Oversight and Governance
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AUDIT AND GOVERNANCE COMMITTEE

Monday 23 March 2020
3.00 pm
Warspite - Council House

Members:
Councillor Parker-Delaz-Ajete, Chair
Councillor Kelly, Vice Chair
Councillors Carson, 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.

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

Tracey Lee
Chief Executive

Audit and Governance Committee

Agenda

1. Apologies

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

2. Declarations of Interest

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

3. Minutes **(Pages 1 - 8)**

To confirm the minutes of the meeting held on 09 December 2020.

4. Chair's Urgent Business

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

15. Voting timer at City Council **(Verbal Report)**

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Audit and Governance Committee

Monday 9 December 2019

PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.
Councillor Kelly, Vice Chair.
Councillors Kelly, P Smith, Stevens and Stewart.

Co-opted Representatives: Mr Shipperley and Mr Stewart.

Also in attendance: Andrew Loton (Senior Performance Advisor), Jean Kelly (Service Director for Children, Young People and Families), Chris Flower (Finance Business Partner), Brenda Davis (Audit Manager), Ken Johnson (Counter Fraud Services Manager), Carolyn Haynes (Financial Controller), Andrew Hardingham (Service Director for Finance), Paul Dossett and Geri Daly (Grant Thornton), Sian Millard (Oversight and Governance Manager), Paul Looby (Head of Financial Planning and Reporting) and Jamie Sheldon (Democratic Advisor).

The meeting started at 15:00 and finished at 16:35.

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.

47. **Declarations of Interest**

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

48. **Minutes**

The Committee agreed the minutes of the meeting held on 23 September 2019.

49. **Chair's Urgent Business**

There Chair asked the Committee to appoint a Vice Chair for the remainder of the municipal year. Councillor Peter Smith proposed Councillor Nick Kelly to be the Vice Chair, which was agreed by the Committee.

50. **Operational Risk & Opportunity Management Update Report**

Andrew Loton (Senior Performance Advisor) present this item Operational Risk & Opportunity Management Update Report. Jean Kelly (Service Director for Children, Young People and Families) was present for questions due to red risk in her service area.

(a) Plymouth City Council's Risk and Opportunity Management Strategy was reviewed each year and updated to ensure it remained fit for purpose. The latest version was endorsed by the Audit and Governance Committee on 23 September 2019.

(b) 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.

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

(d) Good progress has been and the achievements 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

(e) 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.

Red Risks –

(f) 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;

(g) Projected overspend in children's social care caused by unprecedented demand and level of support needed to keep young people safe, such as specialist residential care placements with high levels of staffing.

Members discussed –

- Whether any savings being made were having an impact on services being delivered in Children's Services;
- The term "Overspend" being used and how this was a funding issue, if we didn't spend we would be saying no to Children who needed to come into care.
- How there was no cap on demand within the Service and how certain budget pressures were result of Court rulings;

The Audit and Governance Committee requested clarification on the movement of operational risk scores.

The Audit and Governance Committee noted and endorsed the current position with regard to operational risk and opportunity management.

51. **Treasury Management Strategy 2020/21**

Chris Flower (Finance Business Partner) presented the Treasury Management Strategy 2020/21 to the Committee -

(a) 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.

(b) The Treasury Management Strategy sets out how Plymouth would 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.

(c) The Treasury Management Strategy fulfils the Council's legal obligation under the Local Government Act 2003 and compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code which was updated in 2018.

Members discussed –

- Whether Plymouth City Council had any pooled funds.

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

52. **Capital Financing Strategy 2020/21**

Chris Flower (Finance Business Partner) presented the Capital Financing Strategy 2020/21 to the Committee –

(a) The capital strategy report gave a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of local public services along with an overview of how associated risk was managed and the implications for future financial sustainability.

(b) Decisions made this year on capital and treasury management would have financial consequences for the Council for many years into the future. They were therefore subject to both a national regulatory framework and to local policy framework.

(c) It was now a requirement as part of the amendments implemented in the 2017/18 Treasury Management Code of Practice Guidance that all Local Authority's would need to produce a Capital Strategy each year.

(d) The strategy provides an overarching policy framework for the Council's capital programme and planning, and would form part of a suite of strategies which provided a holistic view of the Council's financial planning framework.

(e) This strategy was to be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

Members discussed –

- Whether there were any post code boundaries for the strategy;

- What the minimum investment return Plymouth City Council were aiming for.

The Audit and Governance Committee recommended the Capital Financing Strategy 2020/21 to the Council for approval.

53. **Mid- Term Treasury Management Report 2019/20**

Chris Flower (Finance Business Partner) presented the Mid- Term Treasury Management Report 2019/20

(a) Provided 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.

(b) The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) required that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

(c) The 2017 Prudential Code included 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.

(d) The Council's Capital Strategy and the Council's Treasury Management Strategy for 2019/20 were approved by full Council on 25 February 2019.

(e) The Council had 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 Council is reliant on the successful identification, monitoring and control of risk.

The Audit and Governance Committee noted The Mid-Year Treasury Management Report 2019/20.

54. **Internal Audit Half Year Report 2019/20**

Brenda Davis (Audit Manager) presented the Internal Audit Half Year Report 2019/20 to the Committee -

(a) Provided 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 experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion was of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

Members discussed –

- How the timescale on delivery of recommendations were agreed with management;

- The Definitions of Audit Assurance Opinion Levels and why they were provided.

The Audit and Governance Committee –

1) Noted the findings within the report;
2) Noted the Head of Audit assurance opinion based on work undertaken in the first half of the year.

55. **Counter Fraud Services Half Yearly Report**

Ken Johnson (Counter Fraud Services Manager) presented the Counter Fraud Services Half Yearly Report to the Committee –

(a) Fraud in all its forms remained 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.

(b) Any fraud against Plymouth City Council was a fraud against the public purse and therefore would continue to acknowledge the threat from fraud, build processes and policies that would prevent fraud and pursue those who would commit fraud to ensure that the public retain confidence in the Council.

(c) Collaboration across the public sector would continue and strengthen under the current working arrangements through DAP and its partners.

(d) The statistics for the current year show that there are consistent savings to be made by countering fraud. There had 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 had been realised at time of receiving this half yearly report. The team continued to investigate 131 fraud allegations.

(e) The DAP, Counter Fraud Services Team continued to set the standards in the South West Peninsula in the area of counter fraud. National recognition had shown that Plymouth City Council remained 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'.

Members discussed –

- What the process for publicity was when we catch someone committing fraud;

- What the definition of School admission fraud was and what could be done to combat it;

- Whether there was value in putting more staff into the Counter Fraud Team as more money could be put back into the budget.

The Audit and Governance Committee noted the Counter Fraud Services Half Yearly Report.

56. **Statement of Accounts 2018/19 - Final Audited Published Accounts**

Carolyn Haynes (Financial Controller), Andrew Hardingham (Service Director for Finance) and Geri Daly (Grant Thornton) presented the Statement of Accounts 2018/19, the Audit Findings Report and the Letter of Representation to the Committee -

(a) The Council's draft Statement of Accounts for year ending 31 March 2019 was prepared and approved ready for our external auditors by the Service Director for Finance on 31 May 2019.

(b) The Accounts had now been audited by Grant Thornton UK (GTUK) and were being presented to Audit Committee to note the changes between the draft and final version and to approve these changes prior to final publication.

(c) The report also contained a copy of details of the management responses to the 'Letter to Management' which was discussed at the Audit & Governance Committee on the 11 March 2019.

(d) Grant Thornton summarised the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

(e) Grant Thornton provided a further update following the last two Audit Finding Reports which were presented to Plymouth City Councils Audit and Governance Committee on 22nd July 2019 and the 23rd September 2019.

(f) The Accounts and Audit Regulations 2015 required Local Authorities to publish their financial statements by 31 July each year, irrespective of whether the audit has been completed. The Council complied with this date and published the draft accounts as well as a notice explaining why they were still unaudited.

(g) Audit work was undertaken on site from late June through to December 2019. Initially, there were delays to the completion of the audit work as a result of Grant Thornton resourcing issues.

(h) As the audit had progressed, Grant Thornton had identified a number of errors within the accounts that have required adjustments by management. The area where this has occurred the most is in capital grants, the valuation of property plant and equipment (PPE) and the detailed disclosure notes required for Financial Instruments. Our work on the valuation of PPE has identified a prior period adjustment (PPA) which management have included in the revised version of the financial statements. Our findings to date are summarised on pages 5 to 15.

(i) Had identified seven adjustments to the Statement of Financial Positional – one was a PPA as a result of the need to process the valuation of the Energy to Waste Plant for 2017/18, misclassification of investment properties which should have been recorded in other land and buildings and an error in the accounting for capital grants.

(j) The amendments made in 2017/18 and 201819 had increased the net worth of the Authority by £5.931m. Unusable reserves had also increased by the same amount.

(k) There had been six changes to the Council's Comprehensive Income and Expenditure Statement which had resulted in an increase in the surplus/ financial outturn of the Council by £8.77m for 2017/18.

(l) Identified a possible material upward valuation regarding those assets revalued on a depreciated replacement cost basis (DRC) for those assets that have not been valued prior to 2017. Grant Thornton believe that the upward valuation will be circa £29m and the Council's valuer is currently reviewing this and applying the necessary indices to arrive at an accurate figure. Once this has been determined the Council will make the necessary adjustments in the accounts.

(m) Audit adjustments to date were detailed in Appendix B. We have also raised recommendations for management as a result of their audit work in Appendix A. The Councils previous External Auditors did not make any recommendations in 2017/18 and so no follow-up work was required.

(n) Our work is in its finalisation stages. We have listed below the items that will need to be completed prior to the audit opinion being issued.

(o) Would also require specific representation from management and the Audit and Governance Committee for those items that had not been adjusted.

The key matters in progress as at 3rd December 2019 are:

• Completion of our work on the valuation of Property Plant and Equipment;

• Review and testing of the revised financial instruments disclosure notes;

• Review of the amended accounts and disclosure notes;

• Receipt of management representation letter;

• Review of the final set of financial statements, including the Annual Governance;

• Review of Post Balance Sheet Events;

• Our own internal quality checks.

Members discussed –

- The lateness of the reports received from Grant Thornton giving insufficient time to review all information;

- Why in Management's view the impact of the McCloud ruling was not material for Plymouth City Council and the fact that the financial statements would therefore not be adjusted;

- Raised concerns about the use of the reserves and what the plans were to replenish them.

The Audit and Governance Committee -

1. approved the Statement of Accounts for 2018/19 attached as Appendix B which have now been audited by GTUK for final publication.
2. noted the amendments made to the Statement of Accounts for 2018/19 as agreed with the Auditor and outlined in Appendix C.
3. ensured the Letter of Representation attached as Appendix D was authorised and submitted to the Auditor.

57. **Audit Findings report 2018/19 - Final Draft**

Please see minute number 56.

58. **Letter of Representation**

Please see minute number 56.

59. **Heart of the South West Joint Committee ToRs**

Sian Millard (Oversight and Governance Manager) presented Heart of the South West Joint Committee ToRs –

(a) This report was based on a standard template intended to update each of the Constituent Authorities of the Heart of the South West (HotSW) Joint Committee regarding revised governance arrangements, and the budgetary position for 2019/20.

(b) Members were asked to consider the changes required to the Council's constitution resulting from the Heart of the South West Joint Committee's governance review exercise.

(c) The changes to the list of functions were set out in Appendix A of the attached report, and a tracked changes version is attached as Appendix C.

The Audit and Governance Committee agreed the proposed changes and recommended that the Council also approve the recommendations in the attached report, specifically the first point that amended the range of functions of the Heart of the South West Joint Committee. These changes were required to bring the Committee's role into line with developments since its establishment in March 2018.

Audit and Governance Committee

Date of meeting:	23 March 2020
Title of Report:	**Statement of Accounts 2018/19**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Carolyn Haynes, Financial Controller
Contact Email:	carolyn.haynes@plymouth.gov.uk
Your Reference:	FIN/CH
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

Members formally approved the Statement of Accounts on the 22nd July 2019. This report is to update the Audit Committee on the agreed adjustments that have been undertaken to date.

At the time of writing this report Grant Thornton UK (GTUK) had not confirmed they had completed their work. The Council had provided them with all information as agreed to enable their work to be completed. A verbal update will be provided at the meeting. The Council is still working towards delivering an audited Statement of Accounts for formal publication.

Recommendations and Reasons

1. To **note** the amendments made to the Statement of Accounts for 2017/18 and 2018/19 to date as agreed with the Auditor, pending formal notification from GTUK that the audit process has been completed.

Alternative options considered and rejected

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

Relevance to the Corporate Plan and/or the Plymouth Plan

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

Implications for the Medium Term Financial Plan and Resource Implications:

The 2018/19 final accounts will have implications on the Medium Term Financial Plan. The level of Working Balance and reserves will affect the level of funding available in future years and variations in service expenditure will also need to be reviewed to assess the effects on future years.

Carbon Footprint (Environmental) Implications:
None directly arising in relation to the decision.

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 applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Statement of Accounts Report 2018/19							
B	2018/19 Statement of Accounts							

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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Statement of Accounts 2018/19 (22nd July 2019 Audit Committee							
Audit Findings Report (22nd July 2019 Audit Committee)							
Grant Thornton – Audit Update (23rd September 2019)							
Statement of Accounts 2018/19 (9th December 2019)							
Audit Findings Report (9th December 2019)							

Sign off:

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Originating Senior Leadership Team member: Andrew Hardingham

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

Date agreed: 12/03/2020

Cabinet Member approval: Approved verbally

Date approved: 12/03/2020

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Statement of Accounts 2018/19

1. Introduction

1.1 The draft Statement of Accounts 2018/19 were approved by the Service Director for Finance on 31 May 2019. The formal audit commenced on 1st July 2019. The External Auditor's Audit Findings Report (ISA 260 Report), including the outcome on the annual accounts audit and an action plan addressing key audit issues, was presented to the Audit Committee on the 5th December 2019. The Accounts and Audit Regulations require the Statement of Accounts to be approved by the Council by 31 July 2019. For Plymouth, this responsibility has been delegated to the Audit Committee.

1.2 The latest Statement of Accounts for 2018/19 is attached at Appendix B.

1.3 The Annual Governance Statement for 2018/19 was considered and formally approved by Members at the 31 May Audit Committee.

1.4 The Council is also required to identify and report on any post balance sheet events that have occurred since 31 March 2019. The Statement of Accounts should therefore include all relevant post balance sheet events up to and including the 31 July 2019.

1.5 The Accounts have been produced in line with the relevant CIPFA Codes of Practice for 2018/19 and in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2015. The auditor has outlined in the ISA 260 report being presented to this Committee that they are satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2018/19.

1.6 The Accounts have been produced in line with the relevant CIPFA Codes of Practice for 2018/19 and in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2015. The auditor has outlined in the ISA 260 report being presented to this Committee that they are satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2018/19.

2. External Audit of the 2018/19 Statement of Accounts

2.1 Due to a peak period of work during June and July, when all local government accounts are audited, our auditor, Grant Thornton was unable to conclude the audit by the 31 July 2019.

2.2 The Council has been working with GT since the 1st July to conclude the audit process. The auditor's report (ISA260) reported to the Audit Committee on the 9 December 2019 identified a number of material misstatements in relation to the value of its land and buildings and the classification of Investment Property for 2017/18 and 2018/19 which have been adjusted for and which are detailed in this report. The latest version of the Statement of Accounts was sent to GTUK on the 11th March and they are yet to confirm an unqualified opinion so that the Council can publish their audited Statement of Accounts for 2018/19.

3 Main Changes to the Statement of Accounts

3.1 Prior Period Adjustment for 2017/18

Following a review of the property values and the asset classifications on the Asset Register for 2016/17 and 2017/18 it was found that the Property Plant and Equipment (PPE) were undervalued by £29.033 million. £1.938 million of this related to the opening balance for 2017/18 and £27.095 million related to 2017/18. An error was also found relating to the incorrect classification of Investment Property which has led to an increase of £98k in the value of Investment Property.

It has also been identified that the Council received a capital grant for £1.949 million in 2017/18 which had been treated as a conditional grant even though the conditions had been met. The accounts have been restated leading to a reduction in the Capital Grants Received in Advance (CGRIA) and a corresponding movement in the Capital Adjustment Account (CAA).

The adjustments mentioned above have led to an increase in the Revaluation Reserve of £18.560 million and an increase of £12.518 million in the CAA.

The detailed movements on the main statements are shown in Note 1 - Prior Period Adjustment (page 24) of the Statement of Accounts.

3.2 2018/19 Adjustments

The review of property values and asset classifications for the Energy from Waste (EfW) plant, schools and visitor attractions also impacted on 2018/19. It was found that the PPE were undervalued by £29.532 million.

The capital grant issue mentioned above which was initially identified in 2017/18 also impacted on 2018/19. The value of the grant for 2018/19 was £2.341 million. The accounts have been restated and there has been a reduction in the CGRIA of £4.290 million (£1.949m + £2.341m) and a corresponding movement in the CAA.

The adjustments for 2018/19 have also impacted on the Unusable Reserve figures. The Revaluation Reserve (RR) has increased by £19.760 million and the CAA has increased by £13.807 million. All of the adjustments identified have had no impact on the council's general fund and working balances.

4. Looking to the year ahead - Issues for the 2019/20 Statement of Accounts

4.1 Due to the delay in Grant Thornton completing the 2018/19 audit, they will not be undertaking an Interim Audit prior to the Council producing its Statement of Accounts for 2019/20. The Corporate Finance Team will work closely with GTUK to minimise the impact of not undertaking an interim audit.

4.2 We will ensure that any improvements identified as part of this year's closedown process will be incorporated into the closedown plan for 2019/20 and progress reported back to the Audit and Governance Committee.

4.3 The Council's Internal Valuers and Corporate Finance Team met with GTUK on the 26th February 2020 to discuss the Council's five year rolling programme for asset valuations. This meeting was to discuss and agree changes to the five-year rolling programme to ensure that the Council's material property assets are revalued annually. This should avoid the reoccurrence of the issues raised in the 2018/19 Audit Findings report (ISA260).

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STATEMENT OF ACCOUNTS

2018/19

PLYMOUTH
CITY COUNCIL

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CONTENTS

Narrative Report from the Service Director for Finance and Section 151 Officer.

INTRODUCTION

I am very pleased to introduce you to the Council's Statement of Accounts for 2018/19 and my Narrative Report which gives me the opportunity to set the financial scene and to highlight the financial challenges being faced by the Council. The purpose of this report is to supplement the main accounting statements and provide readers with an easily understandable guide to the most significant matters reported in the accounts.

This narrative brings together information from various key documents which have been published throughout the year. The Statement of Accounts, taken as a whole, provides a comprehensive and informative stakeholder guide to establishing the Council's financial position and its net worth.

In this document the Council demonstrates that it has a secure and sustainable financial standing. The Council has fulfilled its stewardship function for all of the public money entrusted to it in a cost effective and appropriate manner.

AIMS, OBJECTIVES AND ACHIEVEMENTS

The Statement of Accounts should be read in conjunction with the Council's Corporate Plan, Corporate Plan Performance Report which is focused on our mission to 'make Plymouth a fairer city, where everyone does their bit'. That means everyone working together towards our shared ambition to be a growing city and a caring Council. Our Corporate Plan 2018 to 2022 has a greater emphasis on ensuring Council decisions are driven by our shared values and priorities. We want to explore new ways of working and making the best use of our assets as we balance the books.

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

THE PLYMOUTH PLAN 2014 - 2034

WHAT WE WANT TO ACHIEVE...

LEADING CITY
A city fulfilling its strategic role as a major economic driver for the heart of the South West

HEALTHY CITY
People live in happy, healthy, safe and aspiring communities

GROWING CITY
A city which has used its strengths to deliver quality and sustainable growth

INTERNATIONAL CITY
Plymouth is internationally renowned as the UK's premier marine city, and famous for its waterfront, maritime heritage and culture.

HOW WILL WE KNOW WE'RE SUCCESSFUL?

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

WHAT PRINCIPLES WILL GUIDE US?


