec-2021	Mar-2022
<b>Official Bank Rate</b>										
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>
Downside Risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Internal Audit Half Year Report 2019/20</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Brenda Davis, Audit Manager
Contact Email:	brenda.davis@devonaudit.gov.uk
Your Reference:	AUD/BD
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

This report provides Members of the Audit and Governance Committee with a position statement on the audit work carried out since April 2019. Overall, based on work performed to date during 2019/20 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

## Recommendations and Reasons

The Audit and Governance Committee note:

- the findings within the report,
- the Head of Audit assurance opinion based on work undertaken in the first half of the year.

## 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.

## Relevance to the Corporate Plan and/or the Plymouth 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.

## Implications for the Medium Term Financial Plan and Resource Implications:

Delivery of the audit plan will assist the council in delivering value for money services.

**Carbon Footprint (Environmental) Implications:**

No direct carbon/environmental impacts arising from the recommendations.

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

\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.

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

**Appendices**

\*Add rows as required to box below

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Internal Audit Half Year Report 2019/20							

**Background papers:**

\*Add rows as required to box below

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

**Sign off:**

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Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)

Please confirm the Strategic Director(s) has agreed the report? Yes

Date agreed: 6/11/2019

Cabinet Member approval: Cllr Mark Lowry (approved by email)

Date approved: 20/11/2019

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devon **audit** partnership

Internal Audit

# Half Year Monitoring Report 2019-20

## Plymouth City Council Audit Committee

December 2019  
Official

Robert Hutchins  
Head of Audit Partnership

CUSTOMER  
SERVICE  
EXCELLENCE



Auditing for achievement

## Introduction

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

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

The Internal Audit plan for 2019/20 was presented and approved by the Audit Committee in March 2019. The following report and appendices set out the background to audit service provision; a review of work undertaken to date in 2019/20 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 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 2019/20 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**

## 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. Council Tax & 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 continues to be utilised widely across the Council. The risk of overspend in Children's Social Care and the challenges of delivering services within the available envelope of resources are "red" on the Strategic Risk Register. Considerable work has also been undertaken to understand and where possible, mitigate business continuity risks in preparing for a "No Deal Brexit". Brexit risk assessments are in place.

### Governance Arrangements

Governance arrangements have been reviewed within operational areas such as Fleet and Garage.

We have audited Gifts & Hospitality policies and practices and tracked implementation of Children's Safeguarding Partner arrangements.

The Information Lead Officers Group and Information Governance Manager continue to provide good governance on the management of information.

### Performance Management

Quarterly capital and revenue monitoring reports to Cabinet identify key issues and their associated corrective actions.

Performance against priorities in the Corporate Plan are RAG rated and reported to Cabinet. Our review of indicators that form the Customer Experience Theme found the integrity of the indicators generally robust. Further work is planned on performance indicators not yet subject to audit review.

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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 for assessment of the Authority's control environment.

These reviews have informed the Head of Internal Audit's Opinion on the internal control framework on the year to date. Should any significant weaknesses be identified in specific areas, they will need to be considered by the Authority in preparing its Annual Governance Statement later in the year for publication alongside the Statement of Accounts for 2019/20.

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. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up.

<b>Full Assurance</b>	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.	<b>Limited Assurance</b>	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.
<b>Significant Assurance</b>	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.	<b>No Assurance</b>	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.

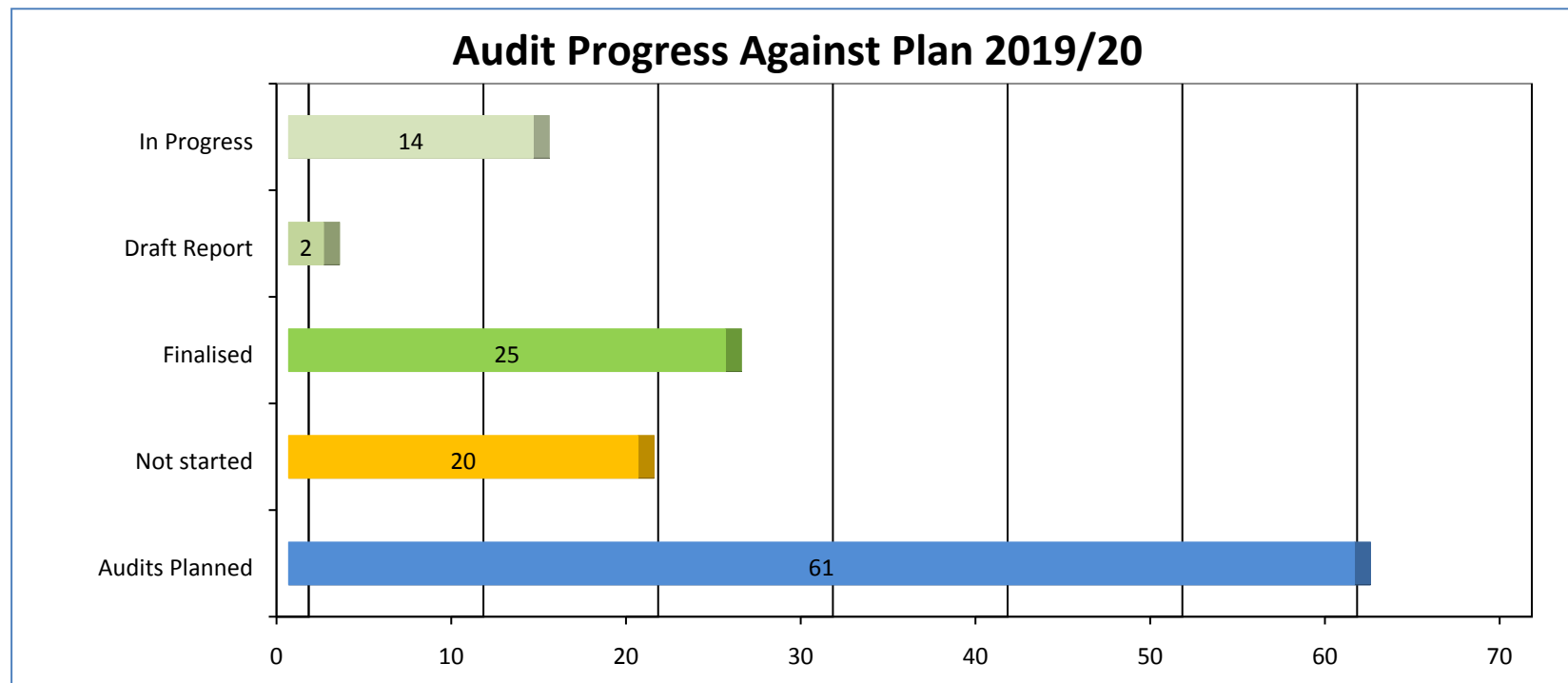
## Progress against plan

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 Directorate’s internal control environment and summarises the performance of the Internal Audit function against its performance measures and other criteria. The bar chart below shows delivery of the plan against target as at 30 September.