THE PLYMOUTH PLAN 2014 - 2034
TO TAVISTOCK
A386
DERRIFORD AND NORTHERN CORRIDOR GROWTH AREA
DARTMOOR
TAMAR BRIDGE
SALTASH
A38
CITY CENTRE AND WATER FRONT GROWTH AREA
A374
TORPOINT
RAILWAY STATION AREA OF SEARCH
EASTERN CORRIDOR GROWTH AREA
A379
BRIXTON
KEY
Hospital
Sports hub
Improving health inequalities
Port
Transport capacity
Sustainable transport
Train Station
Coach Station
Park and Ride
Transport quality gateway
Transport connectivity
University
Primary school
Countryside/Community Park
European Marine Site
District heating
Housing
Ocean City
City Centre
District Centre
Strengthening communities
Visitor economy
Minerals
Distribution
Business/energy park
Marine industries
Dockyard
Offices
Knowledge industries
Medical sector
Utilities infrastructure
Heritage assets
Cultural hub
Events
Waste recycling
Local Centre
Community safety
Urban fringe
live within 400m of a bus stop
JOBS
20,400 new jobs (Plymouth and SW Devon)
population of 300,000
0.15 hectare per 1,000 people of allotments/ community food growing space
1,001 days best support at the start of child's life
400m walking distance to nearest local play space
800m to nearest primary school
243,000 sqm of employment space
1 hectare (nearly 2 football pitches) of nature reserve per 1,000 people
reduce carbon emissions by 50%
less than 2% of our waste going to landfill
0.79 hectare per 1,000 people of playing pitch
4,550 new affordable homes
800m to nearest convenience store
25Mbps to all premises access of broadband
19,000 new homes
400m to nearest accessible natural space
www.theplymouthplan.co.uk
in association with the Plymouth & South West Devon Joint Local Plan
www.plymswdevonplan.co.uk

OUR PLAN
A CITY TO BE PROUD OF

PLYMOUTH
CITY COUNCIL

CITY VISION
Britain's Ocean City

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

OUR 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.

Plymouth
Britain's Ocean City

www.plymouth.gov.uk/ourplan

Plymouth – Britain's Ocean City

Plymouth City Council is a unitary local authority responsible for over 300 local services including transport, social care and education. With a resident population of 263,100 (2017) and a further 100,000 residents in the travel to work area, Plymouth is the largest city on the South coast and the 15th biggest city in the country. Plymouth is also the most significant urban area on the south west peninsular with an economic output of £5.2 billion, supporting 107,800 jobs and is the key urban hub of the Heart of the South West Enterprise Partnership making it a key location for growth. The city has the highest concentration of manufacturing and engineering employment in the whole of the South of England. 20% of the UK's blue–tech marine companies are based here.

Plymouth is 'Britain's Ocean City' and its connections to the sea go back to the sailing of the Mayflower in 1620 and now includes Western Europe's largest naval base, a thriving commercial and ferry port, a significant fishing industry and one of the most significant global concentrations of marine research and production.

Regional Influence

The Chief Executive of Plymouth City Council is the programme lead for the Heart of the South West Partnership (HotSW), which involves working alongside all of the council's in Devon and Somerset, National Parks, the Local Enterprise Partnership and Clinical Commissioning Groups. In July 2018, the HotSW area was successfully selected as one of a handful of partnerships to be an early adopter of a Local Industrial Strategy (LIS), created with government. This long term strategy will promote the area's key technical strengths and is expected to be the guide for drawing down future growth funding. The strategy is expected to be signed off in autumn 2019.

Future Vision

The Council's vision for Plymouth is to become one of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone. Through the visionary Plymouth Plan which sets out far reaching growth plans to 2034, promoting a shared direction of travel for the long term future of the city bringing together, for the first time in Plymouth (and perhaps in the UK), a number of strategic planning processes into one place. Since its introduction, the Plymouth Plan has been at the heart of policy and plan-making in the city. It sets the direction for the city's economy; it plans for the city's transport and housing needs; it looks at how the city can improve the lives of children and young people and address the issues which lead to child poverty. It sets out the Council's mission to 'Make Plymouth a fairer city, where everyone does their bit'.

The Plymouth Plan includes plans to increase its resident population to 300,000, build an additional 19,000 homes (of which 4,550 are affordable), reduce carbon emissions by 50%, improve broadband to all premises and to create 20,400 jobs. The Council worked closely with local strategic partners West Devon and South Hams Councils to create 'The Plymouth and South West Devon Joint Local Plan' to support local thriving towns and villages. The three councils joined up to create this plan (now adopted) which looks at every aspect of how we want our cities, towns and villages to look and feel over the next 20 years. The existing policies in the Plymouth Plan will now be combined with the Plymouth-specific policies in the new Joint Local Plan to create one document.

Challenges

Whilst the city has the potential to drive increased productivity and make a greater contribution to UK plc, this does not come without its challenges. Connectivity is the key challenge for the city, in terms of rail and road infrastructure. Improving skills, particularly in Science, Technology, Engineering and Mathematics (STEM) subjects, to grow, keep and attract a skilled workforce now and in the future is also a critical challenge.

It is recognised that in the current environment of reduced government funding this will put additional pressure on key Council services like refuse collection, street cleaning, schooling and social care, both children's and adults', and to be successful we'll all need to think and work differently.

Transforming Service Delivery

In April 2018 we moved into the fifth year of our successful transformation journey. This has enabled Plymouth City Council to deliver over £80m of budget savings and efficiencies in the last four years.

The Council is now moving onto the next stage of its transformation journey in response to ongoing drivers for change such as significant budget pressures, changing demands and whole system challenges. The next stage will see a greater focus on demand management for better outcomes and the need to put the customer and citizen at the heart of all the Council does and is involved in.

Transformation programmes will be aligned to Plymouth City Council's organisational purpose:

"Everything we do is about:

- *Facilitating relationships so that everyone can help develop Plymouth.*

  We do this by:
- *Being relentless in placing digital at the heart of all that we do;*
- *Focusing on building networks and partnerships and supporting them to thrive;*
- *Being straightforward with people about the challenges we face so they can help solve them;*
- *Co-ordinating our activity effectively".*

The future shape of Plymouth City Council will reflect an intelligent organisation making effective use of the data available, working closely with their communities, developing models for alternative service delivery vehicles, supported by streamlined services and placing the customer at the heart of the Council's culture.

Services have been modernised and we have created a number of profitable arms-length companies to support the Council and partners in the city such as DELT Shared Services and CATER[ed].

We have also introduced new technology to provide staff with more efficient ways of working and we are delivering a modern library service that is more focused on the needs of Plymouth residents.

We are now moving into the next stage of our journey, which will enable us to respond to drivers for change including delivering the ambitions for growth set out in the Plymouth and South West Devon Joint Local Plan.

Our priorities include:

- continuing to improve our performance;
- meeting the changing expectations from residents;
- joining up our services with partners to improve efficiency and make things easier for customers;
- entering into a new contract to manage children's services and strategic planning in Torbay;
- supporting the transformation of NHS services through its Strategic Transformation Plan (STP);
- working with schools to change our education services;
- working with our partners across the South West to pursue our shared interests.

Change is ongoing and we are now mainstreaming transformation within our services. Staff working in our centralised transformation team are transferring to departments, with a small team remaining in the corporate centre to maintain oversight of our ongoing change programme.

The Council's Performance

The Plymouth City Corporate Plan 2018-22 sets out our mission of 'making Plymouth a fairer city, where everyone does their bit'. This was approved by Council in June 2018. The Corporate Plan priorities are delivered through specific programmes and projects which are coordinated and resourced through cross-cutting strategic plans, capital investments and directorate business plans. The key performance indicators (KPIs) and their associated targets are monitored quarterly to inform us on how we are doing in delivering what we have set out to achieve in the Corporate Plan. We have continued to transform how we deliver services to ensure they are more efficient and better focused on customer needs. This includes working in new ways, joining services up with our partners and maximising the opportunities from digital technology.

In very difficult financial circumstances we continue to retain and improve our core services. For example during 2018/19 we have:

- ✓ Delivered 1,455 gross additional homes (90% increase on 2017/18);
- ✓ Supported 421 families into affordable homes;
- ✓ 804 businesses were supported through various programmes in 2018/19;
- ✓ Rolled out nearly 700 IT devices as part of 'The Way We Work' programme to deliver a flexible workforce with access to the right technology, information and workspaces to work seamlessly and securely across locations and partners;
- ✓ Reported that 89.5% of young people are in education or employment finishing GCSEs;
- ✓ The percentage of Early Years Foundation Stage pupils who achieve a Good Level of Development at the end of each academic year continues to improve;
- ✓ £265.8m was invested into the city in 2018/19 of which £100.3m was foreign direct investment;
- ✓ Provided a strong programme of events attended by 500,000 residents and visitors and 1.4 million visits were made to the Visit Plymouth website;

FINANCIAL PERFORMANCE

Devon Business Rates Pool

The Devon Business Rates pilot for 100% retention in 2018/19 was submitted to the MHCLG in September 2017 with a forecast gain to be shared by the Pool Members of £20m. The forecast was based on future business rates growth and a number of assumptions across all Pool Members.

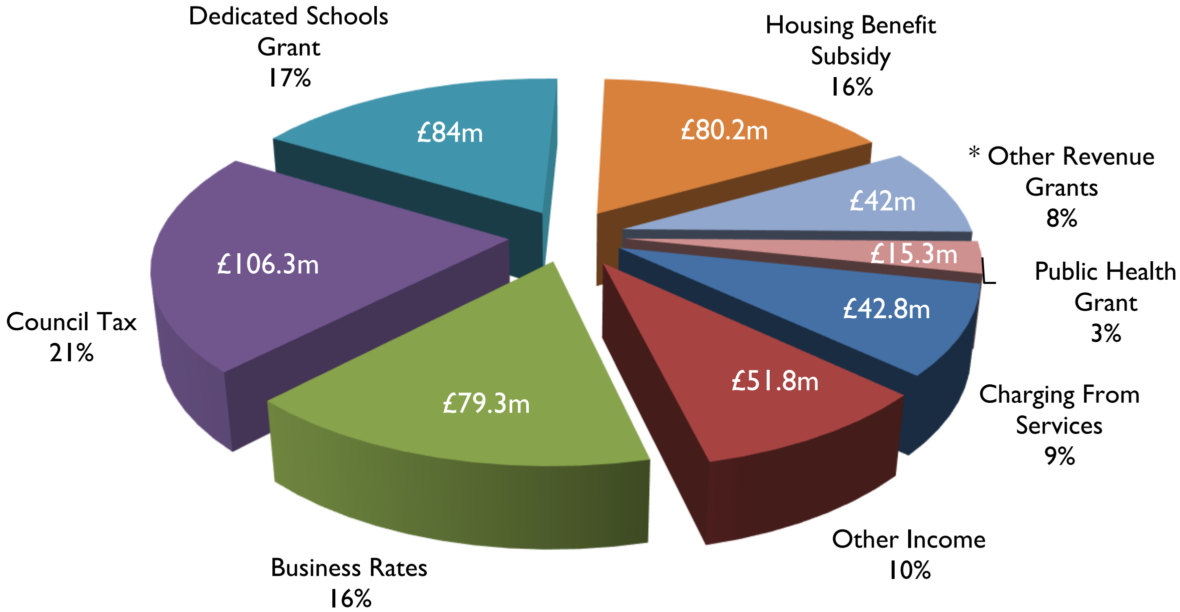
The working group has worked together to produce the forecasts, share best practices and develop the detailed workings which are complex. The group has also been supported by LG Futures who developed the initial workings and supported the Pool pilot application.

The original forecast for the pooling gain from the pilot was £20.0m to be shared across the 11 pool members. The quarterly forecasts confirmed this was still a good indication of the final expected gain and the year ended with an actual gain of £22.3m.

Revenue Income Sources

The Council's gross revenue budget for 2018/19 was £501.7m which after adjusting for income equates to a net budget of £185.6m. The main sources of income are shown in the following chart:

2018/19 Revenue Income Sources



**Other Revenue Grants – this includes grants from the Home Office, PFI Credits, the Ministry of Housing, Communities and Local Government (MHCLG), the Office of the Director of Public Health (ODPH) and a variety of other sources of grant funding.*

2018/19 Revenue Outturn

The finance outturn position, before any adjustments, shows an overspend of £1.117m which is a 0.6% variance. The outturn position needs to be considered in the context of a challenging financial climate and the continuation of the Government's austerity programme with respect to public finances. In 2018/19 the Council has managed a savings programme in excess of £11m in addition to increasing service demands and customer expectations.

The net revenue budget of £185.556m was allocated to council services as follows:

Directorate	2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Council Approved Net Budget	2018/19 Latest Budget	2018/19 Outturn	Year End Over/ (Under) Spend
	£m	£m	£m	£m	£m	£m
Executive Office	6.552	(0.648)	5.904	5.906	5.834	(0.072)
Corporate Items	7.136	(12.499)	(5.363)	(9.107)	(9.154)	(0.047)
Finance	25.441	(4.733)	20.708	17.973	17.522	(0.451)
Customer and Corporate Services	104.323	(90.476)	13.847	14.981	14.993	0.012
People Directorate	258.893	(134.039)	124.854	130.198	132.904	2.706
Office for the Director of Public Health	19.456	(19.140)	0.316	0.315	0.297	(0.018)
Place Directorate	79.878	(54.588)	25.290	25.290	24.277	(1.013)
Total	**501.679**	**(316.123)**	**185.556**	**185.556**	**186.673**	**1.117**

Working Balance

The Working Balance as at 31 March 2019 is £8.050m. The Working Balance has a recommended minimum set at 5% of the net revenue budget. This minimum requirement has been approved by Council. However, due to the continued budget pressures in 2018/19, the Council has had to make further use of its Working Balance reducing it to 4.3% of the net revenue budget in order to deliver a breakeven position.

Other Financial Performance

In addition to the financial outturn reports within this report there were a range of other significant performance achievements which have contributed to the year-end position. In-year collection targets are set for our Council Tax, Business Rates, Commercial Rents, and Sundry Debt Income including our Trade Waste Income. The 2018/19 revenue budget was based on the achievement of the required targets.

We continue to increase our collection rates in core income streams and explore alternative ways of making further improvements. For example, we created a new team within existing resources to focus on recovering debt due to the Council with a specific focus on reducing housing benefit over payments.

Some Key Indicators are:

- 96.8% of Council Tax collected in year for 2018/19 towards the total collection target of 98.5% (96.9% in 2017/18).
- 99.0% of NDR collected in year for 2018/19 towards the total collection target of 98.0% (98.6% in 2017/18).
- Average borrowing rate of 2.2% was achieved against target of 3.0% (2.4% in 2017/18).
- Average investment return of 1.8% was achieved against target of 1.5% (1.3% in 2017/18).
- 99% of all supplier invoices were paid within 30 days against a target of 99.0% (98.4% in 2017/18).
- VAT partial exemption at 4.3% against a target of 5.0% (3.4% in 2017/18).
- 46.9% of the Council's spend was incurred with businesses within the "PL" post code against target of 55.0% (53.4% in 2017/18).

Capital

During the year 2018/19 the Council spent £134m on capital projects within the city. This is shown by Directorate in the following table. This is within the approved Capital Budget for 2019-24 of £266.471m (see the table under Capital Funding 2019-24).

Directorate	Latest Forecast December 2018	Re-Profiling	Approvals Post December	Variations and Virements	2018/19 Outturn	Spend Variance
	£m	£m	£m	£m	£m	%
Place Directorate	133.253	(17.087)	4.208	0.178	120.552	90.5
People Directorate	7.578	(1.853)	2.330	0.041	8.096	106.8
Customer and Corporate Services	4.711	(1.184)	0.540	(0.080)	3.987	84.6
Office for the Director of Public Health	1.173	(0.650)	0.000	0.000	0.523	44.6
Capital programme	**146.715**	**(20.774)**	**7.078**	**0.139**	**133.158**	**90.8**
Efficiency Strategy	0.000	0.000	0.847	0.000	0.847	
Total capital programme	**146.715**	**(20.774)**	**7.925**	**0.139**	**134.005**	

The 2018/19 programme outturn of £134m has enabled investment in some notable capital schemes, including:

- £70.3m Asset Investment acquisitions including:
  - Ballard House;
  - Next;
  - Langage Business Park;
  - Derry's Cross Leisure;
  - Launceston Retail Park;
- £4.3m Forder Valley Link Road;
- £14.7m for the redevelopment of the City Museum and Library into 'The Box';
- £7.4m Highway maintenance and essential engineering;
- £4.4 Community neighbourhoods, parks and public realm;
- £2.7m of Basic Need works in Plymouth Schools to allow for an increase in pupils;
- £3.3 for Disabled Facilities Grants.

Capital Funding 2019-24

The latest capital programme is summarised as follows:

Directorate	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	Total
	£m	£m	£m	£m	£m	£m
Place Directorate	150.505	56.432	24.870	2.651	2.556	237.014
People Directorate	5.799	0.179	0.172	0.172	0.000	6.322
Customer and Corporate Services	9.426	2.442	0.000	0.000	0.000	11.868
Office for the Director of Public Health	6.423	4.844	0.000	0.000	0.000	11.267
Total	**172.153**	**63.897**	**25.042**	**2.823**	**2.556**	**266.471**

Cash Flow Management

The Council has a comprehensive cash flow management system to ensure that:

- surplus cash is invested wisely;
- it can always meet its liabilities as they fall due.

Cash and short-term investment holdings at 31 March 2019 were £48.9m and are held to meet the Council's capital financing and cash flow requirements while obtaining a return on these investments. The Council also uses short-term borrowing from other local authorities to meet some of the funding of the Council's ambitious capital programme. As at 31 March 2019 the Council held £281.266m short-term borrowing and £183.565m long-term borrowing which is within the Council's approved limits.

Balance Sheet Position

The Council's Balance Sheet position is as follows:

Position	Restated Balance as at 31 March 2018	Balance as at 31 March 2019
	£000	£000
Non-current assets - principally land, buildings and equipment used to deliver council services	971,828	1,074,409
Net current assets - current assets less current liabilities	(171,151)	(257,826)
Long-term liabilities and provisions (including pensions) see points 1 and 2	(933,002)	(939,274)
Net liabilities	**(132,325)**	**(122,691)**
Represented by:		
Usable reserves (see point 3)	59,736	57,535
Unusable reserves	(192,061)	(180,226)
Total reserves	**(132,325)**	**(122,691)**

1. The Council's largest balance sheet liability is represented by £540.9m for pension liabilities. This includes a provision for the pension guarantee for Livewell Southwest and DELT for the service deficit attributable to service up to the transfer date.
2. The Council has a number of liabilities at the year-end for which it has made provision. The most significant of which are:
   - The provision for Chelson Meadow which is a closed landfill site. The provision of £9.3m has been calculated on the future maintenance costs over the next 50 years and is reviewed each year;
   - In addition, the Council has set aside a provision for business rate appeals of £2.53m (£3.98m at 31 March 2018). This has decreased due to the number of successful appeals over the last couple of years.
3. Usable reserves are currently split between those earmarked for capital investment and those allocated to revenue support and service development. Usable reserves also include £2.62m held on behalf of schools and £8.05m general fund working balances to cover short-term cash flow movements, budget overspends and other unforeseen contingencies. The working balance represents 4.3% of the net cost of services.
4. The Council holds a number of unusable reserves, the majority of which are required to be held for statutory reasons and some which are needed to comply with proper accounting practice. A further breakdown of unusable reserves is found in the Notes to the Financial Statements section of the Statement of Accounts.

FINANCIAL MANAGEMENT AND IDENTIFYING RISKS

The Council approves a number of key documents before the start of each financial year:

- a three year Medium Term Financial Strategy.
- a Treasury Management Strategy which includes our investment and borrowing strategies and includes the Council's 'Prudential indicators'.
- annual Revenue Budget

These documents are continually updated and reviewed on a quarterly basis.

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have published revised guidance and an updated Prudential Code to cover local authorities who invest in properties to obtain an income. The Council's Asset Investment Fund has been set up to invest in commercial properties to increase its revenue income.

Risk Management

The Council has a Strategic Risk and Opportunity Register and there are clear and consistent processes for identifying, assessing, managing, controlling, reviewing and reporting risks. These are subject to regular review and update. Some of the strategic risks which have been rated as high risk are shown as follows:

Risk	Link to Corporate Plan	Impact	Mitigation
Financial			
Delivering Council services within the envelope of the resources provided in 2019/20-20/22 Medium Term Financial Strategy	Spending Money Wisely	Risk to services not delivering within reduced budgets and to delivery of the Plymouth Plan from reduced revenue and funding of the Capital Programme	Progress reported monthly to Cabinet, Audit and Governance Committee and Chief Internal Auditor oversee the financial reporting process, continued member engagement in Budget process and MTFP setting process
Being unable to deliver Council services within the envelope of the resources provided in 2018/19	Spending Money Wisely	Risk to services not being delivered, negative impact on budgets, loss of reputation, negative impact on front line services and negative opinion from external audit	Progress reported monthly to Cabinet, higher profile of Council's finances at CMT and Cabinet, Audit and Governance Committee and Chief Internal Auditor oversee the financial reporting process, continued member engagement in Budget process and MTFP setting process, Portfolio member setting out areas of responsibility and savings targets and efficiencies, Portfolio Holders undertaking line-by-line reviews of budgets
Projected in-year overspend in Children's Social Care caused by unprecedented demand	Spending Money Wisely	Additional costs associated with specialist residential care placements and high levels of staffing	Independent fostering review action plan, service redesign implemented including invest to save for increase in number of Social Workers
Reputational			
Failing to, or inability to understand impacts of Brexit	Providing Quality Public Services	Reputational risk if Council is unable or has limited capacity to manage change and deliver objectives	Brexit specific risk register, business continuity group, attendance at local and regional events, Member scrutiny, regional engagement work - LEP
Compliance, Regulation and Safeguarding			
Reduction in the quality of education provision negatively affecting level of pupil attainment	A Caring Council	Negative impact on children's attainment due to the quality of education provision	Ofsted inspection, Education and Children's Social Care Overview and Scrutiny Committee

LOOKING FORWARD

The Medium Term Financial Strategy is updated quarterly and the budget report presented to Cabinet on 26 February 2019 sets out the national context for large reductions in local government funding and the Local Government Finance Settlement.

The impact of pressures within Social Care continues to have a significant impact upon the Council's resources. Nationally and locally the costs of providing health and wellbeing services are rising as demand increases. Plymouth has an ageing population with more complex needs and higher levels of young children requiring our services.

To balance the budget there will be a continuing need for transformation, efficiencies and other financial initiatives for the foreseeable future.

STATEMENT OF ACCOUNTS 2018/19

The Statement of Accounts which follow, set out the Council's income and expenditure for the year and its financial position as at 31 March 2019. The format and content of the statements is prescribed by CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. This is based on International Financial Reporting Standards (IFRS) adapted for use in a public sector context. The Statement of Accounts comprises:

Comprehensive Income and Expenditure Statement (CIES)	This shows the net cost of providing services in accordance with generally accepted accounting practices. The Expenditure Funding Analysis (note 7) compares the CIES with levels of income and expenditure which are taken into account when setting the annual budget and council tax since certain amounts are disregarded by statute.
Balance Sheet	The Balance Sheet shows the Council's assets and liabilities at the year end. Net assets are matched by reserves which may be 'usable' or 'unusable'.
Movement in Reserves Statement (MIRS)	This shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either 'usable' reserves which can be used to fund future expenditure or 'unusable' reserves which are maintained to meet specific statutory responsibilities.
Cash Flow Statement	This financial statement shows how changes in balance sheet accounts and income affect cash and cash equivalents, it breaks the analysis down to operating, investing and financing activities.
Collection Fund	This account demonstrates how income raised from local taxpayers has been redistributed to the Council and other precepting authorities for the provision of services.
Statement of Accounting Policies	Sets out the accounting policies that have been followed in preparing the accounts and how the Code requirements have been met in practice.
Disclosure Notes	These provide more detail about individual transactions and balances.

ANNUAL GOVERNANCE STATEMENT

The Code also sets out the statutory requirement, under the Accounts and Audit (England) Regulations 2015, for every local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and to include a statement reporting on the review with the Statement of Accounts. This review takes the form of the Annual Governance Statement (AGS).

The AGS was reported to and approved by the Audit Committee on the 22 July 2019. This can be found on the Council's website.

CONCLUSION

The formal audit of the Draft Statement of Accounts commenced on 1 July 2019, and in line with our statutory duty we made our accounts available for scrutiny by interested members of the public from 3 June to 12 July 2019.

Following any adjustments, as a result of the audit and/or post balance sheet events, we will present the final Statement of Accounts to the Audit Committee scheduled for July, and following formal sign off, we will endeavour to publish them on our web pages no later than 31 July 2019.

Local Audit and Accountability Act 2014 and Accounts and Audit (England) Regulations 2015:

a) any person interested may inspect and make copies of the accounts to be audited.

b) a local government elector for the area may question the auditor about the accounts and object to any items of unlawful expenditure, loss due to wilful default, failure to bring a sum of income into account, or any other matter of public interest. Persons wishing to question the auditor should do so by prior arrangements by contacting 0117 305 7600.

c) if any elector intends to object they must give the auditor prior written notice of any objection and its grounds and send a copy of the notice to the City Council.

The Council's Service Director for Finance (Section 151 Officer) is required to sign the final accounts by a statutory deadline of 31 July 2019.

Further information is available:

- on the Council's website or
- from Carolyn Haynes, Financial Controller, Ballard House West Hoe Road, Plymouth PL1 3BJ, telephone 01752 398927, email corporateaccountancy@plymouth.gov.uk

Andrew Hardingham
Service Director for Finance and Section 151 Officer
Ballard House
West Hoe Road
Plymouth
PL1 3BJ

Dated:

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council is Required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Service Director for Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

The Service Director for Finance (Section 151 Officer) Responsibilities:

The Service Director for Finance is responsible for the preparation of the Council's Statement of Accounts, which is in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (The Code).

In preparing this statement of accounts, the Service Director for Finance has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the Local Authority Code

The Service Director for Finance has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

In signing these accounts, the Service Director for Finance confirms that these statements give a 'true and fair' view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year ended 31 March 2019.

Andrew Hardingham
Service Director for Finance and Section 151 Officer
Ballard House
West Hoe Road
Plymouth
PL1 3BJ

Dated:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

Restated 2017/18 Gross Expenditure	Restated 2017/18 Gross Income	Restated 2017/18 Net Expenditure		Note	2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure
£000	**£000**	**£000**			**£000**	**£000**	**£000**
7,676	(1,369)	6,307	Executive Office		7,105	(972)	6,133
15,533	(9,010)	6,523	Corporate Items		3,662	(15,101)	(11,439)
18,419	(2,064)	16,355	Finance		19,946	(2,734)	17,212
128,288	(109,073)	19,215	Customer and Corporate Services		110,234	(93,203)	17,031
262,612	(136,630)	125,982	People Directorate		272,059	(123,478)	148,581
19,811	(19,566)	245	Public Health		20,214	(19,695)	519
89,635	(47,612)	42,023	Place Directorate		97,386	(40,991)	56,395
541,974	**(325,324)**	**216,650**	**(Surplus)/Deficit on Continuing Operations**		**530,606**	**(296,174)**	**234,432**
3,312	(4,939)	(1,627)	Other Operating Expenditure	11	21,058	(2,863)	18,195
42,430	(28,800)	13,630	Financing and Investment Income and Expenditure	13	52,725	(23,132)	29,593
0	(198,827)	(198,827)	Taxation and Non-specific Grant Income	14	0	(220,042)	(220,042)
587,716	**(557,890)**	**29,826**	**(Surplus)/Deficit on Provision of Services**		**604,389**	**(542,211)**	**62,178**
		(26,959)	(Surplus)/deficit on Revaluation of Non-current Assets	22.1			(44,835)
		(69,865)	Re-measurement of the Net Defined Benefit Liability (Assets)	22.4			(35,639)
		(631)	(Surplus)/deficit on revaluation of Available for Sale financial assets				0
		0	(Surplus)/deficit from investments in equity instruments designated at fair value through comprehensive income.				2,369
		1,500	Other recognised (gains)/losses				288
		(95,955)	**Other Comprehensive Income and Expenditure**				**(77,817)**
		(66,129)	**Total Comprehensive Income and Expenditure**				**(15,639)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

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MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/(Decrease) line shows the statutory General Fund Balance and Balance movements in the year following those adjustments.

Movement in Reserves Statement	Note	General Fund Balance	Earmarked General Fund	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2017 - Restatement		**9,352**	**21,056**	**30,408**	**18,599**	**5,202**	**54,209**	**(252,663)**	**(198,454)**
Movement in Reserves 2017/18									
Total Comprehensive Income and Expenditure		(29,826)	0	(29,826)	0	0	(29,826)	95,955	66,129
Adjustments between accounting basis and funding under regulations	10	34,328	0	34,328	(347)	1,372	35,353	(35,353)	0
Net Increase/(Decrease) Before Transfer to Earmarked Reserves		**4,502**	**0**	**4,502**	**(347)**	**1,372**	**5,527**	**60,602**	**66,129**
Transfer (to)/from reserves	12	(4,686)	4,686	0	0	0	0	0	0
Net Increase/(Decrease) in 2017/18		**(184)**	**4,686**	**4,502**	**(347)**	**1,372**	**5,527**	**60,602**	**66,129**
Balance at 31 March 2018		**9,168**	**25,742**	**34,910**	**18,252**	**6,574**	**59,736**	**(192,061)**	**(132,325)**
Movement in Reserves 2018/19									
Recognition of RIF loan		0	0	0	0	0	0	(6,004)	(6,004)
Total Comprehensive Income and Expenditure		(62,178)	0	(62,178)	0	0	(62,178)	77,817	15,639
Adjustments between accounting basis and funding under regulations	10	59,988	0	59,988	(3,033)	3,022	59,978	(59,978)	0
Net Increase/(Decrease) Before Transfer to Earmarked Reserves		**(2,190)**	**0**	**(2,190)**	**(3,033)**	**3,022**	**(2,201)**	**11,835**	**9,635**
Transfer (to)/from reserves	12	1,073	(1,073)	0	0	0	0	0	0
Net Increase/(Decrease) in 2018/19		**(1,117)**	**(1,073)**	**(2,190)**	**(3,033)**	**3,022**	**(2,201)**	**11,835**	**9,635**
Balance at 31 March 2019		**8,051**	**24,669**	**32,720**	**15,219**	**9,596**	**57,535**	**(180,226)**	**(122,691)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

BALANCE SHEET AS AT 31 MARCH 2019

The Balance Sheet shows the value of the assets and liabilities recognised by the Council as at the Balance Sheet date. The net assets of the Council are matched by the reserves held. Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Unusable reserves are those that the Council is not able to use to provide services, including reserves that hold unrealised gains and losses (for example the Revaluation Reserve), and reserves that hold timing differences shown in the Movement in Reserve Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2018	Restated 31 March 2018		Note	31 March 2019
£000	£000			£000
727,924	756,957	Property Plant and Equipment	15	797,961
27,271	27,271	Heritage Assets	16	27,271
137,628	137,726	Investment Property	17	197,732
30	30	Intangible Assets		23
38,862	38,862	Long-term Investments	18.1	40,497
10,982	10,982	Long-term Debtors	19.2	10,925
942,697	**971,828**	**Non-current Assets**		**1,074,409**
16,993	16,993	Short-term Investments	18.1	17,008
704	703	Inventories		692
60,124	60,124	Short-term Debtors	19.1	64,229
30,280	30,280	Cash and Cash Equivalents	23.4	31,863
335	335	Assets Held for Sale		665
108,436	**108,435**	**Current Assets**		**114,457**
(201,042)	(201,042)	Short-term Borrowing	18.1	(281,266)
(56,280)	(56,280)	Short-term Creditors	20.1	(64,696)
(2,186)	(2,186)	Short-term Provisions	21	(1,756)
(1,111)	(1,111)	Grants Received in Advance - Revenue	29	(413)
(20,915)	(18,967)	Grants Received in Advance - Capital	29	(24,152)
(281,534)	**(279,586)**	**Current Liabilities**		**(372,283)**
(15,147)	(15,147)	Long-term Creditors	20.2	(13,888)
(14,550)	(14,550)	Long-term Provisions	21	(12,846)
(165,627)	(165,627)	Long-term Borrowing	18.1	(183,565)
(561,521)	(561,521)	Long-term Liabilities Pensions	34.3 & 34.9	(540,896)
(121,359)	(121,359)	Long-term Liabilities Other	20.3	(120,545)
(54,798)	(54,798)	Grants Received in Advance - Capital	29	(67,534)
(933,002)	**(933,002)**	**Long-Term Liabilities**		**(939,274)**
(163,403)	**(132,325)**	**Net Assets**		**(122,691)**
59,736	59,736	Usable Reserves		57,535
(223,139)	(192,061)	Unusable Reserves	22	(180,226)
(163,403)	**(132,325)**	**Total Reserves**		**(122,691)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

Restated 2017/18		Note	2018/19
£000			**£000**
(29,826)	Net Surplus/(Deficit) on the Provision of Services	23.1	(62,178)
58,044	Adjustment to Net Surplus/(Deficit) on the Provision of Services for non-cash movement	23.1	80,540
(19,359)	Adjustments for items included in the Net Surplus/(Deficit) on the Provision of Services that are investing and financing activities	23.1	(37,248)
8,859	**Net Cash Flows from Operating Activities**		**(18,886)**
(71,331)	Investing activities	23.2	(74,479)
74,551	Financing activities	23.3	94,948
12,079	**Net Increase/(Decrease) in Cash and Cash Equivalents**		**1,583**
18,201	Cash and cash equivalents at the beginning of the reporting period	23.4	30,280
30,280	**Cash and Cash Equivalents at the End of the Reporting Period**		**31,863**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustments

Due to the reorganisation of the Council's directorates in 2018/19, it has been necessary to make changes to the segmental reporting. The prior year has been restated for comparison purposes and only affects notes connected with cost of services.

Following a review of the property values and the asset classifications on the Asset Register for 2016/17 and 2017/18 it was found that the Property Plant and Equipment were undervalued by £29.033 million. £1.938 million of this related to the opening balance for 2017/18 and £27.095 million related to 2017/18. An error was also found relating to the incorrect classification of Investment Property which has led to an increase of £98k in the value of Investment Property.

It has also been identified that the Council had received a capital grant for £1.949 million which had been treated as a conditional grant even though the conditions had been met. The accounts have been restated leading to a reduction in the Capital Grants Received in Advance and a corresponding movement in the Capital Adjustment Account.

The adjustments mentioned above have led to an increase in the Revaluation Reserve of £18.560 million and an increase of £12.518 million in the Capital Adjustment Account

The fully restated 2017/18 comparative figures for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement are on pages 19 and 20 respectively. The adjustments that have been made to the statements over the versions published in the 2017/18 Statement of Accounts are as follows:

Effect on Closing Balance Sheet 31 March 2018	As Previously Stated 31 March 2018	As Restated 31 March 2018	Correction 2017/18
	£000	**£000**	**£000**
Property Plant and Equipment	727,924	756,957	29,033
Investment Property	137,628	137,726	98
Non-current Assets	**942,697**	**971,828**	**29,131**
Grant Receipts in Advance - Capital	(20,915)	(18,967)	1,948
Current Liabilities	**(281,534)**	**(279,586)**	**1,948**
163403Net Assets	**(163,403)**	**(132,325)**	**31,078**
Usable Reserves	59,736	59,736	0
Unusable Reserves	(223,139)	(192,061)	31,078
Total Reserves	**(163,403)**	**(132,325)**	**31,078**

The next table shows the impact of the restated figures on the Comprehensive Income and Expenditure Statement for the PPE and Investment Property movement and the Capital Grant movement:

Effect on Comprehensive Income and Expenditure Statement 2017/18	As Previously Stated 2017/18	As Restated 2017/18	Correction 2017/18
	£000	£000	£000
People Directorate	129,717	125,982	(3,735)
Place Directorate	46,731	42,023	(4,708)
(Surplus)/Deficit on Continuing Operations	**225,093**	**216,650**	**(8,443)**
Other Operating Expenditure	(1,857)	(1,627)	230
Financing & Investment Income & Expenditure	14,621	13,631	(990)
Taxation & Non-specific Grant Income	(196,879)	(198,827)	(1,948)
(Surplus)/Deficit on Provision of Services	**40,978**	**29,826**	**(11,152)**
(Surplus)/Deficit on revaluation of non-current assets	(8,971)	(26,959)	(17,988)
Other Comprehensive Income and Expenditure	**(77,967)**	**(95,955)**	**(17,988)**
Total Comprehensive Income and Expenditure	**(36,989)**	**(66,129)**	**(29,140)**

There is a net movement on the Usable Reserves in the Movement in Reserves Statement which is shown below:

Movement in Reserves Statement - Usable Reserves 2017/18	Usable Reserves	Restatement	Correction Required to Opening Balances as at 1 April 2018
	£000	£000	£000
Balance as at the end of the previous reporting period - 31 March 2017	54,209	54,209	0
Movement in Reserves 2017/18			
Total Comprehensive Income & Expenditure	(40,978)	(29,826)	11,152
Adjustments between accounting basis and funding basis under regulations	46,505	35,353	(11,152)
Increase/(decrease) in the year	**5,527**	**5,527**	**0**
Balance at the end of the current reporting period	**59,736**	**59,736**	**0**

The movement on the Revaluation Reserve and the Capital Adjustment Account balances impacts on the Unusable Reserves in the Movement in Reserves Statement and the movement is shown below:

Movement in Reserves Statement - Unusable Reserves 2017/18	Unusable Reserves	Restatement	Correction Required to Opening Balances as at 1 April 2018
	£000	£000	£000
Balance as at the end of the previous reporting period - 31 March 2017	(254,601)	(252,663)	1,938
Movement in Reserves 2017/18			
Total Comprehensive Income & Expenditure	77,967	95,955	17,988
Adjustments between accounting basis and funding basis under regulations	(46,505)	(35,353)	11,152
Increase/(decrease) in the year	**31,462**	**60,602**	**29,140**
Balance at the end of the current reporting period	**(223,139)**	**(192,061)**	**29,140**

2. Accounting Policies

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year ended 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

These Accounts have been prepared on a going concern basis and it has been assumed that the functions of the Council will continue in operational existence for the foreseeable future.

2.2 Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies and services are recorded as expenditure when they are consumed or received. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest payable on borrowings and receivable on investments is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

2.4 Benefit Payments

Benefit payments are accounted for as they are incurred with no accrual being made for payments in advance or arrears at the year-end. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

2.5 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices, where the change provides more reliable or relevant information about the effect of transactions or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2.6 Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue, called the Minimum Revenue Provision (MRP), towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

2.7 Council Tax and Non-domestic Rates

Billing authorities act as agents, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement (MiRS).

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

2.8 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, flexi and time off in lieu (TOIL) as well as bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

Termination Benefits (for Example Redundancy Payments)

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged to the appropriate service, or where applicable the Corporate Service line in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises cost of restructuring.

Post-employment Benefits (Pensions)

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by Devon County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned whilst employees worked for the Council.

Teachers' Pension Scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Educational Services line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year.

However, the Council is able to supplement teachers' statutory retirement benefits with locally determined decisions (discretionary payments). The future liability for such decisions is a true cost to the Council and is assessed annually by the Actuary and included within the total pension liability on the Balance Sheet.

The Local Government Pension Scheme

All Council employees (with the exception of teachers) are eligible to join the Local Government Pension Scheme (LGPS). The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Devon Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.70 per cent (based on the Merrill Lynch AA rated corporate bond).

The assets of the Devon Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- property – market value.

The change in the net pension liability is analysed into the following components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the provision of Services in the CIES as part of corporate items.
- Net interest on the net defined liability/(asset) i.e. net interest expense for the Council – the change during the period on the net defined liability /(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the CIES Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in the net interest on the net defined liability/(asset)- charged to the pension reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Devon County Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS this means that there are appropriations to and from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers as outlined above, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

2.9 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

2.10 Financial Instruments

Financial instruments are recognised on the balance sheet when the Council becomes a party to the contractual provisions. They are initially measured at fair value.

In 2018/19 the Code has adopted IFRS9 – Financial Instruments which replaces IAS39. This new standard affects the classification of financial instruments and the subsequent treatment of changes in fair value. IFRS9 removes the classification of Available for Sale (AFS) financial assets and requires that they are reclassified according to the nature of the transaction.

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus interest accrued). Annual charges to the financing and investment income and expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL), and;
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contracted provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

2.11 Revenue Recognition

With the adoption of accounting standard IFRS 15, revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

2.12 Government Grants and Contributions

Whether paid on account, by instalments, or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments;
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until the conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as stated, or future economic benefits or service potential must be returned to the transferor (grant provider).

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the CIES.

Where revenue grants that have been credited to the CIES are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund Balance to an Earmarked Reserve in the MiRS. A transfer back is made in future years to match expenditure as it is incurred.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

2.13 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation;

- its expenses, including its share of any expenses incurred jointly.

2.14 Interests in Companies and Other Entities

An assessment of the Council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Council's control over an entity. The Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Council does have a number of interests in companies and other entities, none of which would be material on consolidation due to the elimination of group transactions. Thus the production of group accounts is not required for these interests.

2.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment properties are measured initially at cost and subsequently at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at 1 January. A review is completed at 31 March to ensure that there are no material movements in the period 1 January to 31 March. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

2.16 Heritage Assets

The Plymouth City Museum and Art Gallery is responsible for over 800,000 artefacts and a proportion of the collections have been held on display in the museum, council buildings and other historic sites. These collections span a wide range of fine and decorative art, archaeology, world cultures, social and natural history and local and maritime history. These are held in support of the primary objective of the Council to ensure that these objects are preserved in trust for future generations because of their cultural, environmental or historical associations.