Progress in the first six months has included completion of work from 2018/19 necessarily spanning year end, undertaking follow up audits on areas where significant findings were made in the previous year and reporting to committee thereon and progressing assignments in accordance with timescales agreed with management.

A table showing the status of planned audits and their associated reported executive summaries is contained at Appendix 1. In addition to this year’s planned work, consultancy and advice continues to be provided where required.

Progress against plan is generally as expected for the year so far.



## Assurance Opinions

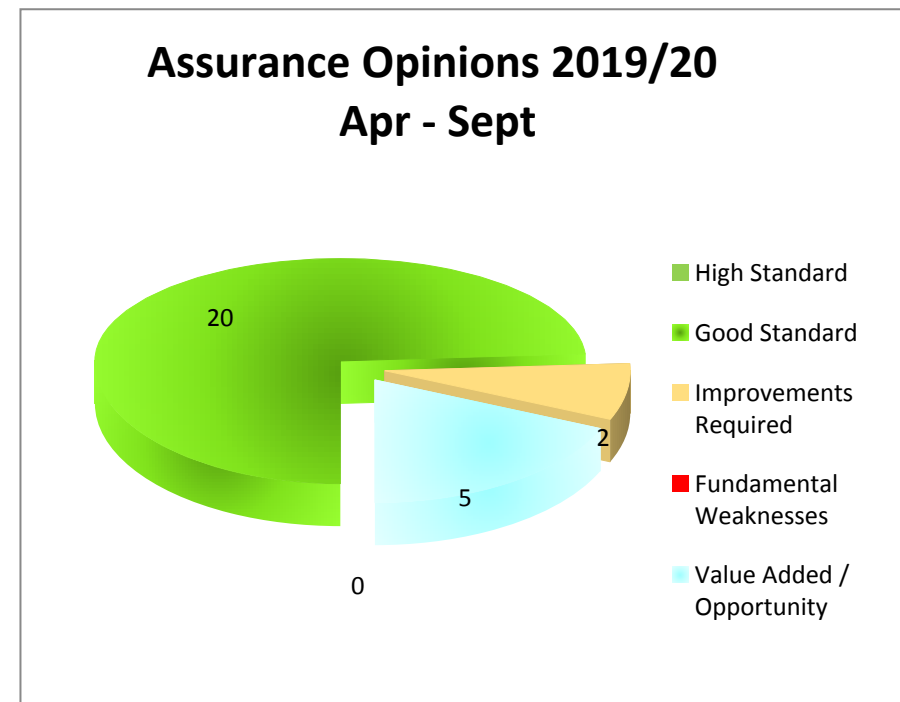
Ongoing austerity and the uncertain and changing backdrop within the UK present significant challenges to all local authorities. Funding cuts of around 50% since 2010-11 together with ever greater demands on Children’s Services, an ageing population and no reduction in statutory obligations has created an increasingly challenging environment for the Council. Action plans to deliver the savings necessary to close the budget gap are subject to ongoing review and challenge. These risks are recognized in the Strategic Risk Register and when carrying out audit reviews and in the course of working with service areas, DAP look to identify any synergies, efficiencies or income opportunities which may be achieved.

Work has been ongoing to track the progress of Brexit legislation through Parliament and monitor media and other sources of information to inform understanding of the progress being made in the Brexit negotiations. Development of a Brexit risk register contains corporate and Citywide risks including Port and Fisheries, with action logs subject to regular review to check if the view of the situation has changed. DAP have a seat on the cross departmental working group and can provide assurance as to the robustness of the process. Business Continuity Plans across all areas of the Council have been reviewed and suppliers contacted to ensure that they also have continuity arrangements in hand. External working groups have been set up including a Port liaison group and through collaboration with Devon & Plymouth Chamber of Commerce, a Plymouth Brexit Group. The Council has prepared as much as possible for the next General Election which is now scheduled for 12th December.

In our opinion based on our audit work to date for 2019/20, 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.

Appendix 1 below details the assurance opinions for individual audits; the definitions of the assurance opinion ratings are given in Appendix 5.



## 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 co-ordinated the extract of relevant Council datasets, as defined by the Cabinet Office. Departments supplied their datasets which were uploaded onto the NFI secure website in October 2018 in accordance with the NFI timetable. The subsequent matching reports were received back from the Cabinet Office in February 2019 and departments have been reviewing the matches throughout 2019/20.

DAP are currently reviewing the results of the work undertaken by departments and will be reporting outcomes to the Service Director for Finance shortly.

**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** – The Plymouth City Council Corporate Fraud Team transferred to the Devon Audit Partnership (DAP) in May 2018 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 order to provide Plymouth City Council with a return on its investment.

The Counter Fraud Team Manager has prepared a separate report summarising work undertaken in the year to date.

## Assurance Opinion and Extract Executive Summaries – up to 31 October 2019

### Risk Assessment Key

ANA - Audit Needs Assessment risk level

Client Request - no risk assessment information available

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment		
<b>Customer and Corporate / Finance</b>				
<b>Core Assurance – Key Financial System</b>				
Council Tax ANA - Medium	Status: In-progress	Work has commenced on the annual review of the system for the billing and collection of Council Tax. Work will include a follow-up on the 2018/19 report to confirm the actions taken in response to agreed recommendation and a walk-through of the system to understand the end-to-end processes and ensure that the design of controls and processes are effective and proportionate.		
Housing Benefits ANA - High	Status: In-progress	In advance of the start of the annual HB review a number of checks have been undertaken on assessments of new claims and change events occurring in the first half of 2019/20. These checks are undertaken to provide an early indication of any common errors arising within the HB caseload which might impact upon subsidy and to inform the extended testing that will be undertaken in the second half of the year. From the limited testing undertaken to date there are no significant issues to report.		
<p>The key financial reviews will be commenced in the second half of 19/20</p> <table border="0" data-bbox="100 1125 2027 1305"> <tr> <td data-bbox="100 1125 1019 1305"> <ul style="list-style-type: none"> <li>• Creditors ANA - High</li> <li>• Main Accounting ANA - High</li> <li>• Debtors ANA – Medium</li> <li>• Purchasing ANA – High</li> </ul> </td> <td data-bbox="1019 1125 2027 1305"> <ul style="list-style-type: none"> <li>• Business Rates (NNDR) ANA – Low</li> <li>• Treasury Management ANA – Medium</li> <li>• I.T.Systems ANA - High</li> <li>• iTrent – Payroll ANA - Medium</li> </ul> </td> </tr> </table>			<ul style="list-style-type: none"> <li>• Creditors ANA - High</li> <li>• Main Accounting ANA - High</li> <li>• Debtors ANA – Medium</li> <li>• Purchasing ANA – High</li> </ul>	<ul style="list-style-type: none"> <li>• Business Rates (NNDR) ANA – Low</li> <li>• Treasury Management ANA – Medium</li> <li>• I.T.Systems ANA - High</li> <li>• iTrent – Payroll ANA - Medium</li> </ul>
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<p>At the request of the client review of the following system has been deferred to allow for implementation and embedding of the upgrade to Hosted Icon.</p> <ul style="list-style-type: none"> <li>• Cash / Bank Receipting System - ANA - High</li> </ul>				

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
<b>Core Assurance - Other</b>		
Devon Business Rates Pool	Value Added Status: Final	The overall control framework for the administration of the Devon Business Rates Pool is of a good standard but some difficulties have occurred following staff changes. Whilst it is difficult to mitigate the risk of losing experienced and knowledgeable staff, recommendations have been made that will minimise the impact of similar changes on pool administration arrangements in the future. Business rate retention schemes are extremely complex with many variables that need to be considered, furthermore the volatility of business rates and the length of the pool cycle makes accurate forecasting very difficult. The Devon Business Rates Pool members value opportunities to discuss technical issues, share ideas and support each other and these collaborative arrangements should be formalised.
Corp Information Management ANA – High	Status: On-going	The Council continues to face many challenges including the ever present cyber security threats and evolving its information management. DAP continues to provide “trusted advisor” support to the Information Lead Officers Group (ILOG) and Management Information Security Forum (MISF). The Corporate Information Manager conducted a considerable amount of work to embed new processes, procedures and documentation to meet with the requirements of the Data Protection Act 2018 (GDPR). Informal work conducted by Internal Audit in the completion of other reviews confirmed that the implementation period measured well against the ICO’s ‘Twelve Steps’ (to GDPR Compliance). Our work during 2019/20 will confirm how Data Protection processes continue to evolve.
HR/Payroll Business Solution ANA – High Client Request	Status: On-going	Delt have commenced implementation of the CoreHR HR/ Payroll system and have recognised the importance of having a suitably skilled and experienced Project Manager to assist in fulfilling timelines and delivering required outcomes. Internal Audit have now initiated a piece of work to gain oversight and provide advice and assurance as the project progresses.
Health & Safety ANA – High	Status: In-progress	In January 2017 the HSE served Plymouth City Council with an Improvement Notice in relation to breaches in the Management of Exposure to Vibration Regulations 2005.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		<p>This notice was closed in May 2019 following work to assure the HSE of new risk controls which reduce exposure to As Low as Reasonably Practicable (ALARP). The health and Safety Performance Standard for the Management of Control of Exposure to Vibration was updated accordingly. To provide assurance that these controls have been sustained, we are in the process of undertaking an audit against the revised performance standard across Street Scene (Grass Cutters and Arborists), Bereavement Services and Mount Edgecombe.</p>
Procurement ANA – High Client Request	Status: On-going	We continue to work collaboratively with the Corporate Procurement Team. To date this has included input into system and process improvements relating to purchasing cards and involvement in the review of contract standing orders.
Client Financial Services (follow-up to the 2018/19 review) ANA – High	Improvements Required Status: Final	The ongoing commitment to tackling the 2018/19 audit action plan has resulted in progress being made with the ASC Recovery and Income Collection Project and improvements to the checking of error and data quality reports. However, due to the delay in publication of the Fairer Charging Policy, the need to formalise write off procedures and produce a working practices manual for CFST the overall audit opinion remains unchanged at "improvements required".
Deputyships (follow-up to the 2018/19 review) ANA - Medium	Good Standard Status: Final	<p>We previously reported that although the work of the Deputyship team was performed to a good-standard, referrals were not consistently processed in a timely manner; this was for a variety of reasons, some outside of the control of the Deputyship Team.</p> <p>Positive action has been taken by management in Customer &amp; Corporate, People and Livewell SW in addressing the risks identified in the original audit report with the majority of recommendations either implemented or in-progress.</p>
Schools Financial Value Standards (SFVS)	Good Standard Status: Final	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2018/19 submitted to the Department for Education.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
<p>The following reviews have not yet commenced:</p> <ul style="list-style-type: none"> <li>• Cyber Security ANA – High</li> <li>• General Data Protection Regulation (GDPR) ANA – High, Client Request</li> <li>• Temporary &amp; Interim Employees ANA – High, Client Request</li> </ul>		
<p><b>Executive Office</b></p>		
<p><b>Core Assurance - Other</b></p>		
<p>Data Quality ANA – High</p>	<p>Status: On-going</p>	<p>Following on from the work undertaken 2018/19 and in liaison with the Performance Team in Oversight &amp; Governance, we are continuing with the review of corporate indicators to provide assurance on the quality and robustness of the source data used in the reporting.</p>
<p>Gifts &amp; Hospitality ANA - Medium</p>	<p>Improvements Required Status: Draft</p>	<p>Work was undertaken to evaluate the adequacy and effectiveness of policy and procedures in respect of Gifts and Hospitality. To enable us to establish the level of understanding of existing arrangements we developed questionnaires for Members and staff; we received more than 500 responses.</p> <p>We have concluded that although the requirement for Members and Officers to declare gifts and hospitality is contained within key governance documents, they only provide a high-level statement with a focus on hospitality and do not clearly or consistently set out the rules for receiving and giving of gifts and hospitality.</p> <p>Senior Governance Officers will work with colleagues in Legal and HR to ensure instructions for declaring offers and/or receipts as well as the provision of gifts and hospitality are unambiguous and clearly communicated.</p>



Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
<b>People</b>		
<b>Core Assurance – Key Financial System</b>		
CareFirst - Children Independent Placements ANA – Medium Client Request	Status: In-progress	Work is underway to assess the adequacy of the systems in place for the administration of the living arrangements for children who have been placed by the Local Authority with external agencies for foster care, residential care, supported living and parent and child assessments.
<b>Core Assurance - Other</b>		
Finance & Assurance Review Group (FARG) ANA – High Client Request	Status: On-going	The purpose of FARG is to provide oversight, scrutiny and assurance of the integrated fund and internal audit continue to have a seat on FARG providing real time support and challenge.
Children's Multi Agency Safeguarding Arrangements ANA - Medium	Value Added Status: Final	<p>On 29 September 2019 Local Safeguarding Children Boards ceased and were replaced with the Children Safeguarding Practice Review Panel (at national level) and safeguarding partners (on a local level).</p> <p>Safeguarding partners were required to agree and publish their local arrangements by 29 June 2019 and notify the Secretary of State for Education. On 11 June 2019 the new multi-agency arrangements for Plymouth and Torbay were presented and agreed at Cabinet and have been published in line with statutory requirements. They can be found via a link on the Plymouth City Council website.</p> <p>As part of the arrangements the Independent Chair has to be replaced with a single Independent Quality Assurance role to oversee safeguarding practice and challenge and support the panel. The closing date for applications for this “Office Holder” post was 23 October.</p>