The Council classifies its Heritage Assets into three main categories – historic buildings and monuments, fine art and world cultures collections and gold, silver and jewellery collections – with the bulk of the artefacts not being formally recognised on the Balance Sheet as it is believed that to do so would involve a disproportionate cost in comparison to the benefits to users of the Council's financial statements.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, detailed as follows.

Where a historic building is being used significantly for the provision of services (for example Mount Edgcumbe House or the City Museum) this will be recognised as Other Land and Buildings rather than as a Heritage Asset.

The Council's collections are accounted for as follows:

- **Historic Buildings and Monuments**

  Historic buildings and monuments classified as Heritage Assets include Smeaton's Tower and the Elizabethan House.

The list is relatively static and acquisitions and donations are rare. Where they do occur acquisitions would be initially recognised at cost and donations would be recognised at insurance value which is based on market values.

As these are deemed to have an indefinite life, the Council does not consider it appropriate to charge depreciation.

- **Fine Art and World Cultures Collection**

  The Council has a large and important fine art collection comprising paintings, watercolours, drawings, prints, miniatures and sculptures. Highlights include the outstanding Cottonian Collection and works by local artists such as Sir Joshua Reynolds, and this represents the largest fine arts collection in the south west. The world cultures collection consists of objects collected from foreign countries spanning the globe.

  Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at insurance values, usually based on valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant information from sales at auction.

  As these items are deemed to have an indefinite life, the Council does not consider it appropriate to charge depreciation.

- **Gold, Silver and Jewellery Collection**

  The collection of gold, silver and jewellery includes local pieces dating from the 18th to 20th century and is representative of the thriving local community. Key pieces in the collection include the Eddystone Lighthouse Salt and the Drake Cup.

  Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at insurance values, usually based on valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant information from sales at auction.

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological, decorative art, natural history and other collections. This is because of the lack of comparable market values and, consequently, these are not recognised on the balance sheet.

The Council's policy for the acquisition, preservation and management of museum assets can be found on The Box website.

The carrying amount of Heritage Assets are reviewed on a regular basis to assess whether there has been any evidence of impairment caused by physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairments – see note 2.18 in this summary of significant accounting policies. If there is any occasion where a Heritage Asset is disposed of, the proceeds of such items are accounted for in accordance with the Council's general provisions for the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the Notes to the Financial Statements (see note 15.4) and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts – see note 2.18 in this summary of significant accounting policies.

2.17 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee (Leased in Assets)

Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Schools may make their own arrangements for operating leases using income from their schools budget share. These are included within total lease payments.

The Council as Lessor (Council Assets Leased Out)

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the (Surplus)/Deficit on Continuing Operations in the CIES. Credits are made on a straight-line basis over the life of the lease.

2.18 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

The Council operates a policy of assets capitalisation (including donated assets) with a minimum asset value of £10,000 for land and property and £5,000 for vehicle, plant and equipment. However, there is no minimum level applied for capital spend incurred by individual schools financed from capital grants.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure and community assets – depreciated historical cost;
- assets under construction – historical cost;
- surplus assets – fair value;
- the Tamar Toll Bridge - depreciated replacement cost;
- all other assets – current value in their existing use.

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets that Local Authorities intend to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

Assets included in the Balance Sheet at current or fair value are revalued regularly and are reviewed at the year-end to ensure that their carrying amount is not materially different from their fair value.

Impairment

Assets are assessed at each year-end to determine whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life such as freehold land and certain Community Assets, and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated on a straight line basis over the useful life of the asset as determined by the valuer. Depreciation is charged to the CIES based on values as at the start of the year. No depreciation is applied in year of acquisition or construction. The depreciation periods currently used are:

Operational Buildings:	
Car parks	5 to 50 years
Schools	5 to 40 years
Other buildings	5 to 60 years
Tamar Bridge	120 years
Infrastructure	20 to 40 years
Vehicles and Plant	5 to 25 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

The Council's componentisation policy is as follows:

- **Materiality Level**

  Assets with a building value of £2.5m or above are considered for componentisation on an individual asset basis. Consideration is also given to groups of similar assets that individually are below the materiality level for componentisation but may collectively be material.

- **Significance**

  Components with a value of 20 per cent or above of the overall asset value are significant components.

  In terms of schools, components are defined as separate school blocks or buildings and componentisation applied where the values meet the 20 per cent criteria.

- **Different Asset Life**

  The difference in life between the host asset and the component must be over 5 years for componentisation to be recorded.

Assets Held for Sale

When it becomes probable that the value of an asset will be recovered principally through a sale rather than through its continuing use, and the asset is being actively marketed, it is reclassified as an Asset Held for Sale. The asset is revalued and held at the lower of this amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

Assets that are no longer used for operational purposes but are not actively being marketed are revalued and reclassified as surplus but still retained within Property, Plant and Equipment and transferred to Assets Held for Sale only when a decision is made to actively market the asset.

Disposals

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve. Capital receipts can then only be used for:

- new capital investment;
- set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement).

2.19 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The Council's original recognition of PFI assets are based on the cost of construction or purchase cost of the property and is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year;
- finance costs – an interest charge on the outstanding Balance Sheet liability;
- contingent rent – increases in the amount to be paid for the property arising during the contract;
- payment towards finance liability – applied to write down the Balance Sheet liability towards the PFI operator;
- lifecycle costs – costs to maintain assets used to operationally acceptable standard.

Schools PFI Credits

The Council receives a grant towards the cost of the PFI scheme. The grant is allocated to meet the finance costs in the first instance. The amount required to meet the finance lease liability, interest and contingent rent charge is allocated to the Taxation and Non Specific grant income in the CIES. The remaining grant is treated as a specific grant and included within the Children's and Education service line.

Government grants received for PFI schemes, in excess of current levels of net expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

South West Devon Energy from Waste (EfW) PFI

For the Energy from Waste Scheme there is the additional element of deferred credit from the write down of the long-term liability for the expected third party income received during the year.

2.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, usually a cash payment, or service potential, and a reliable estimate of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service in the year that the Council becomes aware of its obligation. It can only be used for the purpose for which it was established.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 35.2.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts, note 35.1, where it is probable that there will be an inflow of economic benefits or service potential.

2.21 Reserves

The Council maintains a number of reserves which may be required for statutory purposes or set up voluntarily to earmark resources for future spending plans or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the MiRS so that there is no net charge against Council Tax for the expenditure.

2.22 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

2.23 Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for Local Authority maintained schools lies with the Local Authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Local Authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Controlled

School non-current assets are recognised on the Balance Sheet where the Council directly owns the assets or where the school or the school governing body own the assets but the Council is deemed to exercise control.

When a maintained school converts to an Academy, Voluntary Aided or Foundation Trust/Foundation; the school's non-current assets held on the Council's Balance Sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the CIES. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to Academy status is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

The income and expenditure is included within the People directorate in the CIES. The reserves are included in the Education Reserve balance, which forms part of the Council's Useable reserves.

2.24 Value Added Tax (VAT)

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2.25 Fair Value Measurement

The Council measures some of its non-financial assets as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be receivable to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 unobservable inputs for the asset or liability

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts is:

Tamar Bridge Valuation – Departure from the Code of Practice

The Tamar Bridge is a toll bridge that is jointly owned by Cornwall Council and Plymouth City Council. The Code of Practice on Local Authority Accounting requires infrastructure assets to be accounted for using depreciated historic cost, however both Councils use depreciated replacement cost (DRC) to value the asset. This is because the Tamar Bridge is an income generating asset and the income generated is used to maintain its upkeep. It is therefore treated as a separate class of asset and the reader of the Council's accounts might reasonably expect there to be a relationship between the income raised in tolls and the cost of maintaining and ultimately replacing the bridge. The current DRC value of the bridge is £58.827m, if the bridge was valued at its depreciated historic cost in line with other infrastructure assets the value would be £18.949m, so would therefore be misleading to use historic cost as a basis for valuation.

The Council have concluded that, taking account of the above, the financial statements present a true and fair view of the Council's financial position, financial performance and cash flows and has complied with the Code in all other respects.

4. Accounting Standards that have been Issued but have Not yet been Adopted

The Council is required to disclose information regarding the impact of any accounting change on the financial statements as a result of any new standards that have been issued, but are not yet required to be adopted by the Council. There are no changes in accounting requirements for 2019/20 that are anticipated to have a material impact on the Council's financial performance or financial position.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

In preparing the Statement of Accounts, there are areas where estimates have been made. Estimates are made taking into account historical experience, current trends and other relevant factors. These include the amount of arrears that will not be collected (based on past experience of collection for the different types of debt); useful lives and valuations of properties which are estimated by qualified valuers (for further details see 2.18); and the liability for future pension payments, which carries the most significant risk of material adjustment.

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance which would have an impact upon the assessment of useful lives assigned to assets.

Any changes to useful life of assets would not have an impact on the Council's General Fund position as the Council is not required to fund these non-cash charges from council tax receipts.

Assets are periodically re-valued using a 5-year rolling programme to ensure that the Council does not materially misstate its Property, Plant and Equipment. The valuations are based on current value in its existing use and if they change significantly over time there will be an increase or decrease in the value of Council land and buildings.

Any change in valuation would result in an increase/decrease to the revaluation reserve and/or an adjustment to the CIES.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

Sensitivity analysis of the impact of a 1% change in discount rate and a 1 year change in mortality rate assumptions can be found in the Pension disclosure note 34.5.

6. Events After the Balance Sheet Date

Events taking place after the 31 July 2019 are not reflected in the financial statements. The Statement of Accounts was authorised by the Council's Section 151 Officer on 31 July 2019. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Since the year end 31 March 2019 the Council has purchased several material investment properties, which include car showrooms in Plymouth, St Austell, Exeter and Taunton and the Cothill Trading Estate in Plympton.

The Council has also come up with an innovative solution to pay off the Council's pension deficit through the acquisition of a share in an investment company. The 'invest to save' scheme has allowed the Council through the investment company to purchase assets worth £72 million in the Local Government Pension Scheme (LGPS). This investment will reduce the Council's costs significantly over the next fifty years as the Council will no longer have to make an annual contribution to fund the deficit. The acquisition took place during October 2019.

7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by Local Authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2017/18 Directorate Total Reported for Outturn	2017/18 Adjustment to Arrive at the Net Expenditure Chargeable to the General Fund Balances	2017/18 Net Expenditure Chargeable to the General Fund Balances	Restated 2017/18 Adjustments Between the Funding and Accounting Basis	Restated 2017/18 Net Expenditure in the CIES		2018/19 Directorate Total Reported for Outturn	2018/19 Adjustment to Arrive at the Net Expenditure Chargeable to the General Fund Balances	2018/19 Net Expenditure Chargeable to the General Fund Balances	2018/19 Adjustments Between the Funding and Accounting Basis	2018/19 Net Expenditure in the CIES
£000	**£000**	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**	**£000**
5,750	0	5,750	557	6,307	Executive Office	5,834	0	5,834	299	6,133
1,830	1,251	2,580	3,943	6,523	Corporate Items	(9,154)	4,040	(5,114)	(6,325)	(11,439)
18,269	(3,973)	14,296	2,059	16,355	Finance	17,522	(3,520)	14,002	3,210	17,212
14,487	0	14,487	4,728	19,215	Customer and Corporate Services	14,993	0	14,993	2,038	17,031
122,449	0	122,449	3,533	125,982	People Directorate	132,904	0	132,904	15,677	148,581
261	0	261	(16)	245	Public Health	297	0	297	222	519
23,249	700	24,450	17,573	42,023	Place Directorate	24,277	860	25,137	31,258	56,395
186,295	**(2,022)**	**184,273**	**32,377**	**216,650**	**Net Cost of Service**	**186,673**	**1,380**	**188,053**	**46,379**	**234,432**
		(188,775)	1,951	(186,824)	Other Income and Expenditure			(185,863)	13,609	(172,254)
		(4,502)	**34,328**	**29,826**	**(Surplus)/Deficit on Provision of Service**			**2,190**	**59,988**	**62,178**
		(30,408)			Opening General Fund and Earmarked balances at 31 March 18			(34,910)		
		(4,502)			(Surplus)/deficit on general fund and earmarked balances in year			2,190		
		(34,910)			**Closing General Fund Balance at 31 March 19**			**(32,720)**		

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

8. Note to the Expenditure and Funding Analysis

Adjustments between funding and accounting basis

Adjustments from General Fund to Arrive at the CIES Amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
2018/19	**£000**	**£000**	**£000**	**£000**
Executive Office	15	255	29	299
Corporate Items	968	(4,699)	(2,594)	(6,325)
Finance	3,239	374	(403)	3,210
Customer and Corporate Services	1,987	611	(560)	2,038
People Directorate	16,306	964	(1,593)	15,677
Public Health	206	233	(217)	222
Place Directorate	29,606	1,789	(137)	31,258
Net Cost of Service	**52,327**	**(473)**	**(5,475)**	**46,379**
Other income and expenditure from the expenditure and funding analysis	27,030	14,357	(27,778)	13,609
Difference Between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Service	**79,357**	**13,884**	**(33,253)**	**59,988**

Adjustments from General Fund to Arrive at the CIES Amounts	Restated Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Restated Other Differences	Restated Total Adjustments
2017/18	**£000**	**£000**	**£000**	**£000**
Executive Office	77	407	73	557
Corporate Items	0	4,649	(706)	3,943
Finance	1,935	639	(515)	2,059
Customer and Corporate Services	3,750	1,143	(165)	4,728
People Directorate	6,389	2,873	(5,729)	3,533
Public Health	67	364	(447)	(16)
Place Directorate	18,545	2,605	(3,577)	17,573
Net Cost of Service	**30,763**	**12,680**	**(11,066)**	**32,377**
Other income and expenditure from the expenditure and funding analysis	(20,202)	16,399	5,754	1,951
Difference Between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Service	**10,561**	**29,079**	**(5,312)**	**34,328**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

Adjustment for Capital Purposes

Adjustments for Capital Purposes – this column adds in depreciation, impairment and revaluation gains/losses in the services line and for:

- **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and Investment Income and Expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- **Taxation and Non-specific Grant Income and Expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions, or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income:

- **Services** – this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- **Financing and Investment Income and Expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Statutory

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statue:

- **Financing and Investment Income and Expenditure** – the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- **Taxation and Non-specific Grant Income and Expenditure** – the charge represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

9. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

Expenditure/Income	Restated 2017/18	2018/19
	£000	£000
Expenditure:		
Employee benefits expenses	156,822	143,351
Other service expenses	382,860	379,722
Depreciation, amortisation, impairment	33,930	58,289
Interest payments	14,104	23,027
Total Expenditure	**587,716**	**604,389**
Income:		
Fees, charges and other service income	(129,125)	(133,301)
Interest and investment income	(17,406)	(2,593)
Income from council tax, non-domestic rates, district rate income	(153,417)	(182,383)
Government grants and contributions	(257,942)	(223,934)
Total Income	**(557,890)**	**(542,211)**
Surplus or Deficit on the Provision of Service	**29,826**	**62,178**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

10. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments between Accounting Basis and Funding Basis Under Regulations	Restated 2017/18				2018/19			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	(27,470)	0	0	27,470	(48,497)	0	0	48,497
Movements in the market value of Investment Properties	10,733	0	0	(10,733)	(2,680)	0	0	2,680
Amortisation of intangible assets	(7)	0	0	7	(7)	0	0	7
Capital grants and contributions	15,939	0	(15,939)	0	27,003	0	(27,904)	901
Movement in the Donated Assets Account	439	0	0	(439)	0	0	0	0
Revenue expenditure funded from capital under statute	(9,380)	0	0	9,380	(8,528)	0	0	8,528
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,807)	0	0	1,807	(19,311)	0	0	19,311
Deferred credit Energy from Waste	2,324	0	0	(2,324)	2,324	0	0	(2,324)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	5,287	0	0	(5,287)	7,280	0	0	(7,280)
Capital expenditure charged against the General Fund	484	0	0	(484)	939	0	0	(939)
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	(3,420)	0	3,420	0	(1,514)	0	1,514
Other Capital Receipts credited to the Comprehensive Income and Expenditure Statement	3,919	(3,919)	0	0	1,569	(1,569)	0	0
Total C/FWD	**461**	**(7,339)**	**(15,939)**	**22,817**	**(39,908)**	**(3,083)**	**(27,904)**	**70,895**

Adjustments between Accounting Basis and Funding Basis Under Regulations	Restated 2017/18				2018/19			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Total B/FWD	**461**	**(7,339)**	**(15,939)**	**22,817**	**(39,908)**	**(3,083)**	**(27,904)**	**70,895**
Long-term debtor repayments in year	0	(81)	0	81	0	(241)	0	241
Use of the Capital Receipts Reserve to finance new capital expenditure	0	7,765	0	(7,765)	0	6,356	0	(6,356)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(2)	2	0	0	(1)	1	0	0
Adjustments involving the Capital Grants Unapplied Account:								
Use of the Capital Grants unapplied Account to finance new capital expenditure	0	0	14,567	(14,567)	0	0	24,882	(24,882)
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	539	0	0	(539)	(8,782)	0	0	8,782
Adjustments involving the Financial Instruments Revaluation Reserve								
Amount by which Financial Instruments held under Fair Value through Profit and Loss are subject to MHCLG statutory over-ride	0	0	0	0	2,369	0	0	(2,369)
Adjustments involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(49,328)	0	0	49,328	(33,763)	0	0	33,763
Employer's pensions contributions and direct payments to pensioners payable in the year	16,933	0	0	(16,933)	19,878	0	0	(19,878)
Adjustments involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,421)	0	0	3,421	242	0	0	(242)
Adjustment involving the Accumulating Compensated Absences Adjustment Account								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	490	0	0	(490)	(24)	0	0	24
Total Adjustments	**(34,328)**	**347**	**(1,372)**	**35,353**	**(59,988)**	**3,033**	**(3,022)**	**59,978**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

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General Fund Balance

The General Fund is the statutory fund into which all the receipts of an Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

11. Other Operating Expenditure

This contains corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

Other Operating Expenditure	Restated 2017/18	2018/19
	£000	**£000**
Levies	67	38
Payments to the Government Housing Capital Receipts Pool	2	1
Gains/losses on the disposal of non-current assets	1,869	19,294
Pension administration costs	354	448
Other income*	(3,919)	(1,586)
Total	**(1,627)**	**18,195**

**Other income generally relates to capital receipts in year for which no asset can be identified on the Balance Sheet, such as repaid discounts from former Council House sales and income receivable under the stock transfer agreement relating to VAT shelter receipts.*

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

12. Movement in Earmarked Reserves

This note sets out the amounts set aside in earmarked reserves to provide financing for future expenditure plans and policy initiatives.

2018/19	Balance as at 31 March 2018	Transfers to Reserves 2018/19	Transfers from Reserves 2018/19	Balance as at 31 March 2019
	£000	£000	£000	£000
Education Reserves	(3,746)	(4)	662	(3,088)
Other Ring Fenced	(3,683)	(240)	1,316	(2,607)
Other Reserves	(6,585)	(2,746)	2,923	(6,408)
PCC Earmarked Reserves:				
Carry Forwards and Corporate Health	(803)	(1,215)	803	(1,215)
Redundancies Reserve	(314)	(138)	247	(205)
Modernisation Enabler	(576)	(122)	535	(163)
Life Centre Dowry	(1,050)	(150)	1,000	(200)
Investment Fund	(92)	(76)	3	(165)
Business Rates Reserve	0	(4,122)	0	(4,122)
Integrated Finance Reserve	(2,794)	(4,896)	5,657	(2,033)
Other PCC Earmarked reserves	(6,099)	(3,752)	5,388	(4,463)
Total Reserves	**(25,742)**	**(17,461)**	**18,534**	**(24,669)**

2017/18	Balance as at 31 March 2017	Transfers to Reserves 2017/18	Transfers from Reserves 2017/18	Balance as at 31 March 2018
	£000	£000	£000	£000
Education Reserves	(4,382)	(2,830)	3,466	(3,746)
Other Ring Fenced	(3,570)	(514)	401	(3,683)
Other Reserves	(4,887)	(3,295)	1,597	(6,585)
PCC Earmarked Reserves:				
Insurance and Risk Management Reserve	0	0	0	0
Pensions	0	0	0	0
Carry Forwards and Corporate Health	(400)	(803)	400	(803)
Redundancies Reserve	(350)	(200)	236	(314)
Modernisation Enabler	(977)	(165)	566	(576)
Life Centre Dowry	(900)	(150)	0	(1,050)
Stock Transfer Residual Liabilities	0	0	0	0
Investment Fund	(187)	(109)	204	(92)
Business Rates Reserve	0	0	0	0
Care Act	0	0	0	0
Integrated Finance Reserve	(625)	(6,300)	4,131	(2,794)
Other PCC Earmarked reserves	(4,778)	(5,898)	4,577	(6,099)
Total Reserves	**(21,056)**	**(20,264)**	**15,578**	**(25,742)**

The main earmarked reserves and their purpose are as follows:

Education/Schools Reserves

Education Carry Forwards – A number of reserves are held on behalf of several educational establishments which operate under devolved budgets, whereby any surpluses or deficits are carried forward to the following financial year.