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
HMO Licensing ANA - Medium Client Request	Status: In-progress	Work to review the adequacy and effectiveness of controls, processes and procedures operating within the licensing of Houses in Multiple Occupation (HMOs) is nearing completion. Initial findings indicate that whilst the system and procedures deployed by the Housing Improvement team in the licensing of HMOs is generally effective, there are some elements within the end to end system where there are opportunities for improvement.
Private Sector Enforcement ANA – Medium Client Request	Good Standard Status: Final	The majority of complaints about private rented sector accommodation are received via email/website and acknowledged by the Housing Improvement team in a timely manner; most are resolved with little issue. However, when matters are not resolved, the ethos of the Service is to work with and negotiate with landlords, tenants etc to try to avoid legal action being taken but this approach can lead to lengthy delays and management will now review the guidelines / scenarios for when a case should be escalated to prosecution or civil penalty. The number of reports to the Council have steadily decreased over the years from 997 in 2014/15 to 502 in 2018/19.
Dynamic Purchasing System (DPS) ANA – Medium Client Request	Status: In-progress	A new system was implemented in 2018 to support the procurement of Disabled Facilities Grant (DFG) works. The objective of our review is to evaluate and report on the adequacy of controls, processes and procedures operating within the DPS to manage the quotation, award, completion and payment of disabled facilities adaption works.
Integrated Care Partnership ANA - Medium	Status: On-going	Audit continues with a “real time” high-level review of the procurement process to ensure that the Council’s interests are protected.
Families with a Future (Payment by Results) Statutory	Certified Status: Ongoing	DAP have verified and certified six 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.

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
The following reviews have not yet commenced:		
<ul style="list-style-type: none"> <li>Special Guardianships (Children) ANA – High</li> <li>Legal Care Proceedings (Children) ANA – Medium</li> <li>Children's Short Break Contracts ANA – Medium, Client Request</li> </ul>		<ul style="list-style-type: none"> <li>Anti-Social Behaviour Tools ANA – Medium, Client Request</li> <li>Education, Participation &amp; Skills Dept ANA – Medium, Client Request</li> <li>Commissioning Contracts ANA – Medium, Client Request</li> </ul>
Review of the following areas have been deferred at the request of the client.		
<ul style="list-style-type: none"> <li>Universal Youth Services ANA – Medium, Client Request</li> </ul>		
<b>Office of the Director of Public Health</b>		
Taxi Licensing Trade Accounts ANA – Medium Client Request	Good Standard Status: Final	Taxi Licence Trading Accounts reported to Licence Committee in the report of the 21 <sup>st</sup> March 2019 provide a true and fair view of the financial transactions of the service. Accurate and complete accounting records have been maintained, with actual service income and costs used to calculate the new licence fees and ensure the trading accounts come back into balance. The basis of the apportionment of service income and expenditure across the five licence account categories has been clearly defined, is considered reasonable and ensures there is no cross subsidy.
Business Continuity Within the Supply Chain Follow-Up ANA – High	Status: In-progress	This is a review of progress with implementing the management action plan agreed in September 2018. The original report related solely to key suppliers to Plymouth City Council and the adequacy of their Business Continuity plans to handle disruptions to their operations.
<b>Place</b>		
Waste PFI ANA – High	Status: On-going	Audit continues its participation with the South West Devon Waste Partnership, attending meetings of the Project Executive, providing support and advice on contract management issues.
New Business Solutions - Tech Forge (Cloud) ANA – Medium	Status: In Progress	DAP have reviewed the 'as is' position of the current Tech Forge system and the benefits of moving to the cloud-based system. A business case has been completed highlighting the risks of remaining with the current desktop system and the benefits of

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
Client Request		<p>migrating to the cloud system and recommends that PCC proceeds with the migration and work required to enable the configuration before the data migration occurs. The findings and recommendations of the business case are fully supported by DAP.</p> <p>A meeting has been scheduled with the Council's Asset Data Controller to scope and agree the extent of assistance and assurance DAP can provide in respect of the migration process.</p>
Garage ANA – Medium Client Request	Value Added Status: Draft	<p>Following the transfer to Plymouth Highways, management initiated a review of the service, implementing a series of immediate actions and formulating an ongoing action plan in response to identified issues and challenges, with a view to managing risk, improving standards and stabilising financial performance</p> <p>Good progress has been made in financial control. The Garage reported a deficit as recently as 2017/18 but reported a small surplus in it's first full year (2018/19) under the management of Plymouth Highways and is currently on budget in 2019/20. Stock control procedures and processes have improved significantly since DAP last reviewed this area in the last quarter of 2016/17. A Garage co-ordinator is in post and has conducted an end of year stock take, the value of held stock is being reduced and the service is considering moving towards imprest stock</p> <p>Performance and productivity data is now being captured and reported. Although still a work in progress the service is beginning to gain a clearer insight of it's performance and can highlight areas where improvement may be required.</p> <p>Management are considering the future delivery model for garage services and these decisions need to be taken as soon as practicable to provide clarity and determine whether there is justification for further spend, contractual commitments and the additional recruitment that will be necessary to drive further service improvement and exploit commercial opportunities.</p>

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
Fleet Management ANA – Medium Client Request	Status: In Progress	<p>Audit work in this area is being finalised.</p> <p>There are clear links between the Council’s Fleet and Garage services and on conclusion of this work there may be further observations and recommendations that impact on our review of the Garage</p> <p>From work undertaken to date, there is potential for clear benefits to the Garage of the fleet replacement work being undertaken by the Fleet Services Manager. The current fleet is ageing and is a significant contributor to the unscheduled maintenance undertaken by the Garage. Replacing older elements of the fleet has the potential to reduce the amount of work outsourced by the Garage as well as creating additional capacity for the Garage to pursue commercial opportunities.</p> <p>Consideration is also being given as to whether the current independent management of Fleet and Garage within the Council structure is the most beneficial option. Initial thoughts are that there are some clear benefits to the current structure including the separation of Fleet’s statutory compliance role from the Garage’s operational function and the management capacity required in view of the scale of the Council fleet. The pros and cons of each approach will be fully considered and reported upon on completion of our work.</p>
Street Scene and Waste Services Overtime Expenditure Client Request	Value Added Status: Final	<p>The processes for recording and authorising overtime during 2018/19 were found to be inconsistent, with several different systems in use across the service and a paucity of management information to monitor and challenge spend. Moreover, the Council’s current payroll system also fails to provide the required clarity and depth of information to assist the analysis or ongoing monitoring of overtime expenditure, but this is expected to improve with the introduction of the new CoreHR system in April 2020.</p> <p>Administrative changes made within the service at the start of 2019/20, together with the implementation of recent audit recommendations are expected to also greatly improve the visibility of overtime expenditure and enable managers to address the causes of increased expenditure. Consequently, Audit has arranged for the Delt</p>