School Budget Share – Represents unspent balances at the year-end against schools' delegated budgets. The 31 March 2019 balance relating to the School budget share was £2.618m (31 March 2018: £2.826m).

PFI Reserve – The Council receives PFI credits towards the schools PFI contract at Wood View Campus in equal instalments over the course of the contract. Credits received in excess of costs are carried forward in a reserve to meet future expenditure, thus smoothing expenditure and income over the term of the contract.

13. Financing and Investment Income and Expenditure

This contains corporate items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions involving interest or the unwinding of discounts. This heading also includes the income and expenditure relating to investment properties, further details of which can be found in note 17.1.

Analysis of Income/Expenditure	Restated 2017/18	2018/19
	£000	£000
Interest payable and similar charges	13,900	21,347
Pensions interest cost and expected return on pension assets	15,995	13,876
Interest receivable and similar income	(1,303)	(2,798)
(Surplus)/deficit on trading undertakings not included in Net Cost of Service	55	206
Income and expenditure in relation to investment properties and changes in their fair value including (gains)/losses on disposal	(15,017)	(3,038)
Total	**13,630**	**29,593**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

14. Taxation and Non-specific Grant Income and Expenditure

Analysis of Income	Restated 2017/18	2018/19
	£000	£000
Council Tax income	(100,804)	(107,122)
Non Domestic Rates	(52,613)	(75,261)
Non-ringfenced Government Grants	(33,997)	(14,819)
Capital Grants and Contributions	(11,413)	(22,840)
Total	**(198,827)**	**(220,042)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

15. Property, Plant and Equipment

15.1 Movement in Year

The movement in Property, Plant and Equipment (PPE) in 2018/19 is summarised in the following table:

2018/19	Other Land and Buildings	Vehicles, Plant, Furniture and Fittings	Infrastructure Assets	Toll Bridge	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost of Valuation									
At 1 April 2018	534,941	65,776	228,241	58,827	1,724	2,870	32,712	925,091	119,505
Additions	14,277	2,113	8,724	4,289	0	253	39,055	68,711	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	31,814	0	0	0	0	(316)	0	31,498	3,813
Revaluation increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(9,968)	0	0	0	0	(390)	0	(10,358)	0
Derecognition - disposals	(3,474)	(26)	0	0	0	(57)	0	(3,557)	0
Other movements in cost or valuation	(19,614)	(685)	647	1,721	0	1,582	(10,301)	(26,650)	0
At 31 March 2019	**547,976**	**67,178**	**237,612**	**64,837**	**1,724**	**3,942**	**61,466**	**984,735**	**123,318**
Accumulated Depreciation and Impairment									
At 1 April 2018	(35,349)	(39,715)	(89,808)	(1,882)	(1,302)	(78)	0	(168,134)	(3,731)
Depreciation charge	(18,974)	(4,394)	(11,174)	(492)	0	(46)	0	(35,080)	(4,622)
Depreciation written out to the Revaluation Reserve	12,929	0	0	0	0	290	0	13,219	3,673
Depreciation written out to the surplus/deficit on the Provision of Services	1,181	0	0	0	0	28	0	1,209	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	(6,188)	0	0	0	0	0	0	(6,188)	0
Impairment losses/(reversals) recognised in the surplus/deficit on the Provision of Services	2,167	(7)	(40)	0	0	0	0	2,120	0
Derecognition - disposals	2,440	26	0	0	0	0	0	2,466	0
Other movements in depreciation and impairment	3,318	572	0	0	0	(276)	0	3,614	0
At 31 March 2019	**(38,476)**	**(43,518)**	**(101,022)**	**(2,374)**	**(1,302)**	**(82)**	**0**	**(186,774)**	**(4,680)**
Net Book Value									
At 31 March 2019	**509,500**	**23,660**	**136,590**	**62,463**	**422**	**3,860**	**61,466**	**797,961**	**118,638**
At 31 March 2018	**499,592**	**26,061**	**138,433**	**56,945**	**422**	**2,792**	**32,712**	**756,957**	**115,774**

**Other movements include the transfer of schools to Trust and Academy status.*

Restated 2017/18	Other Land and Buildings	Vehicles, Plant, Furniture and Fittings	Infrastructure Assets	Toll Bridge	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost of Valuation									
At 1 April 2017	520,371	62,755	201,420	56,700	1,724	1,783	20,016	864,769	122,246
Additions	12,205	2,893	19,976	2,127	0	0	25,381	62,582	0
Donations	0	5	0	0	0	0	0	5	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,215	0	0	0	0	90	0	9,305	(2,741)
Revaluation Increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(6,976)	0	0	0	0	(287)	0	(7,263)	0
Derecognition - disposals	0	(26)	0	0	0	0	0	(26)	0
Assets reclassified (to)/from Held for Sale	(123)	0	0	0	0	0	0	(123)	0
Other movements in cost or valuation	249	149	6,845	0	0	1,284	(12,685)	(4,158)	0
At 31 March 2018	**534,941**	**65,776**	**228,241**	**58,827**	**1,724**	**2,870**	**32,712**	**925,091**	**119,505**
Accumulated Depreciation and Impairment									
At 1 April 2017	(48,158)	(35,700)	(79,913)	(2,820)	(1,302)	(28)	0	(167,921)	(10,108)
Depreciation charge	(15,153)	(4,165)	(9,895)	938	0	(78)	0	(28,353)	(1,818)
Depreciation written out to the Revaluation Reserve	17,073	0	0	0	0	151	0	17,224	3,673
Depreciation written out to the surplus/deficit on the Provision of Services	3,662	0	0	0	0	0	0	3,662	0
Impairment losses/(reversals) recognised in the surplus/deficit on the Provision of Services	4,479	0	0	0	0	0	0	4,479	4,522
Derecognition - disposals	0	22	0	0	0	0	0	22	0
Other movements in depreciation and impairment	2,748	128	0	0	0	(123)	0	2,753	0
At 31 March 2018	**(35,349)**	**(39,715)**	**(89,808)**	**(1,882)**	**(1,302)**	**(78)**	**0**	**(168,134)**	**(3,731)**
Net Book Value									
At 31 March 2018	**499,592**	**26,061**	**138,433**	**56,945**	**422**	**2,792**	**32,712**	**756,957**	**115,774**
At 31 March 2017	**470,275**	**27,055**	**121,507**	**53,880**	**422**	**1,755**	**20,016**	**694,910**	**112,138**

**Other movements include the transfer of schools to Trust or Academy status.*

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

15.2 Commitments Under Capital Contracts

The capital commitments outstanding on capital and other works contracts entered into as at 31 March 2019 amounted to £51.065m (31 March 2018: £44.087m). The Council is committed to complete these contracts under its latest approved Medium Term Capital Programme. Significant contractual commitments outstanding as at 31 March 2019 were as follows:

Project	Contractor	Amount
		£000
Acquisition of property investment portfolio	Schroders and HMRC	17,327
Freehold Acquisition of Trading Estate	Akzo Nobel CIF Nominees Ltd and HMRC	6,914
The Box	Willmott Dixon	4,473
Charles Cross	Balfour Beatty	4,454
The Box	The Hub	3,944
Central Park Improvements	SW Highways	1,612
Forder Valley Link Road	Balfour Beatty / WSP	1,222
Derriford Transport scheme - Derriford Roundabout / William Prance Road	Amey / Aecom	1,000
Oceansgate Remediation/separation works	Balfour Beatty	1,000
Other Contractual Commitments under £1m		9,119
Total		**51,065**

15.3 Revaluations/Impairments

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment (PPE) required to be measured at fair value is revalued at least every five years. All valuations are carried out internally under the supervision of Mr T Palmer, Ms S Sobey and Ms S Partridge, RICS Registered Valuers.

Revaluations	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
Carried at historical cost	198	23,660	0	23,858
Valued at Current Value as at :				
31 March 2019	398,725	0	2,535	401,260
31 March 2018	40,123	0	1,325	41,448
31 March 2017	44,158	0	0	44,158
31 March 2016	10,456	0	0	10,456
31 March 2015	15,840	0	0	15,840
Total Cost of Valuation	**509,500**	**23,660**	**3,860**	**537,020**

15.4 Gain/Loss on Disposal of Non-current Assets

The Council incurred a net loss on disposal of non-current assets as shown in the following table.

Assets Written Off Balance Sheet	2017/18	2018/19
	£000	£000
Land and property sales	(757)	(188)
Academy and trust schools	2,396	19,482
Investment properties	(62)	65
Total	**1,577**	**19,359**

16. Heritage Assets

The Council holds the following types of heritage assets:

Historic Buildings and Monuments

Historic buildings and monuments classified as heritage assets on the balance sheet include Smeaton's Tower and the Elizabethan House, which have been recognised at insurance valuations.

The Council has a number of other Heritage Assets that are used significantly for the provision of services and therefore are required to be recognised within Property, Plant and Equipment. These include Mount Edgcumbe House and The Box.

Gold, Silver, Jewellery, Fine Art and World Cultures

The Council's gold, silver, jewellery, fine art and world cultures collections are reported in the balance sheet at insurance valuation, which is based on market values.

The Council's policy for the acquisition, preservation and management of museum assets can be found on The Box website.

All Heritage assets are recognised at insurance valuations, which are reviewed annually and the value of assets are adjusted accordingly.

The following table summarises the movement in the balances relating to Heritage Assets during the year:

Heritage Assets	Buildings	Fine Art	Gold, Silver and Jewellery	Total Assets
	£000	£000	£000	£000
Cost or Valuation				
As at 1 April 2017	6,118	16,463	4,329	26,910
Additions	325	100	334	759
Revaluations	0	320	0	320
Reclassification	(718)	0	0	(718)
As at 31 March 2018	**5,725**	**16,883**	**4,663**	**27,271**
Cost or Valuation				
As at 1 April 2018	5,725	16,883	4,663	27,271
As at 31 March 2019	**5,725**	**16,883**	**4,663**	**27,271**

17. Investment Properties

17.1 Income, Expenditure and Changes in Fair Value of Investment Properties

Investment properties are properties held solely to earn rentals or for capital appreciation or both. In the main, the Council's investment properties consist of the City Centre Commercial (Shop) Estate, Friary Retail Park and a number of Industrial Estates.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES:

Amounts Recognised in the Comprehensive Income and Expenditure Statement	2017/18	2018/19
	£000	£000
Rental income from Investment Property	7,496	10,401
Direct operating expenses arising from Investment Property	(3,275)	(4,568)
Net Gain/(Loss)	**4,221**	**5,833**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

Analysis of Movement in Investment Properties	Restated 2017/18	2018/19
	£000	£000
Balance at 1 April	**98,102**	**137,726**
Additions	30,201	59,198
Disposals	(638)	(65)
Net gains/(losses) from fair value adjustments	10,734	(2,680)
Transfers:		
(to)/from Property, Plant and Equipment	(673)	3,553
Balance at 31 March	**137,726**	**197,732**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

17.2 Fair Value Hierarchy for Investment Properties

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2019 are as follows:

Recurring Fair Value Measurements Using	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as at 31 March 2019
2018/19	**£000**	**£000**	**£000**	**£000**
Industrial sites	0	43,575	0	43,575
Miscellaneous ground rents	0	6,172	4,054	10,226
Miscellaneous lets	0	26,727	34	26,761
Retail ground rents	0	38,777	0	38,777
Offices	0	9,856	0	9,856
Out of town retail	0	64,091	0	64,091
Other	0	4,396	50	4,446
Total	**0**	**193,594**	**4,138**	**197,732**

There were no transfers between Levels 1 and 2 during the year.

Recurring Fair Value Measurements Using	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Restated Fair Value as at 31 March 2018
2017/18	**£000**	**£000**	**£000**	**£000**
Industrial sites	0	43,585	0	43,585
Miscellaneous ground rents	0	7,073	3,903	10,976
Retail ground rents	0	42,169	0	42,169
Out of town retail	0	29,813	0	29,813
Other	0	11,099	84	11,183
Total	**0**	**133,739**	**3,987**	**137,726**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

There were no transfers between Levels 1 and 2 during the year.

17.3 Valuation Techniques Used to Determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The office and commercial units located in the Council's area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The approach has been developed using the Council's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels, maintenance costs, etc.

The Council's office and commercial units are therefore categorised as Level 2 in the fair value hierarchy as the measurement technique uses significant observable inputs to determine the fair value measurements.

The fair value for the residential properties (at market rents) has been based on the market approach using current market conditions, recent sales prices and other relevant information for similar assets in the Council's area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3

Assets categorised at Level 3 in the fair value hierarchy have been assessed where there is a significant level of unobservable inputs. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available. Where there is no reasonably available market evidence available in the Plymouth area to determine the Current Value (Fair Value) the Valuer will use their professional opinion based on considered assumptions such as the potential yields, rental growth and occupancy levels. Valuations are carried out by Mr T Palmer, Ms S Sobey and Ms S Partridge, RICS registered valuers.

Highest and Best use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

17.4 Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

Investment Properties Categorised within Level 3	31 March 2018	31 March 2019
	£000	£000
Opening Balance	**3,576**	**3,987**
Reclassifications in to Investment Properties at Level 3	0	288
Total gains/(losses) for the period included in the surplus or deficit on the provision of services resulting from changes in fair value	411	(137)
Closing Balance	**3,987**	**4,138**

Gains or losses arising from changes in the fair value of the investment properties are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

18. Financial Instruments

18.1 Financial Instrument Balances

In 2018/19 the Code adopted IFRS9 – Financial Instruments which replaces IAS39. This new standard affects the classification of financial instruments and the subsequent treatment of changes in fair value. IFRS9 removes the classification of Available for Sale (AFS) financial assets and requires that they are reclassified according to the nature of the transaction. Upon transition to IFRS9 on 1 April 2018, the Council makes an irrevocable election to designate the pooled investments and share equity as Fair Value through Other Comprehensive Income (FVOCI).

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council.

The financial assets held by the Council during the year are accounted for under the following three classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
  - cash in hand;
  - bank current and deposit accounts;
  - fixed term deposits and reverse repurchase agreements with banks and building societies;
  - loans to other local authorities;
  - loans to smaller companies and housing associations;
  - certificates of deposit and covered bonds issued by banks and building societies;
  - treasury bills and gilts issued by the UK Government;
  - loans made for service purposes;
  - leases receivables;
  - trade receivables for goods and services provided.
- Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:
  - bonds issued by banks, building societies, the UK Government, multilateral development banks and large companies that the Council holds to sell if cash flow needs demand;
  - pooled bond, equity and property funds managed and held as strategic investments;
  - equity investments held for service purposes;
  - trade receivables for goods and services.
- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds managed by fund managers;
  - pooled bond, equity and property funds managed by fund managers;
  - equity investments;
  - loans where the cash flows are not solely payments of principal and interest;
  - structured deposits with banks and building societies.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised of:

- long-term loans from the Public Works Loan Board;
- short-term loans from other local authorities;
- overdraft;
- lease payables;
- Private Finance Initiative;
- trade payables for goods and services received.

The financial liabilities and assets disclosed in the Balance Sheet are made up of the following categories of Financial Instruments:

Financial Assets	Fair Value Level	Long-Term		Short-Term		Total	
		31 March 18	31 March 19	31 March 18	31 March 19	31 March 18	31 March 19
		£000	£000	£000	£000	£000	£000
At fair value through profit and loss:							
Money Market Fund (MMF)	1	0	0	26,125	26,012	26,125	26,012
At fair value through other comprehensive income:							
Pooled Funds / Equity Instruments	1	35,682	37,374	0	0	35,682	37,374
Amortised cost:							
Long-term investments	2	3,180	3,123	0	0	3,180	3,123
Short-term investments	2	0	0	16,993	17,008	16,993	17,008
Cash and cash equivalents (less MMF)	1	0	0	4,155	5,851	4,155	5,851
Total Investments		**38,862**	**40,497**	**47,273**	**48,871**	**86,135**	**89,368**
Trade debtors held at amortised cost	1	0	0	16,347	17,772	16,347	17,772
Total Financial Assets *		**38,862**	**40,497**	**63,620**	**66,643**	**102,482**	**107,140**

**The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.*

Financial Liabilities	Fair Value Level	Long-Term		Short-Term		Total	
		31 March 18	31 March 19	31 March 18	31 March 19	31 March 18	31 March 19
		£000	£000	£000	£000	£000	£000
Loans at amortised cost:							
PWLB	2	(44,252)	(45,335)	0	0	(44,252)	(45,335)
Market Loans	2	(102,496)	(84,119)	0	0	(102,496)	(84,119)
Other borrowing	2	(18,879)	(54,111)	(201,042)	(281,266)	(219,921)	(335,377)
Total Borrowing		**(165,627)**	**(183,565)**	**(201,042)**	**(281,266)**	**(366,669)**	**(464,831)**
Liabilities at amortised cost:							
Other long-term liabilities	1	(121,359)	(120,545)	0	0	(121,359)	(120,545)
Trade creditors	1	0	0	(24,114)	(30,602)	(24,114)	(30,602)
Total Financial Liabilities		**(286,986)**	**(304,110)**	**(225,156)**	**(311,868)**	**(512,142)**	**(615,978)**

Note: LOBOs (Local Authority Lender's Option Borrower's Option loans) of £34m have been included in Market Loans but have a call date in the next 12 months. A call date means that the lender has the option to change the interest rate for the remaining period of the loan. The Council then has the option to accept the new rate or redeem.

Financial Assets Comparison to Fair Values

The fair values of the financial assets are equal to their balance sheet values

Financial Liabilities Comparison to Fair Values

Financial Liabilities	Balance Sheet 31 March 18	Fair Value 31 March 18	Balance Sheet 31 March 19	Fair Value 31 March 19
	£000	£000	£000	£000
Loans at amortised cost:				
PWLB	44,252	68,986	45,335	68,986
LOBO loans	84,568	141,050	66,187	107,258
Other market loans	18,198	31,414	18,198	29,286
Other long-term loans	18,609	18,609	53,845	53,845
Short-term borrowing	201,042	201,042	281,266	281,266
Total Borrowing	**366,669**	**461,101**	**464,831**	**540,641**

18.2 Equity Instruments Elected to Fair Value Through Other Comprehensive Income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holding and changes in their fair value are not considered to be part of the Council's annual financial performance.

	Fair Value		Dividends	
	31 March 18	31 March 19	31 March 18	31 March 19
	£000	£000	£000	£000
CCLA Property Fund	22,663	23,015	1,479	1,479
CCLA Diversified Income Fund	4,998	4,899	158	158
Schoders Income Maximiser	0	9,460	0	249
Federated Prime Rate Cash Plus Fund * †	2,051	0	0	0
Ignis Sterling Short Duration Cash Fund * †	2,051	0	0	0
Investec Short Bond Fund *	1,872	0	37	37
Investec Target Return Fund * †	1,046	0	0	0
Payden and Rygel Sterling Reserve Fund *	1,000	0	3	3
Total	**35,681**	**37,374**	**1,677**	**1,926**

** Funds sold during 2019/20*
† Accumulating dividends

18.3 Gains and Losses on Financial Instruments

The income, expense, gains and losses recognised in the CIES in relation to financial instruments are made as follows:

	2017/18		2018/19	
	Surplus or Deficit on the Provision of Service	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Service	Other Comprehensive Income and Expenditure
	£000	£000	£000	£000
Net gains/losses on:				
Investment in equity instruments designated at fair value through other comprehensive income	0	0	0	(287)
Other financial assets measured at fair value through other comprehensive income	0	0	0	(50)
Interest and Similar Income	**0**	**0**	**0**	**(337)**
At fair value through profit and loss	47	0	148	0
At fair value through other comprehensive income	691	0	1,932	0
Amortised cost	565	0	718	0
Total Interest Revenue	**1,303**	**0**	**2,798**	**0**
Total Income	**1,303**	**0**	**2,798**	**(337)**
Interest expense at amortised costs	(13,900)	0	(14,325)	0
Total Interest Expense	**(13,900)**	**0**	**(14,325)**	**0**
Net (Gain)/Loss for the Year	**(12,597)**	**0**	**(11,527)**	**(337)**

18.4 Financial Instruments – Fair Value

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- shares in limited company have been valued from the company's balance sheet net assets.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for Local Authority loans;
- the value of Lender's Option Borrower's Option (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate;
- the fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March;

- the fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield;
- no early repayment or impairment is recognised for any financial instrument;
- the fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in table 18.1, split by their level in the fair value hierarchy:

- Level 1 fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices;
- Level 2 fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments;
- Level 3 fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

18.5 Nature and Extent of Risks Arising from Financial Instruments

The Council has adopted CIPFA's code of Practice on Treasury Management and complies with The Prudential Code for Capital Finance in Local Authorities (revised in 2017).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with Financial Instruments.

Full details of the Council's Treasury Management Strategy can be found on the Council's website.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government's (MHCLG) Investment Guidance for Local Authorities. The guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices, are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap, other contracts and equity prices when selecting commercial entities for investment.

A limit of £25m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £20m applies. The Council also sets limits on investments in certain sectors.

Credit Rating	31 March 2018		31 March 2019	
	Long-Term	Short-Term	Long-Term	Short-Term
	£000	£000	£000	£000
AAA	6,974	0	0	0
AA	0	45,380	0	27,633
A+	73	1,893	65	21,237
A	3,000	0	0	0
A-	0	0	3,000	0
Unrated	0	0	0	0
Total	**10,047**	**47,273**	**3,065**	**48,870**
Credit risk not applicable*	28,815	0	37,432	0
Total Investments	**38,862**	**47,273**	**40,497**	**48,870**

** Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money.*

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments with banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution.

The Council does not generally allow credit for customers. After 28 days, recovery procedures are undertaken to recover any outstanding debt.

The Council has not applied any loss adjustment for credit risk for its loans to other entities. There is no change from the previous year, in which loans and receivables were accounted for under IAS39 and there was no requirement to consider "expected loss" for these investments. Although the previous accounting standards, IAS39, did not require local authorities to impair (or create a provision for) debtors unless it was known that the debtor could not pay ("incurred loss"), the Council did provide for "expected loss". The Council has not changed how it provides for bad debts and it has not been necessary to restate opening balances.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board (PWLB). As a result there is no significant risk that the Council will be unable to raise finance to meets its commitments.

It is however exposed to the risk that it will need to refinance a significant proportion of its short-term borrowing at a time of unfavourably high interest rates.

The maturity structure of financial liabilities is as follows (at nominal value):

Loans Outstanding	31 March 2018	31 March 2019
	£000	£000
Public Works Loan Board	(44,252)	(45,335)
Market debt	(84,298)	(84,119)
Temporary borrowing	(214,191)	(323,653)
Other borrowing	(23,928)	(11,724)
Deferred liability (PFI)	(107,541)	(104,130)
Deferred liability (finance leases)	(1,559)	(1,515)
Other liabilities	(12,259)	(14,900)
Trade creditors	(24,114)	(30,602)
Total	**(512,142)**	**(615,978)**
Less than 1 year	(244,708)	(321,353)
Between 1 and 2 years	(26,900)	(12,994)
Between 2 and 5 years	(15,433)	(60,904)
Between 5 and 10 years	(45,491)	(65,646)
Between 10 and 20 years	(68,508)	(64,380)
Between 20 and 30 years	(25,078)	(3,081)
Between 30 and 40 years	(5,024)	(19,127)
Between 40 and 50 years	(68,000)	(30,174)
Over 50 years	(13,000)	(38,319)
Total	**(512,142)**	**(615,978)**

The Council has £64m (2018: £82m) of LOBO loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

£281.266m of short-term borrowing in place at 31 March 2019 was taken under approved authority to meet the Council's capital financing and cash flow requirements to the end of the financial year. These loans can be repaid from cash flow and maturing deposits in 2018/19 if required, thus reducing credit risk. These repayments are not subject to liquidity risk and there is no need to replace this borrowing as there will be no exposure to interest rate risk.

Market Risk: Interest Rate Risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council.

The Council has £281.266m short-term (3-6 months) loans so there is an interest rate risk if the rates go up. If there is a 0.5% increase in the bank rate it will cost an additional £1.406m per year.

The Council has £64m (2018: £82m) of Lender's Option, Borrower's Option (LOBO) loans with fixed interest rates and with maturity dates between 2031 and 2078 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty.

In the current low interest rate environment, the likelihood of the lender increasing the rate is low, however, the likelihood will increase in later years should market interest rates rise. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise;
- borrowings at fixed rates – the fair value of the liabilities will fall;
- investments at variable rates – the interest income will rise;
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Council has a number of strategies for managing interest rate risk. The Council seeks to minimise this risk through expert advice on forecasts of interest rates received from our treasury management consultants. This is used to formulate a strategy for the year for both investments and borrowing. This strategy is periodically reviewed during the year to update for any modifications required in the light of actual movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Market Risk: Price Risk

The market price of the Council's units in collective investment schemes are governed by prevailing interest rates and economic conditions and the risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investment fund of £20m. A 1% fall in commercial property prices would result in a £0.2m charge to Other Comprehensive Income and Expenditure – this would have no impact on the General Fund until the investment was sold.

The Council's investment in a pooled equity fund is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investments of £15m. A 1% fall in share prices would result in a £0.15m charge to Other Comprehensive Income and Expenditure – this would have no impact on the General Fund until the investments were sold.

19. Debtors

19.1 Short-term Debtors

Debtors due within the next 12 months are:

Category of Debtor	31 March 2018	31 March 2019
	£000	**£000**
Amounts falling due in one year:		
Central government departments	10,304	12,284
NHS bodies	1,094	727
Other local authorities	6,221	2,903
Other entities and individuals	42,505	48,315
Total Short-Term Debtors	**60,124**	**64,229**

19.2 Long-term Debtors

Debtors due after 12 months are:

Category of Debtor	31 March 2018	31 March 2019
	£000	£000
Secured debt	634	487
Other loans/mortgages	10,348	10,438
Total Long-term Debtors	**10,982**	**10,925**

19.3 Bad Debt Provision

Analysis of Provision Held	31 March 2018	Provision Made in Year	Provision Used in Year	31 March 2019
	£000	£000	£000	£000
General fund	(1,964)	(186)	512	(1,638)
Housing benefit overpayments provision	(4,774)	(280)	734	(4,320)
Collection fund	(5,184)	(1,617)	615	(6,186)
Total Provisions for Bad Debt	**(11,922)**	**(2,083)**	**1,861**	**(12,144)**

20. Creditors

20.1 Short-term Creditors

Creditors payable within the next 12 months are:

Category of Creditor	31 March 2018	31 March 2019
	£000	£000
Central government departments	(989)	(6,491)
NHS bodies	(3,636)	(3,298)
Other local authorities	(5,276)	(2,789)
Other entities and individuals	(46,379)	(52,118)
Total Short-term Creditors	**(56,280)**	**(64,696)**

20.2 Long-term Creditors

Creditors payable after 12 months are:

Category of Creditor	31 March 2018	31 March 2019
	£000	£000
Other local authorities	(14,864)	(13,736)
Other entities and individuals	(283)	(152)
Total Long-term Creditors	**(15,147)**	**(13,888)**

The amount included within the other Local Authorities relates to a liability to Devon County Council for unfunded pension liabilities relating to pre Local Government Reorganisation (that is pre 1 April 1998).

20.3 Other Long-term Liabilities

Other liabilities due after 12 months are:

Analysis of Other Long-term Liabilities	31 March 2018	31 March 2019
	£000	£000
PFI finance leases	(107,541)	(104,130)
Other finance leases	(1,559)	(1,515)
Plymouth Science Park	(19)	0
Cornwall Council - re Tamar Bridge and Torpoint Ferry Joint Committee	(12,240)	(14,900)
Total	**(121,359)**	**(120,545)**

21. Provisions

The Council has a number of budget provisions set up to meet known liabilities. The balance on the provisions at year end together with movement in the year is outlined as follows:

Analysis of Provisions Held	31 March 2018	Provisions Made in Year	Payments Used in Year	Unused Amounts Reversed in Year	31 March 2019
	£000	£000	£000	£000	£000
Insurance provision	(3,034)	(2,515)	2,982	(170)	(2,737)
Landfill site provision	(9,583)	0	288	0	(9,295)
Other provisions	(4,119)	(3,016)	4,565	0	(2,570)
Total Provisions	**(16,736)**	**(5,531)**	**7,835**	**(170)**	**(14,602)**

The provisions include short-term provisions of £1.756m (2017/18: £2.186m) and long-term provisions of £12.846m (2017/18: £14.550m).

Details about the main provisions held are as follows:

Insurance Provisions

The Council insures only part of its risks externally through insurance companies, with other risks covered by specific internal funding. The insurance provision receives contributions from charges made to service revenue accounts for insurance, and payments are made from the fund in respect of insurable liabilities, which are covered internally. At the year end, the balance on the various funds equates to the best estimate of liabilities from claims.

All of the Council's buildings are insured against fire, whilst some are also covered against other perils. Liability cover includes public liability and employer's liability.

Landfill Site Provision

The Council has a provision of £9.295m as at 31 March 2019 to reflect the Council's on-going liability for the closed landfill site at Chelson Meadow. The provision has been calculated on the future maintenance costs over the next 49 years and is reviewed each year to take into account the actual maintenance costs spent in the year.

Other Provisions

Included in Other Provisions is a provision of £2.530m as at 31 March 2019 (2017/18: £3.982m) for business rate appeals.

22. Unusable Reserves

The Council holds a number of unusable reserves in the Balance sheet. Some are required to be held for statutory reasons and some are needed to comply with proper accountancy practice.

Analysis of Reserves	Note	Restated 31 March 2018	31 March 2019
		£000	£000
Unusable Reserves:			
Revaluation Reserve	22.1	176,675	202,521
Capital Adjustment Account	22.2	231,269	204,544
Financial Instruments Adjustments Account	22.3	(18,446)	(27,227)
Pensions Reserve	22.4	(576,385)	(554,631)
Collection Fund Adjustment Account		(5,756)	(5,514)
Accumulating Compensated Absences Adjustment Account		(2,301)	(2,326)
Deferred Capital Receipts		227	38
Financial Instruments Revaluation Reserve		0	2,369
Available for Sale Financial Instruments Reserve		2,656	0
Total Unusable Reserves		**(192,061)**	**(180,226)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

22.1 Revaluation Reserve

The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The following table details the transactions posted to the account for the period:

Movement in Revaluation Reserve	Restated 2017/18	2018/19
	£000	£000
Balance at 1 April	**159,105**	**176,675**
Upward revaluation of assets	30,365	57,133
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	(3,406)	(12,298)
Surplus or (Deficit) on the Revaluation of Non-current Assets Not Posted to the (Surplus) or Deficit on the Provision of Services	**26,959**	**44,835**
Difference between fair value depreciation and historical cost depreciation	(7,244)	(13,934)
Accumulated gains on assets sold or scrapped	(2,145)	(5,055)
Amount Written Off to the Capital Adjustment Account	**(9,389)**	**(18,989)**
Balance at 31 March	**176,675**	**202,521**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

22.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations. These are then charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. It also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.The following table shows the transactions posted to the account during the year:

Movement in Capital Adjustment Account	Restated 2017/18	2018/19
	£000	**£000**
Balance at 1 April	**222,247**	**231,269**
Reversal of Items Relating to Capital Expenditure Debited or Credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(23,872)	(39,217)
Revaluation losses on Property, Plant and Equipment	(3,598)	(9,280)
Amortisation of intangible assets	(7)	(7)
Revenue expenditure funded from capital under statue	(9,380)	(8,528)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,383)	(16,483)
Adjusting amounts written out of the Revaluation Reserve	7,244	13,934
Capital Financing Applied in the Year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	7,765	6,356
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	14,567	24,882
Amounts Reserved for Future Capital Funding:		
Statutory provision for the financing of capital investment charged against the General Fund (includes TBTF element)	5,286	7,280
Capital expenditure charged against General Fund	484	939
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	10,733	(2,680)
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	439	0
Other Movement on the CAA in Year:		
Landfill Site Provision	(1,500)	0
Write down of long-term debtors	(80)	(240)
Deferred credit - Energy from Waste	2,324	2,324
Initial recognition of the RIF loan	0	(6,005)
Balance at 31 March	**231,269**	**204,544**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

22.3 Financial Instrument Adjustment Account

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for the accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid and discounts received on the early redemption of loans. During the year £8.848m premiums were paid to repay £18m LOBO loans. Premiums are debited and discounts are credited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the net expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on Council Tax payers. In the Council's case this period is the unexpired term that was outstanding on loans when they were redeemed.

Movement in Financial Instruments Adjustment Account	2017/18	2018/19
	£000	£000
Balance at 1 April	**(18,985)**	**(18,446)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	347	(8,848)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory	0	(20)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	192	87
Balance at 31 March	**(18,446)**	**(27,227)**

22.4 Pensions Reserve

Movement in Pension Reserve	2017/18	2018/19
	£000	£000
Balance at 1 April	**(613,855)**	**(576,385)**
Actuarial gains or losses on pensions assets and liabilities	69,865	35,639
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(50,346)	(34,891)
Employer's pensions contributions and direct payments to pensioners payable in the year	16,933	19,878
(Increase)/decrease in Plymouth's share of next deficit in year of Devon County Council Pension Fund	1,018	1,128
Balance at 31 March	**(576,385)**	**(554,631)**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service. The liabilities are updated to recognise and to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements require any benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible (i.e. enhanced pensions). The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

23. Notes to the Cash Flow

23.1 Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

Analysis of Operating Activities	Restated 2017/18	2018/19
	£000	£000
Net Surplus or (Deficit) on the Provision of Services	**(29,826)**	**(62,178)**
Adjust net surplus or deficit on the provision of services for non-cash movements:		
Depreciation	28,353	41,934
Impairment and downward valuations	(883)	(7,371)
Amortisation	7	7
Impairment losses on Investments debited to Surplus or Deficit on the Provision of Services in year	(145)	(1,359)
Adjustments for effective interest rates	214	1,925
Increase/decrease in interest creditors	(296)	(1,940)
(Increase)/decrease in creditors	7,750	9,971
(Increase)/decrease in interest and dividend debtors	195	(7)
(Increase)/decrease in debtors	(4,341)	(1,414)
(Increase)/decrease in Inventories	156	11
Pension liability	32,394	21,754
Contributions to/(from) Provisions	4,429	(2,134)
Carrying amount of non-current assets sold	944	16,483
Movement in Investment Property values	(10,733)	2,680
Total	**58,044**	**80,540**
Adjust for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities		
Capital Grants credited to Surplus or Deficit on the Provision of Services	(15,938)	(27,903)
Proceeds from the sale of short and long term investments	0	(8,020)
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(3,421)	(1,325)
Total	**(19,359)**	**(37,248)**
Net Cash Flows from Operating Activities	**8,859**	**(18,886)**

***Detailed notes on the restatements for 2017/18 can be found in Note 1 (Prior Period Adjustments).*

Analysis of Interest Paid and Received	2017/18	2018/19
	£000	£000
Interest received	567	1,418
Interest paid	(13,972)	(14,354)
Dividend received	1,045	1,475

23.2 Cash Flow Statement – Investing Activities

Analysis of Investing Activities	2017/18	2018/19
	£000	£000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(89,696)	(128,326)
Purchase of short-term and long-term investments	(5,000)	(303)
Other payments for Investing Activities	(6,342)	(155)
Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	5,122	1,514
Proceeds from short-term and long-term investments	0	8,020
Other Receipts from Investing Activities	24,585	44,771
Total Cash Flows from Investing Activities	**(71,331)**	**(74,479)**

23.3 Cash Flow Statement – Financing Activities

Analysis of Financing Activities	Restated 2017/18	2018/19
	£000	£000
Cash receipts of short-term and long-term borrowing	467,874	701,644
Billing Authorities - Council Tax and NDR adjustments	186	(6,160)
Repayment of short-term and long-term borrowing	(390,000)	(596,942)
Payments for the reduction of a finance lease liability	(39)	(41)
Payments for the reduction of a PFI liability	(3,470)	(3,553)
Total Cash Flows from Financing Activities	**74,551**	**94,948**

23.4 Cash Flow Statement – Cash and Cash Equivalent

Analysis of Cash and Cash Equivalents	2017/18	2018/19
	£000	£000
Cash and bank balances	920	695
Cash Investments - regarded as cash equivalents	27,105	29,572
Tamar Bridge and Torpoint Ferry	2,255	1,596
Total Cash Flows from Cash and Cash Equivalents	**30,280**	**31,863**

24. Pooled Budgets – Integrated Fund

The Council has a pooled budget arrangement with Northern, Eastern and Western Devon Clinical Commissioning Group (NEW Devon CCG), under Section 75 of the NHS Act 2006, to enable an integrated approach to commissioning a range of health, public health and social care services to meet the needs of people living in the Plymouth area. The pooled budget is currently hosted by NEW Devon CCG (who, from 1 April 2019, will be merging with South Devon CCG and will then be known as Devon CCG) on behalf of the two partners to the agreement, although the two partners keep their own accounts in their separate ledgers. All spend is allocated a lead commissioner. The risk share allows for the Council and the CCG to share the risk and reward of over and under-spends, up to the value of 0.5% of the agreed applicable value of the Integrated Fund, is proportional to the value of the contribution of each party to the Integrated Fund and also ensures that the risk to each partner is capped.

Pooled Budget - Integrated Fund	2017/18	2018/19
	£000	£000
Contribution to the Pooled Budget:		
Plymouth City Council's contribution:		
Pooled	154,184	178,835
Aligned	99,571	80,067
Total Plymouth City Council	**253,755**	**258,902**
NEW Devon CCG's contribution:		
Pooled	136,980	140,356
Aligned	239,457	211,488
Total NEW Devon CCG	**376,437**	**351,844**
Total Combined Integrated Fund	**630,192**	**610,746**
Expenditure Met from the Pooled Budget:		
Plymouth City Council	253,705	261,608
NEW Devon CCG	374,390	356,089
Total Expenditure on Integrated Fund	**628,095**	**617,697**
Net (Surplus)/Deficit on the Integrated Fund During the Year	**(2,097)**	**6,951**

The figures in the previous table include amounts of the Plymouth Better Care Fund, of whom the lead commissioners are:

Plymouth Better Care Fund	2017/18	2018/19
	£000	£000
NEW Devon CCG Lead Commissioner	8,748	9,443
Plymouth City Council Lead Commissioner	11,079	10,899
Total Plymouth Better Care Fund	**19,827**	**20,342**

25. Members' Allowances

The Council paid the following amounts to members during the year:

Analysis of Members' Allowances	2017/18	2018/19
	£000	£000
Basic allowance	603	614
Special responsibility	322	359
Travel, subsistence and other expenses	2	3
Total	**927**	**976**

Travel and subsistence and other expenses covers claims submitted by Councillors. Expenses such as rail or air fares may be raised through the Council's internal procurement system. These are charged to the Members Support budget where these relate directly to a Member's corporate responsibility, or, if incurred in relation to a specific service issue, directly to the service concerned.

The Council is required to publish details of payments made to its Members and these can be found on the Council's website, or you can obtain a copy, in writing, from the Democratic Support Officer, Directorate for Corporate Services, Ballard House, Plymouth PL1 3BJ.

26. Officers' Remuneration

26.1 Senior Employees

Senior employees earning £50,000 or more per annum who have responsibility for the management of the Council or power to directly control the major activities of the Council are required to be listed by way of job title within the accounts. Where an employee's remuneration exceeds £150,000 there is an additional requirement that they are identified by name. Plymouth defines relevant senior staff as members of the Corporate Management Team (Directors) and Departmental Management Teams (Service Directors).

Senior Management Post	Financial Year	Salaries, Fees and Allowances*	Pension Contributions	Total Remuneration	Notes
Salary over £150,000		**£**	**£**	**£**	
Tracey Lee - Chief Executive (Head of Paid Service)	2018/19	166,926	22,943	189,869	
	2017/18	153,015	22,493	175,508	2018/19 includes a fee for the Returning Officer in the relevant elections.
Salary over £50,000 but less than £150,000					
Strategic Director for People	2018/19	9,940	1,461	11,401	A new post holder commenced on 1 March 2019.
	2018/19	95,778	13,269	109,047	
	2017/18	132,478	19,449	151,927	The post holder left the post on 28 February 2019.
Strategic Director for Place	2018/19	127,980	18,813	146,793	
	2017/18	125,641	18,469	144,110	
Strategic Director of Customer and Corporate Services	2018/19	45,833	6,738	52,571	Post name changed from Strategic Director for Transformation and Change on 19 November 2018. A new post holder commenced on 19 November 2018.
	2017/18	0	0	0	
Director of Public Health	2018/19	105,723	15,203	120,926	
	2017/18	103,650	14,905	118,555	
Director of Children's Services	2018/19	119,280	17,534	136,814	Post shared with Torbay Council. A new post holder commenced on 5 March 2018.
	2017/18	8,488	1,248	9,736	
Assistant Chief Executive	2018/19	97,827	13,475	111,302	
	2017/18	88,035	12,941	100,976	2018/19 includes election payments.