Risk Area / Audit Entity	Assurance Opinion	Residual Risk / Audit Comment
		programme manager to liaise with Street Services Management to consider user requirements for CoreHR.
Street Lighting Contract	Value Added Status: Final	Audit assurance has been provided to the Engineering Manager (Structures, Street Lighting and Signals) in respect of a cost-plus arrangement with South West Highways. Communicated figures for the provision of labour, support, transport and plant costs have been verified to allow for the extension of this arrangement on a yearly platform for all measurable fixed costs.
<p>The following reviews have not yet commenced:</p> <ul style="list-style-type: none"> <li>• Insurance Claims ANA – Medium, Client Request</li> <li>• Trade Waste Follow-Up ANA – Medium</li> <li>• Joint Local Plan ANA – Medium, Client Request</li> </ul>		
<p>At the request of management, the following review has been reprogrammed for 2020/2021.</p> <ul style="list-style-type: none"> <li>• Capital Programme ANA – Medium, Client Request</li> </ul>		
Grant Certification Statutory	Regulatory Requirement	<p>Grants certified without amendment:</p> <ul style="list-style-type: none"> <li>• Regional Growth Fund GAIN 201819</li> <li>• Regional Growth Fund Oceansgate 201819</li> <li>• LGF Northern Corridor</li> <li>• LGF Eastern Corridor</li> <li>• LGF Derriford Hospital Interchange</li> <li>• LGF Charles Cross and Exeter Street</li> <li>• LTCB Int Transport &amp; Highway Mtce 31/224 &amp; Pothole Action Fund 31/3221</li> <li>• National Productivity Investment Fund 31/3222</li> <li>• RGF Derriford Transport Scheme</li> <li>• IBCF Disabled Facilities Capital Grant 31/3337</li> </ul>

## Appendix 2 - Audit Standards and Customer Delivery

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

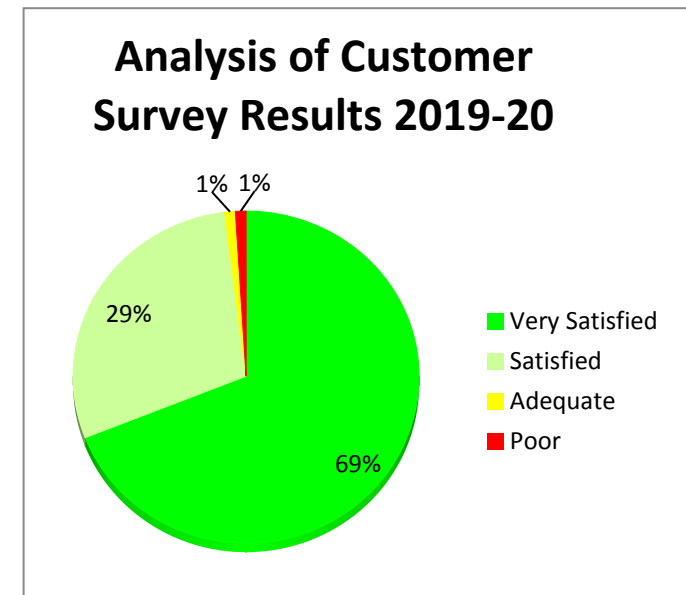
**Conformance** - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2019. 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, see appendix 4. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.



## Appendix 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:

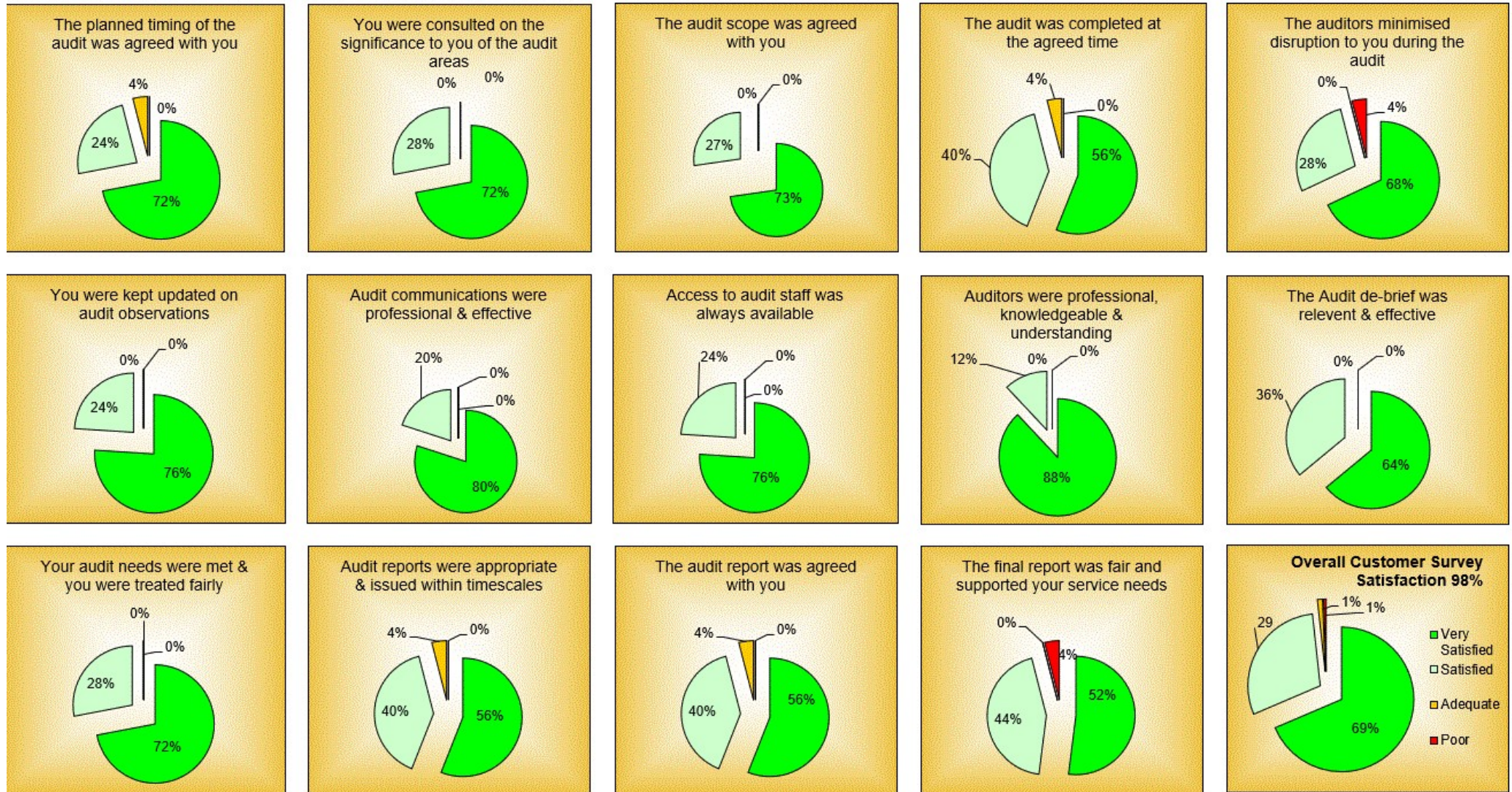
<b>Local Performance Indicator (LPI)</b>	<b>2018/19</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>Target</b>	<b>Actual</b>	<b>Full Year Target</b>	<b>Six Month Actual</b>
Percentage of Audit plan Commenced	100%	100%	100%	64.1%
Percentage of Audit plan Completed	93%	92%	93%	41.3%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	On Target
Percentage of chargeable time	65%	66%	65%	64.3%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	97%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	98%	90%	100%
Final reports produced within target number of days (currently 10 days)	90%	100%	90%	100%
Average level of sickness absence (DAP as a whole)	2%	3%	2%	2.9%
Percentage of staff turnover (DAP as a whole)	5%	4%	13%	6.7%*
Out-turn within budget	Yes	Yes	Yes	Yes

\* Turnover – 1 new starter & 1 apprentice.