**Salaries, fees and allowances include expenses such as travel and subsistence. Local authorities receive a government grant for national election duties.*

Senior Management Post	Financial Year	Salaries, Fees and Allowances*	Pension Contributions	Total Remuneration	Notes
Head of Legal Services (Monitoring Officer)	2018/19	12,031	1,404	13,435	Post holder left the post on 15 May 2018. This post is currently being covered by the Assistant Head of Legal Services.
	2017/18	72,517	10,660	83,177	
Service Director for Integrated Commissioning**	2018/19	7,483	1,100	8,583	A new post holder commenced on 1 March 2019.
	2018/19	94,958	15,420	110,378	
	2017/18	99,437	14,617	114,054	Includes acting up payments. The post holder left the post on 28 February 2019.
Service Director for Economic Development**	2018/19	97,026	14,479	111,505	
	2017/18	96,735	14,220	110,955	
Service Director for Education, Participation and Skills**	2018/19	102,412	15,055	117,467	
	2017/18	101,429	14,910	116,339	
Service Director for Children, Young People and Families**	2018/19	0	0	0	
	2017/18	94,067	13,828	107,895	Post covered by agency staff in 2018/19.
Service Director for Strategic Planning and Infrastructure**	2018/19	98,496	14,479	112,975	
	2017/18	96,735	14,220	110,955	
Service Director for Finance (Section 151 Officer)**	2018/19	108,093	0	108,093	
	2017/18	104,465	0	104,465	2018/19 includes acting up payments.
Service Director for HR and Organisational Development**	2018/19	0	0	0	
	2017/18	93,417	13,791	107,208	Post was left vacant in 2018/19.
Service Director for Customer Services and Service Centre**	2018/19	86,419	0	86,419	
	2017/18	79,983	0	79,983	
Service Director for Community Connections	2018/19	74,142	10,873	85,015	Post changed from Head of Community Connections to Service Director on 1 April 2018.
	2017/18	54,805	8,034	62,839	
Service Director for Street Services**	2018/19	98,496	14,479	112,975	
	2017/18	96,735	14,220	110,955	

**Salaries, fees and allowances include expenses such as travel and subsistence. Local authorities receive a government grant for national election duties.*
***Post name changed from Assistant Director to Service Director from 1 April 2018.*

26.2 Remuneration Above £50,000

The Council is required by statute to disclose the number of employees whose remuneration for the year (excluding employer pension contributions) was £50,000 or more.

The following numbers do not include the senior management as disclosed in note 26.1 or interim posts.

Remuneration Bandings	2017/18		2018/19	
	Schools	Non-schools	Schools	Non-schools
£50,000 - £54,999	19	23	20	30
£55,000 - £59,999	8	19	7	18
£60,000 - £64,999	6	8	2	9
£65,000 - £69,999	7	7	6	12
£70,000 - £74,999	5	4	3	2
£75,000 - £79,999	3	0	1	1
£80,000 - £84,999	3	2	2	2
£85,000 - £89,999	0	0	3	1
£90,000 - £94,999	0	0	0	0
£95,000 - £99,999	1	1	0	1
Total	**52**	**64**	**44**	**76**

26.3 Employee Exit Packages

The Council incurred costs during 2018/19 relating to employee exit packages linked to compulsory and voluntary redundancies, a summary of which is shown as follows:

Banding	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£000	£000
£00,000 - £20,000	6	6	22	17	28	23	263	259
£20,001 - £40,000	1	2	2	2	3	4	74	93
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	3	0	0	0	3	0	212
Total	**7**	**11**	**24**	**19**	**31**	**30**	**337**	**564**

The Council terminated the contracts of a number of employees in 2018/19, including school based staff, incurring liabilities of £0.564m (2017/18: £0.337m). This includes a sum of £0.121m to the pension fund in respect of pension strain payments (for example, of the payments in the £100,001 - £120,000 band, 88% relates to the strain payment). The Council's expenditure on Schools is primarily funded by the Dedicated Schools Grant provided by the Department for Education.

Reasons for termination included early retirement, voluntary and compulsory redundancies. In the case of compulsory redundancies the Council's Redundancy Avoidance Policy provides the possibility of redeployment to other jobs suited to the experience and ability of staff concerned in case of compulsory redundancies.

27. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Council's external auditors:

Analysis of External Audit Costs	2017/18	2018/19
Audit Area:	**£000**	**£000**
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor (2017/18: BDO LLP)	137	105
Fees payable in respect of other services provided by the appointed auditor	22	18
Total	**159**	**123**

28. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are shown in the following table:

Analysis of Dedicated Schools Grant		2018/19		
		Central Expenditure	Individual Schools Budget	Total
Note		**£000**	**£000**	**£000**
A	Final DSG before academy and high needs recoupment			199,678
B	Academy and high needs figure recouped			(128,776)
C	**Total DSG after Academy and high needs recoupment**			**70,902**
D	Brought forward from 2017/18			238
E	Carry-forward to 2018/19 agreed in advance			0
F	Agreed initial budgeted distribution in 2018/19	4,726	66,414	71,140
G	In year adjustments	(93)	532	439
H	**Final budgeted distribution**	**4,633**	**66,946**	**71,579**
I	Less actual central expenditure	(4,626)		(4,626)
J	Less actual ISB deployed to schools		(66,363)	(66,363)
K	Plus Local Authority contribution			0
L	**Carry-forward to 2019/20**	**7**	**583**	**590**

A. Final DSG figure before any amount has been recouped from the authority excluding the January 2019 early years block adjustment.

B. Figure recouped from the authority in 2018/19 by the DfE for the conversion of maintained schools into academies and for high needs payments made by ESFA.

C. Total DSG figure after academy and high needs recoupment for 2018/19.

D. Figure brought forward from 2017/18 as agreed with the DfE.

E. Any amount with the authority decided after consultation with the school forum to carry forward to 2018/19 rather than distribute in 2018/19. This may be the difference between estimated and final DSG for 2018/19 or a figure brought forward from 2017/18 which he authority is carrying forward again.

F. Budgeted distribution of DSG, adjusted for carry forward, as agreed with the Schools Forum.

G. Changes to the initial distribution, for example, adjustments for exclusions, or final early years block adjustment.

H. Budgeted distribution of DSG as at the end of the financial year.

I. Actual amount of central expenditure items in 2018/19.

J. Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Authority once it is deployed to schools budget shares).

K. Any contribution from the Local Authority in 2018/19 which has the effect of substituting for DSG in funding the Schools Budget.

L. Carry forward to 2019/20:

- For central expenditure – difference between final budgeted distribution of DSG and the actual expenditure.
- For ISB – difference between final budgeted distribution and the actual deployed to schools, plus any local authority contribution.
- Total – carry forward on central expenditure plus carry forward on ISB plus/minus carry forward to 2019/20 already agreed.

29. Grant Income

29.1 Grant Income - Credited to the Comprehensive Income and Expenditure Statement (CIES)

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

Credited to Taxation and Non-specific Grant Income and Expenditure	Restated 2017/18	2018/19
	£000	£000
Section 31 Grants	(3,769)	(7,738)
Capital Grants and Contributions	(11,413)	(22,840)
PFI Credits	(7,170)	(7,081)
Revenue Support Grant	(23,058)	0
Total	**(45,410)**	**(37,659)**

Grants Credited to Services	2017/18	2018/19
	£000	£000
Benefits Admin Grant	(1,126)	(1,011)
Dedicated Schools Grant and Other Education Grants	(77,811)	(68,926)
Housing Benefit Subsidy	(94,582)	(80,445)
Learning and Skills Council	(3,498)	(3,225)
Transforming Social Care Grant	(7,854)	(803)
New Homes Bonus	(5,146)	(3,487)
Public Health Grant	(15,735)	(15,330)
Troubled Families Grant	(870)	(1,212)
Torbay Children's Services - Government Funding	(1,418)	0
Other Revenue Grants	(4,492)	(11,836)
Total	**(212,532)**	**(186,275)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the grantor. The grants are carried on the Balance Sheet as a creditor in a Grants Receipts in Advance Account and are split between Revenue and Capital Grant Receipts in Advance as follows:

Revenue Grant Receipts in Advance - Current Liabilities	2017/18	2018/19
	£000	£000
Active Neighbourhoods - Reaching Communities	41	1
SEND Reform Grant	134	0
SEND Preparation for Employment	50	0
Higher Level Stewardship	7	0
Enterprise Zone	4	0
Access Fund for Sustainable Transport	7	0
Access Fund for Sustainable Transport	11	0
Heat Networks Delivery Unit Grant	0	14
Heat Networks Delivery Unit Grant - Feasibility	25	0
Heat Networks Delivery Unit Grant - Detailed Project Development and Commercialisation	272	0
Urban Fringe Partnership Housing Capacity Grant	560	187
The Art of the Possible	0	85
New Burdens - Custom and Self Build	0	30
New Burdens - Brownfield Sites	0	4
FINERPOL	0	55
Transforming Cities Fund	0	31
Data Play - Capacity Building Fund	0	6
Total	**1,111**	**413**

Capital Grant Receipts in Advance - Current Liabilities	Restated 2017/18	2018/19
	£000	£000
Department for Transport	9,086	10,891
Environment Agency	285	285
Sport England	1,990	549
Football Foundation	129	1,009
Historic England	457	270
Growth Deal	1,400	0
Growth and Housing Fund	1,209	4,419
Homes England	255	933
Ministry for Housing, Communities and Local Government	3,341	3,554
European Regional Development Funding	53	477
Oak Foundation	0	500
Garfield Weston Foundation	0	250
Department for Business, Energy and Industrial Strategy	0	289
S278 Agreements	199	199
Other	563	527
Total	**18,967**	**24,152**

Capital Grant Receipts in Advance - Long-term Liabilities	2017/18	2018/19
	£000	£000
Heritage Lottery Fund	4,921	11,112
Arts Council	903	2,298
S106	17,949	19,581
Growth Deal	18,149	22,623
Homes and Communities Agency	12,876	11,920
Total	**54,798**	**67,534**

30. Related Party Transactions and Partnerships

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The following table outlines transactions between the Council and its subsidiaries, associates, jointly controlled and other assisted organisations where the influence is considered to be material, either to the Council or to the organisation.

Related Party Transactions	Details of Arrangement	2017/18			2018/19		
		Receipts	Payments	Outstanding Balances/ Commitments	Receipts	Payments	Outstanding Balances/ Commitments
Subsidiaries, Associates and Joint Arrangements		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Subsidiaries							
CATERed Ltd	CATERed is a co-operative trading company which is jointly owned by 67 local schools and Plymouth City Council. Plymouth City Council is the majority shareholder with 51% of the shares.	(212)	1,882	12	(234)	1,307	107
Plymouth Investment Partnerships Ltd (PIP)	PIP invests in the promotion, assistance and establishment of business to improve the employment and economy of Plymouth and its surrounding area. Plymouth City Council has full ownership of PIP.	(11)	0	(60)	(17)	6	0
Joint Arrangements							
DELT Shared Services Ltd	DELT provide ICT and systems to partners. DELT is jointly and equally controlled and owned by Plymouth City Council and NEW Devon CCG.	(131)	9,449	95	(243)	10,986	219
Plymouth Science Park Ltd	Plymouth Science Park is a science and technology park for businesses and provide provision of support, advisory and facilities management services. Plymouth Science Park is jointly and equally owned by Plymouth City Council and Plymouth University.	(50)	10	1,956	(50)	5	1,956

Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits). Details of transactions with Government Departments are set out in note 29.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies.

The total of members allowances paid in 2018/19 is disclosed in note 25.

Members and Officers of the Council have returned 62 declarations of Related Party Transactions for 2018/19, a response rate of 78 per cent.

Other Interests in Companies

There are a number of companies which are also linked to the Council which fall under the definition of an assisted organisation. This includes the provision of financial assistance to voluntary organisations. However they are not considered material in financial terms.

Examples include Access Plymouth, Plymouth Citizens Advice Bureau and the Shekinah Mission. Independent Futures, On Course South West and the Plymouth City Centre Company are examples of larger organisations supported by the Council.

- ### DELT Shared Services Ltd

  DELT was launched 1 October 2014 and is a publicly owned private limited company (09098450). It was set up to deliver ICT services and systems to its partners; Plymouth City Council and Northern, Eastern, Western (NEW) Devon Clinical Commissioning Group. 2018/19 was the fourth year in which DELT was operational.

  DELT is jointly and equally controlled by its partners with both partners carrying equal full voting rights. The collaborative arrangement is classed as a joint venture.

  For more information about DELT and its financial performance, please visit the DELT Services website.

- ### CATER^{ed} Ltd

  CATER^{ed} is a co-operative trading company (09355912) which is jointly owned by Plymouth City Council and 67 local schools, providing all school meals in the city. CATER^{ed} is 49 per cent owned by schools and 51 per cent by the Council and serves almost 2.5 million meals to Plymouth school children every year.

  Plymouth City Council is the majority shareholder of CATER^{ed} with 51 per cent of shares and voting rights allocated one vote per share. The collaborative arrangement is classed as a subsidiary of the Council.

  For more information about CATER^{ed} and its financial performance, please visit the CATER^{ed} website.

Joint Committees

The Council is a member of a couple of joint committees where local authorities have joined together to provide a service. These are listed as follows:

- ### Devon Audit Partnership

  From April 2009 Plymouth City Council set up a Joint Committee with Devon County Council and Torbay Council for the provision of a shared internal audit service. The service is also able to provide audit services to other organisations. This is a shared service arrangement and is constituted under section 20 of the Local Government Act 2000.

Devon County Council is the host Council for the Joint Committee with all staff now employed by Devon County Council. Assets and Liabilities of the Joint Committee are split on an agreed basis (number of FTE's on inception of the Committee); Plymouth's share equates to 27 per cent and its contribution to the partnership for 2018/19 was £0.325m (2017/18: £0.319m).

- **South West Devon Waste Disposal Partnership**

  Plymouth City Council, Torbay Council and Devon County Council are now working together and have jointly contracted a PFI project for an Energy from Waste Plant (based in Plymouth) to dispose of residual waste collected by the three Councils. As part of the Joint Working Agreement between the three Councils the South West Devon Waste Partnership Joint Committee has been established to facilitate the procurement and subsequent operation and management of the facilities (by the selected contractor). The Plant became operational in April 2015.

  Plymouth is the Lead Authority with the expenditure associated with this project is incurred and then allocated on an estimated tonnage share basis to Torbay and Devon County Councils. Plymouth's share of the expenditure is reflected within the cost of services on the Comprehensive Income and Expenditure Statement.

For more information about external bodies which Plymouth City Council have an interest in please visit the Council's website.

31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Capital Financing Requirements	Restated 2017/18	2018/19
	£000	£000
Opening Capital Financing Requirement 1 April	**388,787**	**463,669**
Capital Investment		
Property, Plant and Equipment	62,587	68,711
Investment Properties	30,201	59,198
Heritage Assets	589	0
Assets Held for Sale	0	412
Initial recognition of Donated Assets	439	0
Revenue Expenditure Funded from Capital Under Statute	9,380	8,528
Initial recognition of RIF loan liability	0	6,005
Other Capital Expenditure	855	679
Total	**104,051**	**143,533**
Sources of Finance		
Capital Receipts	(7,765)	(6,356)
Other movements in Long-Term Debtors	81	(348)
Grants and Contributions applied in year	(14,567)	(24,882)
Revenue and Other Funds	(484)	(939)
Minimum Revenue Provision	(5,287)	(7,280)
Use of landfill provision in year	353	288
Increase in landfill provision	(1,500)	0
Repayment of conditional grant	0	900
Total	**(29,169)**	**(38,617)**
Closing Capital Financing Requirement 31 March	**463,669**	**568,585**
Explanation of Movement in Year		
Increase in underlying need to borrow	68,212	102,241
Increase in underlying need to borrow resulting from other changes in capital financing requirement	6,670	2,675
Increase/Decrease in Capital Financing Requirement	**74,882**	**104,916**

The Council has incorrectly included capital grants unapplied within the Capital Financing Requirement (CFR). This has been corrected in 2018/19 requiring an adjustment of £45.010m to the opening CFR. The opening balance also includes an adjustment of £6.028m for the initial recognition of donated assets in 2011/12.

32. Leases

32.1 Council as a Lessor – Operating Leases/Licenses

The Council is a lessor of a number of properties, including city centre shops and several retail and industrial units. The future minimum lease payments receivable under non-cancellable leases are:

Operating Leases - Council as a Lessor	31 March 2018	31 March 2019
	£000	£000
Not later than one year	8,074	10,976
Later than one year and not later than five years	27,117	33,511
Later than five years	329,249	272,449
Total	**364,440**	**316,936**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

33. Private Finance Initiatives (PFI) and Similar Contracts

33.1 Schools PFI

The Council makes an agreed payment each year, part of which is subject to an annual inflation increase, and can be reduced if the contractor fails to meet availability and performance standards in any one year but which is otherwise fixed. A total payment of £5.559m was made in 2018/19 (2017/18: £5.471m). Payments remaining to be made under the PFI contract at 31 March 2019, excluding any estimation of inflation and availability/performance deductions, are as follows:

PFI Outstanding Liabilities	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Total payments to operator in 2018/19	2,318	979	2,262	5,559
Payable in 2019/20	2,453	993	2,177	5,623
Payable within two to five years	10,486	4,895	7,775	23,156
Payable within six to ten years	15,487	8,068	7,014	30,569
Payable within eleven to fifteen years	15,027	10,968	2,696	28,691
Total	**43,453**	**24,924**	**19,662**	**88,039**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred, and interest payable, whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

Movement in PFI Liability	2017/18	2018/19
	£000	£000
Balance outstanding 1 April	26,873	25,904
Payments during the year	(969)	(979)
Balance Outstanding 31 March	**25,904**	**24,925**

The Council has secured PFI credits to the value of £53m, to which interest is added resulting in total Government support of £105.871m over the contract period, and this together with an annual contribution from the Council of approximately £0.650m and schools of £0.920m will be used to meet the running costs of the contract, including the loan repayments.

The PFI credits will be paid to the Council at a rate of £3.982 per annum. Spend to be incurred during the contract will vary from year to year as lifecycle works are undertaken. The Council transfers any surplus resources for the PFI scheme to a PFI reserve to match commitments that will be incurred in future years.

33.2 South West Devon (SWD) Energy from Waste (EfW) Partnership

2015/16 was the first year of operation of the EfW public/private service concession arrangement whereby the SWD local authority partnership granted the right to MVV Umwelt (MVVU), the operator, to treat and render inert waste that otherwise would have been disposed of in landfill sites. The SWD partnership comprising Plymouth City Council, Devon County Council and Torbay Council appointed MVVU under a fixed price contract to finance, construct and design the 245,000 tonne capacity facility and to maintain it to a minimum acceptable condition over a 50 year term.

PFI Outstanding Liabilities	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Total payments to operator in 2018/19	3,630	250	3,665	7,545
Payable in 2019/20	3,853	94	3,645	7,592
Payable within two to five years	16,427	1,260	14,387	32,074
Payable within six to ten years	24,354	3,553	16,705	44,612
Payable within eleven to fifteen years	26,767	9,112	13,654	49,533
Payable within sixteen to twenty years	31,228	17,187	7,141	55,556
Payable within twenty one to twenty five years	5,277	2,612	179	8,068
Total	**107,906**	**33,818**	**55,711**	**197,435**

The EfW facility is located on MOD land at Camel's Head, North Yard in Devonport Dockyard, Plymouth. The SWD partnership specifies the activities offered by the facility, the opening hours and the expected minimum standard of service to be provided by the operator. MVVU is required to receive all the residual waste from the defined area of the local authority partnership for which the councils are obliged to pay a fixed gate fee based on a guaranteed minimum tonnage of waste, with an additional charge for any extra waste delivered by the councils over and above the contractual waste.

Movement in PFI Liability	2017/18 Plymouth Share	2017/18 Deferred Income	2018/19 Plymouth Share	2018/19 Deferred Income
	£000	£000	£000	£000
Balance outstanding 1 April	34,246	53,445	34,069	51,121
Payments during the year	(177)	(2,324)	(250)	(2,324)
Balance Outstanding 31 March	**34,069**	**51,121**	**33,819**	**48,797**

Under a separate 25 year agreement between the operator and the MOD, MVVU processes the waste to provide environmentally sustainable heat and electricity to HM Naval Base Devonport. Power is sold at a capped, index linked, guaranteed base price, with any surplus electricity being exported to the National Grid based on a long-term Power Purchase Agreement (PPA) to a company within the MVV group.