# Appendix 4 – Customer Service Excellence

## Customer Survey Results April – September 2019



## 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.	Official: Sensitive	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.		
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.		

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## Devon Audit Partnership

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

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

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# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	<b>Counter Fraud Services Half Yearly Report</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Ken Johnson
Contact Email:	Ken.johnson@plymouth.gov.uk
Your Reference:	HY/CFST
Key Decision:	No
Confidentiality:	Part I - Official

## **Purpose of Report**

This report summarises the work carried out during the first 6 months of 2019/20 by the Counter Fraud Services Team in order to counter fraudulent threats to the Council's budget and reputation.

## **Recommendations and Reasons**

The Audit Committee is recommended to note the Half Yearly Report.

## **Alternative options considered and rejected**

Effective counter fraud 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.

## **Relevance to the Corporate Plan and/or the Plymouth Plan**

Maintaining sound systems of internal control and protecting the public purse ensures that those who legitimately need the support and services of the Council get them and this therefore supports the achievement of corporate and service objectives.

## **Implications for the Medium Term Financial Plan and Resource Implications:**

None arising specifically from this report.

## **Carbon Footprint (Environmental) Implications:**

Efficient and correct use of Council resources can only positively affect its Carbon Footprint, however no direct impact can be proven from this report.

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

\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.

The Counter Fraud Services Team specifically support the council's overall governance arrangements

## Appendices

\*Add rows as required to box below

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable)						
		1	2	3	4	5	6	7
A	Counter Fraud Services Half Yearly Report							

## Background papers:

\*Add rows as required to box below

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable)						
	1	2	3	4	5	6	7

## Sign off:

Fin	pl.19. 20.1 62.	Leg	lt/337 20/14 11	Mon Off	Click here to enter text.	HR	Click here to enter text.	Asset s	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham (Service Director for Finance)											
Please confirm the Strategic Director(s) has agreed the report? Yes											
Date agreed: 11/11/2019											
Cabinet Member approval: Councillor Mark Lowry (Cabinet Member for Finance) Approved by email											
Date approved: 20/11/2019											



## Counter Fraud Services

### Half Year Report 2019 - 2020

## Plymouth City Council Audit & Governance Committee

December 2019

Auditing for Achievement



## 1. Introduction

- 1.1 Fraud in all its forms remains the most common criminal offence in the UK costing the UK economy an estimated £193 Billion a year. This equates to £7200 per household in the UK.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) commends councils' counter fraud teams but has clearly stated that there is "more work to be done" with multiple reports suggesting fraud costs Local Government anywhere from £2.1bn to £7bn annually.
- 1.3 Rob Whiteman, chief executive of CIPFA, said: "Fraud is a serious issue for local authorities. We must collaborate to combat it and adopt a cross country strategic approach if we are to make serious inroads in the fight against fraud."
- 1.4 "When local government is running on empty- as it is now- it needs to preserve every last drop."  
(Rob Whiteman CIPFA CEO)
- 1.5 Fraud is by definition a crime and should not be tolerated. Any fraud against Plymouth City Council is a fraud against the public purse and therefore we will continue to acknowledge the threat from fraud, build processes and policies that will prevent fraud and pursue those who would commit fraud to ensure that the public retain confidence in the Council. Collaboration across the public sector will continue and strengthen under the current working arrangements through DAP and its partners.

## 2. Fraud Prevention and Detection

- 2.1 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 have been returned and action through the relevant Departments continues. It is hoped that at the time of the next Annual Report that full details of savings attributable to this exercise are available.
- 2.2 PCC, datasets matched against the NFI
- 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)
- 2.3 Irregularities – DAP have provided management with a range of advice and support on courses of action and or improvements to controls on relevant internal matters.





2.4 The DAP Counter Fraud Services Team have produced a full annual report in June 2019 showing statistics from the previous financial year, having dealt with 262 allegations of fraud from internal sources as well as the public, resulting in 15 prosecutions, 44 formal cautions and or other forms of sanctions against offenders. The team's compliance role which is used in areas of counter fraud work where low grade intelligence is available and therefore an intensive and potentially expensive criminal investigation is not warranted resulted in 173 cases where incorrect entitlement of some sort being claimed and have resulted in Council Tax and other accounts such as Insurance claims being corrected, social housing properties being returned to landlords and further referrals being made to outside agencies, where appropriate.

The Report also detailed that 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 £1,436,738.29

The CFST also had at the time of the annual report 141 live investigations into allegations of fraud.

2.5 The statistics for the current year show that there are consistent savings to be made by countering fraud. There have been 215 allegations of fraud made so far this year resulting in 21 recommended prosecutions and 27 recommendations for Cautions and other forms of sanction. Along with various compliance visits a total savings figure of £1,039,868.04 has been realised at time of writing this half yearly report. The team continue to investigate 131 fraud allegations.

2.6 Case reviews are available on **Appendix A**

### 3. Areas of current fraud investigations

3.1 As part of its ongoing commitment to countering fraud in Plymouth, the Counter Fraud Services Team continues to undertake investigations in the following areas:

- Council Tax Support / Single Person Discount
- Blue Badge misuse
- Social Housing Fraud (involving our partner Registered Social Landlords)
- Client Financial Fraud (Special guardianship)
- Insurance fraud
- Bus pass misuse
- Parking Permit selling
- Non-domestic rates
- Internal cases
- School Admissions Fraud

3.2 The Counter Fraud Services Team will continue to work closely with all PCC departments to ensure that fraud risks are minimised and wherever possible, those found committing offences are dealt with robustly and in line with PCC's Anti-Fraud, Bribery and Corruption Policy and its linked Strategy and Response Plan.

3.3 In October 2018, joint working was re-instigated with the Department for Work and Pensions (DWP). This will effectively mean that wherever an investigation into Council Tax Support is jointly investigated with DWP when Housing Benefit or some other primary benefit is involved, that the DWP will completely fund the prosecution, should this be the chosen sanction for the offence. At the time of this report the CFST were jointly investigating 16 cases of Housing Benefit and Council Tax Support fraud with their Civil Service colleagues.



3.4 All allegations of fraud will continue to be investigated appropriately irrespective of the area of the Councils' business and irrespective of value.

#### 4. Progress against focussed annual plan 19/20

- 4.1 Presentation to senior management and Councillors to maximise awareness of fraud issues and ensure commitment from the top of the organisation so that the Anti – Fraud Bribery and Corruption Policy and its accompanying Strategy and Response Plan are adhered to appropriately.  
*(Not yet implemented)*
- 4.2 Ensure that identified areas of fraud risk are followed up and minimised.  
*(Ongoing review of NFI processes and completion rates along with highlighting new and emerging areas of risk)*
- 4.3 Continue to provide a consistent level of service to PCC whilst also maximising external income generation possibilities for Devon Audit Partnership and therefore PCC as the major stakeholder.  
*(Savings figures available so far this year are comparable if not higher than this time last year, the CFST have also secured investment from other partners in supporting the fight against fraud in their respective areas)*
- 4.4 Take an active role in shaping the new national document 'Fighting Fraud & Corruption Locally' 'The local government counter fraud and corruption strategy' 2020 onwards.  
*(The CFST Manager has presented nationally at the request of CIFAS who sponsor this strategy in conjunction with CIPFA, the National Anti-Fraud Network (NAFN) and Grant Thornton amongst others. Information, support and assistance is being provided to the group by the CFST so that a LA national standards in counter fraud investigation can be implemented and a consistent message can go out to all in LA's about best practice)*
- 4.5 Generate closer professional links with Devon and Cornwall Police and the National Crime Agency to ensure that serious and organised crime is addressed and considered going forward. All fraud crimes should be reported to 'Action Fraud' going forward.  
*(The team continue to cooperate with D&C Police. The teams intelligence officer has recently been informed that a case they were due to be a witness in has been resolved with 4 defendants being found guilty of 'Conspiracy to Supply Cocaine', 'Conspiracy to Supply Heroine' and 'Conspiracy to Import Heroine' resulting in a total prison sentence of 41 years between them. The team will continue to foster these links and involve the NCA wherever relevant)*

#### 5. Conclusion

- 5.1 The DAP, Counter Fraud Services Team continue to set the standards in the South West Peninsula in the area of counter fraud. National recognition has shown that Plymouth City Council remains committed to its moral and legal duties to the public and that it effectively acts in line with its own 'Plan, Mission, Value and Priorities'.
- 5.2 The problem of fraud is an ever growing one, which is constantly changing and evolving. However much fraud changes it is effectively 'old wine in new bottles'. That is to say that the delivery method may change but the ideas and reasoning remain the same. The Counter Fraud Services



Team remains committed to the challenge and will endeavour to ensure that Plymouth City Council's services are given only to those who are genuinely entitled to them.

5.3 The Counter Fraud Services Team will continue to adapt flexibly to any and all future fraudulent threats and look to lead the agenda locally and nationally in combatting fraud. The work that continues to be done by the team is regularly raising Plymouth City Council's profile in a very positive way and the national recognition is in no small part down to the continued support from Plymouth that shows that it actively 'protects the public purse'.

5.4 A full contact list for DAP Counter Fraud Services is available on **Appendix B**



## COUNTER FRAUD SERVICES TEAM CASE STUDIES

**Case study - Mr P.**

## Social Housing Fraud

An allegation was received from a Social Housing Landlord that Mr P was potentially subletting his property illegally to an unentitled third party. Mr P was already in the process of applying for the 'Right to Buy' for his social housing property.

The subsequent investigation revealed evidence that Mr P's friend was subletting the property from him and had been for at least 2 years. It also confirmed that Mr P was living in a private rented property with his girlfriend less than 2 miles away.

Mr P constantly denied the allegations, however at his interview under caution with the DAP Counter Fraud Services Team after repeatedly lying he admitted that the overwhelming evidence proved that he was letting his friend live at his social housing property but denied that he had done anything wrong.

Mr P was subsequently prosecuted and pled guilty at that point to two offences contrary to – *Prevention of Social Housing Fraud Act 2013* – in relation to the dishonest illegal sublet of a Social Housing property.

*Fraud Act 2006* – in relation to the dishonest attempt to fraudulently obtain a £39,600 discount on his 'Right to Buy'

Mr P was sentenced to 160 hours unpaid work for each charge and ordered to pay PCC £750 towards their costs. Judge Darlow stated at the end of the case that "It was fraud, the decision by Plymouth City Council to prosecute is to be applauded".

**Case study – Mr E.**

## Disabled Blue Badge Fraud

This allegation was received via the Parking Services Unit. That Mr E had been caught using a disabled Blue Badge that was not issued to him and where the Blue Badge holder was not present.

The subsequent investigation established that the Blue Badge holder had in fact died 12 months prior to the offence and that the offender was the Blue Badge holder's nephew.

When initially confronted by the Civil Enforcement Officer Mr E had stated that his uncle was in town, he then stated that in fact he was at home in Plympton. Neither of these statements was true as at the time of the offence his uncle was clearly deceased. (In fact it was Mr E who informed PCC that his uncle had passed away.)

At his interview under caution Mr E was asked to explain his actions and he said that he found it highly amusing that we would have been attempting to contact his uncle, as he was in Plympton, but that it was in the local church cemetery.

Mr E was prosecuted and subsequently pled guilty to an offence contrary to *Fraud Act 2006* – Dishonestly attempting to obtain a disabled persons parking concession.

Mr E was sentenced to a £220 fine with a 12 month conditional discharge.



**Case studies - Miss G, Mr M, Miss M and Mr P.****Concessionary Travel Pass Fraud**

The above offenders have been grouped together to show that there is a consistent theme running through these types of offence.

All of these case and others were reported to the Counter Fraud Services Team by drivers working for a local bus company. All were attempting to gain free travel on the bus, and on investigation it proved that they had used the same Concessionary Pass on multiple occasions.

Miss G was using the pass belonging to a vulnerable adult with learning difficulties and had used it at least 5 times that we could prove.

Mr M was using the pass of a disabled individual and had used the pass at least 6 times that we could prove.

Miss M was using the Concessionary Travel Pass of a deceased family member and had used the pass at least 4 times that we could prove.

Mr P was using the pass of his deceased father and had used it on at least 3 occasions that we could prove.

All offenders pled guilty at court and were sentenced as follows –

Miss G - £100 fine

Mr M - £200 fine

Miss M £220 fine

Mr P - £110 fine

*Only cases which are considered serious enough and fulfil the criteria outlined in the 'Code for Crown Prosecutors' are forwarded for prosecution.*



## Devon Counter Fraud Services Contacts

Name	Position	Telephone	Email
Ken Johnson	Counter Fraud Services Manager	01752 307625	<a href="mailto:Ken.johnson@plymouth.gcsx.gov.uk">Ken.johnson@plymouth.gcsx.gov.uk</a>
Pete Burgoyne	Fraud Investigator	01752 305977	<a href="mailto:Peter.burgoyne@plymouth.gcsx.gov.uk">Peter.burgoyne@plymouth.gcsx.gov.uk</a>
Paul Clayton	Fraud Investigator	01752 305249	<a href="mailto:Paul.clayton@plymouth.gcsx.gov.uk">Paul.clayton@plymouth.gcsx.gov.uk</a>
Dina Williams	Fraud Investigator	01752 307619	<a href="mailto:Dina.williams@plymouth.gcsx.gov.uk">Dina.williams@plymouth.gcsx.gov.uk</a>
Ashley Varley	Fraud Investigator	01752 304182	<a href="mailto:Ashley.varley@plymouth.gcsx.gov.uk">Ashley.varley@plymouth.gcsx.gov.uk</a>
Sue Roach	Intelligence Officer	01752 307618	<a href="mailto:Susan.roach@plymouth.gcsx.gov.uk">Susan.roach@plymouth.gcsx.gov.uk</a>
Rob Rogers	Compliance Officer	01752 398556	<a href="mailto:Robert.rogers@plymouth.gov.uk">Robert.rogers@plymouth.gov.uk</a>
Fraud referral email address			<a href="mailto:Corporate.fraud@plymouth.gov.uk">Corporate.fraud@plymouth.gov.uk</a>
Tenancy Fraud referral email address			<a href="mailto:socialhousingfraud@plymouth.gov.uk">socialhousingfraud@plymouth.gov.uk</a>
Fraud Telephone referrals		01752 304450	



# Audit and Governance Committee



Date of meeting:	09 December 2019
Title of Report:	Heart of the South West Joint Committee Governance Review
Lead Member:	Councillor Tudor Evans OBE (Leader)
Lead Strategic Director:	Tracey Lee (Chief Executive)
Author:	Alison Ward (Regional Partnership Manager)
Contact Email:	alison.ward@plymouth.gov.uk
Your Reference:	AW/19
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

To consider the changes required to the Council's constitution resulting from the Heart of the South West Joint Committee's governance review exercise. The changes to the list of functions are set out in Appendix A of the attached report, and a tracked changes version is attached as Appendix C.

## Recommendations and Reasons

That the Committee agree the proposed changes and recommends that the Council also approve the recommendations in the attached report, specifically the first point that amends the range of functions of the Heart of the South West Joint Committee. These changes are required to bring the Committee's role into line with developments since its establishment in March 2018.

## Alternative options considered and rejected

None

## Relevance to the Corporate Plan and/or the Plymouth Plan

As outlined in the substantive report for full Council.

## Implications for the Medium Term Financial Plan and Resource Implications:

As outlined in the substantive report for full Council.

## Carbon Footprint (Environmental) Implications:

None

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

As outlined in the substantive report for full Council.

## Appendices

\*Add rows as required to box below

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable)						
		1	2	3	4	5	6	7
A	Briefing - <b>NONE</b>							
B	Equalities Impact Assessment - <b>N/A</b>							

## Background papers:

\*Add rows as required to box below

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable)						
	1	2	3	4	5	6	7
<b>N/A</b>							

## Sign off:

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Originating Senior Leadership Team member: Giles Perritt (Assistant Chief Executive)											
Please confirm the Strategic Director(s) has agreed the report? Yes											
Date agreed: 27/09/2019											
Cabinet Member approval: Councillor Tudor Evans OBE (agreed verbally)											
Date approved: 24/10/2019											



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**APPENDIX C – EXTRACT FROM THE JOINT COMMITTEE’S ARRANGEMENTS DOCUMENT – Tracked Changes Version**

**2. Joint Committee Functions:**

~~2.1~~ ~~2.1~~ The only delegated functions of the Joint Committee relates to:  
a) ~~the approval of the HotSW Productivity Strategy;~~ ~~and~~  
b) ~~the development and endorsement of the HotSW Local Industrial Strategy (LIS) (noting that final approval of the HotSW LIS rests with the HotSW Local Enterprise Partnership (LEP) and the Government.~~

–All other matters referred to in 2.3 are ‘referred’ matters where the Joint Committee will make recommendations to the Constituent Authority or Authorities for decision. Additional delegated or referred functions may be proposed for the Joint Committee in the future by the Joint Committee or any of the Constituent Authorities, but shall only be agreed if approved by all of the Constituent Authorities.

2.2 The principle of subsidiarity will apply to the relationship between the Joint Committee, the Constituent Authorities and local Sub-Regional Partnerships with decisions being made at the most local and appropriate level on all matters to do with the delivery of the Productivity Strategy and in relation to the other functions of the Joint Committee.

2.3 The Joint Committee shall:

~~(a)~~ Develop and agree the HotSW Productivity Strategy in collaboration with the LEP.

~~(b)~~ ~~Maintain oversight of the HotSW Delivery Plan - working alongside and in collaboration with the LEP using each other’s strengths and roles to ensure delivery of the HotSW Productivity Strategy.~~

~~(c)~~ ~~Continue discussions /negotiations with the Government and Government agencies to achieve direct intervention, support, funding and powers to the benefit of the HotSW and assist with the delivery of the Productivity Plan and the LIS, working with the LEP.~~

~~(a)~~

~~(b)~~ ~~Ensure delivery of the HotSW Productivity Strategy in collaboration with the LEP and the Constituent Authorities.~~

~~(d)~~ ~~Continue discussions / negotiations with the Government / relevant agencies to secure delivery of the Government’s strategic infrastructure commitments, eg, strategic road and rail transport improvements~~  
~~Continue discussions /negotiations with the Government on the possibility of achieving devolved responsibilities, funding and related governance amendments to assist with the delivery of the Productivity Strategy. Joint~~

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~~Committee proposals arising from these discussions / negotiations would require the formal approval of the Constituent Authorities / partner agencies.~~  
(e) ~~Design and deliver the strategic HotSW response to 'Government' offers and respond to Government calls for evidence if appropriate.~~

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(f) ~~Design and deliver public sector reform where this will deliver improved productivity to the HotSW, eg health, education.~~

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(g) ~~Deliver at scale (beyond what individual councils can achieve).~~

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~~Continue discussions / negotiations with the Government / relevant agencies to secure delivery of the Government's strategic infrastructure commitments, eg, strategic road and rail transport improvements~~

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~~(e)(a)~~

(h) Work with the LEP to identify and deliver adjustments to the LEP's democratic accountability and to assist the organisation to comply with the revised (November 2016) LEP Assurance Framework. This includes endorsing the LEP's assurance framework on behalf of the Constituent Authorities as and when required. However, this is subject to the Framework being formally approved by the LEP's Administering Authority.

~~(d)~~

(e)(i) Ensure that adequate resources (including staff and funding) are allocated by the Constituent Authorities to enable the objectives in (a) to (e) above to be delivered.

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