The SWD partnership receives 50% of the income earned by EVVU from any excess waste it processes or any excess energy it supplies to third parties. EMVU 3rd party revenues are unrestricted and the SWD partnership is obliged to compensate the operator for any loss of third party income should the councils exceed their contractual maximum tonnage.

Income and expenditure, assets and liabilities are recorded in each of Plymouth City Council, Devon County Council and Torbay Council's Statements of Accounts respectively in the ratio 48:35:17. Plymouth City Council's share of the total construction costs of £195.324m is carried at depreciated replacement cost in its balance sheet as detailed in note 15.1 (Property, Plant and Equipment) together with a corresponding liability.

34. Pensions

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

34.1 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension scheme administered by Capita Teachers Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of member's pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2018/19, Plymouth City Council paid £2.804m to Teachers' Pensions in respect of teachers' retirement benefits. The figures for 2017/18 were £3.454m. There were no contributions remaining payable at the year-end. In 2018/19 the minimum member contribution was 7.4 per cent of salary, the maximum was 11.7 per cent.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 34.2.

34.2 Defined Benefit Pension Schemes

Local Government Pension Scheme (LGPS)

Plymouth City Council and Tamar Bridge and Torpoint Ferry Joint Committee participate in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit scheme with benefits earned up to 31 March 14 being linked to final salary. Benefits earned after 31 March 14 are based on Career Average Revalued Earnings (CARE). The Plymouth City Council scheme is administered by Devon County Council, however, the Joint Committee Scheme is administered by Cornwall Council and so separate notes have been included to represent Plymouth City Council's 50 per cent interest.

Since the 31 March there have been developments on two court cases that are going through the judicial system. These have both impacted upon the Council in the respect of the Pension liability. The developments are the McCloud judgement and Guaranteed Minimum Pension (GMP).

The McCloud judgement is a case in the Court of Appeal involving judges' and firefighters' pensions which has the potential to impact on the Council. The case concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

However, the potential impact is uncertain. Even though the Supreme Court has refused the Government's application to appeal the judgement, no decisions have been made about the remedies that would be required and the extent to which additional costs would fall on the Council.

GMP is a High Court ruling that defined benefit pension schemes must remove any discriminatory effect that GMP entitlements have had on member benefits.

In response the Council has requested revised Actuarial reports. The Actuary's best estimate shows that the impact on the Council's Statement of Accounts is not material and there is still uncertainty about the cost of the remedy. Consequently, the Council has not reflected any consequences of these legal judgement in its pension liabilities in the Balance Sheet.

Pension Information for Plymouth City Council Scheme (PCC)

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the surplus/deficit on continuing services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council Tax is based on the cash payable in the year, and the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the CIES and the General Fund Balance via the MiRS during the year:

Comprehensive Income and Expenditure Statement	2017/18	2018/19
	£000	£000
Cost of Services		
Service cost comprising:		
current service cost	28,257	27,343
past service cost	94	296
(gain)/loss from settlements	5,049	(7,690)
Financing and Investment Income and Expenditure		
Net interest expense	15,897	13,774
Other Operating Expenditure		
Administration expenses	354	448
Total Post-employment Benefit Charged to the Surplus/Deficit on the Provision of Services	**49,651**	**34,171**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability comprising:		
return on plan assets (excluding the amount included in the net interest expense)	(9,326)	(22,912)
actuarial gains and losses arising on changes in financial assumptions	(60,193)	57,376
actuarial gains and losses arising on changes in demographic assumptions	0	(70,450)
Total Post-employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(19,868)**	**(1,815)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefit in accordance with the Code	(49,651)	(34,171)
Actual Amount Charged Against the General Fund Balance for Pensions in the Year:		
employers' contribution payable to the scheme	16,577	19,495
retirement benefits payable to pensioners	3,247	3,254
Adjustment re: net (increase)/decrease per LGR pension liability	1,018	1,128

34.3 Assets and Liabilities in Relation to Post-employment Benefits (PCC)

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	2017/18	2018/19
	£000	£000
Opening Balance at 1 April	**(1,254,225)**	**(1,245,445)**
Current service cost	(28,257)	(27,343)
Interest cost	(33,790)	(31,088)
Charge in financial assumptions	60,193	(57,376)
Change in demographic assumptions	0	70,450
Liabilities assumed/(extinguished) on settlements	(16,103)	11,567
Estimated benefits paid net of transfers in	30,122	32,783
Past service costs, including curtailments	(94)	(296)
Contributions by scheme participants	(5,338)	(5,326)
Unfunded pension payments	2,047	2,070
Closing Present Value of Liabilities	**(1,245,445)**	**(1,250,004)**

Reconciliation of the Movement in the Fair Value of Scheme (Plan) Assets	2017/18	2018/19
	£000	£000
Opening Fair Value of Scheme Assets	**660,037**	**687,702**
Interest income	17,893	17,314
Re-measurement gain/(loss):		
the return on plan assets, excluding the amount included in the net interest expense	9,326	22,912
Administration expenses	(354)	(448)
Contributions from employer	16,577	19,495
Contributions from employees into the scheme	5,338	5,326
Benefits paid	(32,169)	(34,853)
Settlement prices received/(paid)	11,054	(3,877)
Closing Present Value of Assets	**687,702**	**713,571**
Closing Balance at 31 March	**(557,743)**	**(536,433)**

34.4 Scheme History (PCC)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £536.4m is shown as a negative balance and therefore has an impact on the net worth of the Council as recorded in the Balance Sheet. However the negative balance that arises measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £17.378m.

34.5 Basis for Estimating Assets and Liabilities (PCC)

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, gender, salary levels, investment returns, interest rates, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, with the estimates for the City Council's share of the Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Basis for Estimating Assets and Liabilities	2017/18	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
men	23.5	22.4
women	25.6	24.4
Longevity at 65 for future pensioners:		
men	25.7	24.1
women	27.9	26.2
Rate of inflation (CPI)	2.3%	2.4%
Rate of increase in salaries	3.8%	3.9%
Rate of increase in pensions	2.3%	2.4%
Rate for discounting scheme liabilities	2.6%	2.4%

Impact on the Defined Benefit Obligation in the Scheme	Decrease in Assumption	No Change	Increase in Assumption
	£000	£000	£000
Longevity (increase or decrease in 1 year)	1,203,924	1,250,004	1,297,908
Rate of increase in salaries (increase or decrease by 0.1%)	1,248,162	1,250,004	1,251,860
Rate of increase in pensions (increase or decrease by 0.1%)	1,228,567	1,250,004	1,271,846
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,273,726	1,250,004	1,273,726

34.6 Total Assets (PCC)

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

Categories by Proportion of the Total Assets Held	31 March 2018	31 March 2019
	%	%
Equities	74	73
Gilts	3	3
Property	13	13
Cash	2	2
Other investments	8	9
Total	**100**	**100**

34.7 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

Pension Assets and Liabilities Recognised in the Balance Sheet	2017/18	2018/19
	£000	**£000**
Present value of the defined benefit	1,205,340	1,211,830
Fair value of plan assets	(687,702)	(713,571)
Net Liability	**517,638**	**498,259**
Other movements in the liability	40,105	38,174
Net Liability Arising from Defined Benefit Obligation	**557,743**	**536,433**

Pension Information for Tamar Bridge and Torpoint Ferry Joint Committee (TBTF)

34.8 Transactions in the Comprehensive Income and Expenditure Statement and Movement in Reserve Statement (TBTF)

Comprehensive Income and Expenditure Statement	2017/18	2018/19
	£000	**£000**
Cost of Services		
Service cost	598	618
Financing and Investment Income and Expenditure		
Net interest expense	98	102
Total Post-employment Benefit Charged to the Surplus/Deficit on the Provision of Services	**696**	**720**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability comprising:		
return on plan assets (excluding the amount included in the net interest expense)	(121)	(389)
actuarial gains and losses arising on changes in financial assumptions	(226)	746
experience gain/(loss) on defined benefit obligation	0	(10)
Total Post-employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**349**	**1,067**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefit in accordance with the Code	(695)	(720)
Actual Amount Charged Against the General Fund Balance for Pensions in the Year:		
Employers' contribution payable to the scheme	357	383

34.9 Assets and Liabilities in Relation to Post-employment Benefits (TBTF)

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	2017/18	2018/19
	£000	£000
Opening Balance at 1 April	**(11,991)**	**(12,476)**
Current service cost	(598)	(618)
Interest cost	(305)	(330)
Contributions from scheme participants	(101)	(106)
Re-measurement (gain) and losses:		
actuarial gains/losses arising from changes in financial assumptions	226	(747)
experience loss/(gain) on defined benefit obligation	0	10
Benefits paid	293	321
Closing Present Value of Liabilities	**(12,476)**	**(13,946)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2017/18	2018/19
	£000	£000
Opening fair value of scheme assets	**8,205**	**8,698**
Interest income	207	228
Re-measurement gain/(loss):		
the return on plan assets, excluding the amount included in the net interest expense	121	389
Contributions from employer	357	383
Contributions from employees into the scheme	101	106
Benefits paid	(293)	(321)
Closing Fair Value of Scheme Assets	**8,698**	**9,483**
Closing Balance at 31 March	**(3,778)**	**(4,463)**

The liabilities show the underlying commitments that the Joint Committee has to pay in the long run to pay post-employment (retirement) benefits. The total liability of £4.463m has an impact on the net worth of the Council as recorded in the Balance Sheet. However the negative balance that arises measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The total contributions expected to be made to the Local Government Pension Scheme via the Joint Committee in the year to 31 March 2020 is £0.779m.

34.10 Scheme History (TBTF)

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, gender, salary levels, investment returns, interest rates, etc. The Cornwall Council pension scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, with the estimates for the City Council's share of the Fund being based on the latest full valuation of the scheme as at 31 March 2019.

34.11 Basis for Estimating Assets and Liabilities (TBTF)

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, gender, salary levels, investment returns, interest rates, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, with the estimates for the City Council's share of the Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Basis for Estimating Assets and Liabilities	2017/18	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
men	22.1	22.1
women	24.5	24.5
Longevity at 65 for future pensioners:		
men	24.0	24.0
women	26.4	26.0
Rate of increase in salaries	2.5%	2.5%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.6%

35. Contingent Assets and Liabilities

35.1 Contingent Assets

The Council has the following contingent assets to report:

Plymouth Airport

Plymouth City Airport is let on 150 year lease from 2004. The Council's Lessee served notice of its intention to close the airport in December 2010 because of continuing trading losses. On 23 August 2011 the Council's Cabinet accepted the notice of non-viability from the Lessee following receipt of three independent reviews of the airport business and options for its financial viability. The Airport closed for business in December 2011. The Council's freehold and the Lessee's leasehold interest are due to be merged and the former Lessee will then be responsible for obtaining planning permission and marketing the site. Any eventual net land disposals proceeds will be divided between the Council and the former Lessee 75%/25%. However the timing and amount of any such receipts, if any, is uncertain; and is subject to the outcome of the Public Examination into the Plymouth and South West Devon Joint Local Plan which contains policies that are applicable to the site which would affect its future value.

35.2 Contingent Liabilities

The Council has the following contingent liabilities to report.

Plymouth Community Homes

As part of the stock transfer negotiations the Council was required to provide a number of warranties to the funders of Plymouth Community Homes. These included an environmental warranty whereby the Council has agreed to warrant that no dangerous substance is present in the property that has transferred or that no part of the Property has been or could lawfully be designated as contaminated land; the Council is currently exploring options around mitigating this liability through an insurance policy.

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2019

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to Local Authorities and the Government of Council Tax and Non-Domestic Rates.

2017/18				Note	2018/19		
Business Rates	Council Tax	Total			Business Rates	Council Tax	Total
£000	**£000**	**£000**	**Income**		**£000**	**£000**	**£000**
0	(120,073)	(120,073)	Council tax receivable	1	0	(128,343)	(128,343)
(85,069)	0	(85,069)	Business rates receivable	2	(81,900)	0	(81,900)
(85,069)	**(120,073)**	**(205,142)**			**(81,900)**	**(128,343)**	**(210,243)**
			Expenditure				
			Apportionment of Previous Year's Surplus/(Deficit)				
(373)	0	(373)	Central Government		(1,497)	0	(1,497)
(366)	407	41	Plymouth City Council		(1,467)	618	(849)
0	52	52	Devon and Cornwall Police and Crime Commissioner		0	78	78
(7)	24	17	Devon and Somerset Fire and Rescue Service		(30)	36	6
(746)	**483**	**(263)**			**(2,994)**	**732**	**(2,262)**
			Precepts, Demands and Shares				
43,824	0	43,824	Central Government		0	0	0
42,948	99,614	142,562	Plymouth City Council		87,741	105,767	193,508
0	12,476	12,476	Devon and Cornwall Police and Crime Commissioner		0	13,543	13,543
877	5,773	6,650	Devon and Somerset Fire and Rescue Service		886	6,043	6,929
87,649	**117,863**	**205,512**			**88,627**	**125,353**	**213,980**
			Charges to the Collection Fund				
193	0	193	Renewable Energy Disregard		228	0	228
505	496	1,001	Write offs of uncollectable amounts		294	398	692
(269)	304	35	Increase/(Decrease) in Bad Debt Provision		(1)	978	977
5,964	0	5,964	Increase/(Decrease) in Provision for Appeals		(5,571)	0	(5,571)
311	0	311	Cost of collection allowance		317	0	317
6,704	**800**	**7,504**			**(4,733)**	**1,376**	**(3,357)**
8,538	**(927)**	**7,611**	**(Surplus)/Deficit for the Year**		**(1,000)**	**(882)**	**(1,882)**
			Collection Fund Balance				
6,573	(1,089)	5,484	Balance as at 1 April		15,143	(2,016)	13,127
8,538	(927)	7,611	(Surplus)/Deficit for the year (as above)		(1,000)	(882)	(1,882)
15,111	**(2,016)**	**13,095**	**Balance as at 31 March**		**14,143**	**(2,898)**	**11,245**
			Allocated to:				
7,556	0	7,556	Central Government		6,075	0	6,075
7,404	(1,702)	5,702	Plymouth City Council		7,927	(2,437)	5,490
0	(216)	(216)	Devon and Cornwall Police and Crime Commissioner		0	(322)	(322)
151	(98)	53	Devon and Somerset Fire and Rescue Service		141	(139)	2
15,111	**(2,016)**	**13,095**	**Total Allocated**		**14,143**	**(2,898)**	**11,245**

NOTES TO THE COLLECTION FUND

1. Council Tax Income

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands based on an estimated 1 April 1991 value for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Devon and Cornwall Police and Crime Commissioner, Devon and Somerset Fire and Rescue Authority and the City Council for the forthcoming year and dividing this by the Council Tax base. The tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts and estimated collection rates: 71,932 in 2018/19 (2017/18: 70,775).

The basic amount of Council Tax for a Band D property (2018/19: £1,742.67) is multiplied by the proportion specified for the particular band to give an individual amount due. The calculation of the Council Tax Base is shown in the following table:

Band	No of Properties Before Discounts	No of Properties After Discounts	Band D Equivalents	Estimated Collection Rates	Adjusted Band D Equivalents
A	44,050	28,297	18,856	98.5%	18,573
B	30,574	24,764	19,261	98.5%	18,972
C	21,589	19,290	17,147	98.5%	16,890
D	8,915	8,254	8,254	98.5%	8,130
E	4,650	4,436	5,421	98.5%	5,340
F	1,698	1,622	2,343	98.5%	2,308
G	534	509	848	98.5%	835
H	26	18	37	98.5%	36
	112,036	**87,190**	**72,167**		**71,084**
Adjustment for MOD Properties					848
Tax Base Totals			**72,167**		**71,932**

The Council Tax Base was calculated at the time the 2018/19 budget was set, based on the estimated number of properties and value of discounts applicable to each band at that time. The estimated income, allowing for non-collection, was £125.354m (£1,742.67 x 71,932). In practice, however, the average number of properties and values of discounts vary from the estimates, and the actual income increased to £128.343m (2017/18: £120.073m).

2. Income from Business Ratepayers

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government, which was 49.3p in 2018/19 (2017/18: 47.9p).

The administration of NDR is governed by the Business Rates Retention Scheme which was introduced in 2013/14. This aims to give councils a greater incentive to grow businesses but also increases the financial risk due to volatility of the NDR tax base and non-collection of rates due. In the case of Plymouth, the retained proportion of NDR income is 99 per cent. The remainder is distributed to preceptors: 1 per cent to the Devon and Somerset Fire and Rescue Authority (DSFRA) and 0 per cent to Central Government.

The business rates shares payable for 2018/19 were estimated before the start of the financial year as £0.0m to Central Government, £0.886m to DSFRA and £87.741m to Plymouth City Council. These sums have been paid during 2018/19 and charged to the Collection Fund in year and include the previous year's deficit.

When the scheme was introduced the Government set a baseline funding level (based on local demand for services) for each authority and applied the system of tariffs and top-ups to ensure all authorities receive their baseline amount. In 2018/19 Plymouth had a baseline amount of £72.436m and paid a tariff of £12,104m which was charged to the General Fund and included in note 14.

In addition to the top-up and tariffs, a safety net figure is calculated by Central Government. This mechanism is designed to protect local authorities from large fluctuation in their business rates income. The safety net threshold for Plymouth is £70.263m. As our adjusted retained income is above this level no safety net payment was due to Plymouth for 2018/19.

Under the rates retention scheme local authorities became liable for their share of the liability arising from the in-year and backdated impact of successful business rate appeals. Based on the analyses of previous year trends and the list of outstanding appeals provided by the VOA as at 31 March 2019 the Council included a provision of £2.555m.

For 2018/19, the total non-domestic rateable value at the end of the year was £229.355m (2017/18: £230.738m).

The total income from ratepayers in 2018/19 was £81.900m (2017/18: £85.069m).

This sum included £2.899m of transitional protection payments from ratepayers, which under regulations should have a neutral impact on the Business Rates Retention Scheme and will be repaid to Central Government.

3. Precepts and Demands

3.1 Council Tax

The budgets of the City Council, Devon and Cornwall Police and Crime Commissioner, Devon and Somerset Fire and Rescue Authority are partly financed from the Council Tax. The sums required from Council Tax by the Council, Fire Authority and Police Commissioner are determined by each body as part of the budget process and are called demands (Council) and precepts (Fire and Police). The income from Council Tax payers is paid into the Collection Fund and payments are made by the Collection Fund for the demands and precepts due to the Council, Fire Authority and Police Commissioner.

3.2 Non-Domestic Rates

As described in note 2, the administration of NDR is governed by the Retained Business Rate Scheme.

NDR surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

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Audit Progress Report and Sector Update

Plymouth City Council
Year ending 31 March 2020

23 March 2020

Contents

Introduction

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

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

Progress at February 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in February, and we begin our interim work, on site at the end of March 2020.

Our interim fieldwork includes:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues; and
- early substantive testing.

We issued a detailed audit plan, following the conclusion of planning and interim work in early April and will present this at the next Audit and Governance Committee.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the end of September 2020.

Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the end of September 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 11 for more details.

Progress at February 2020 (cont.)

Other areas

Certification of claims and returns

The review of your Housing Benefits subsidy return is no longer covered by Public Sector Audit Appointments Ltd and Councils appoint their own reporting accountants. The Council appointed Grant Thornton UK LLP for this work in 2018/19 and 2019/20 and has notified the Department for Work and Pensions (DWP).

Meetings

We continue to meet Finance Officers as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We will be discussing this with your Service Director for Finance including any proposed variations to the Scale Fee set by PSAA Limited, and will communicate fully with the Audit and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	In progress
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	April 2020	In progress
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee by the end of September 2020	September 2020	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	September 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit 'product'. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the 'expectation gap' (i.e. what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald's recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the Audit and Governance Committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor's responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: "We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements."

"Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect."

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain's future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world's financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was "working towards improving its approach to local government oversight and support", Brokenshire promised.

"A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy," he said.

"There are potentially far-reaching consequences when audits aren't carried out properly and fail to detect significant problems."

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still "fit for purpose".

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: "Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

"Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure."

He added: "This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole."

Ministry of Housing, Communities & Local Government

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was "open minded", but believed the Audit Commission was "of its time".

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts "must be of the highest level of transparency and quality", the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an "expectation gap" between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

1) audit recommendations are effective in helping councils to improve financial management
2) auditors are using their reporting powers appropriately
3) councils are responding to auditors appropriately
4) Financial savings from local audit reforms have been realised
5) There has been an increase in audit providers
6) Auditors are properly responding to questions or objections by local taxpayers
7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;
- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *"the Audit, Reporting and Governance Authority (ARGA)* (the proposed new regulatory body) *should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements*." Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the Issues paper and this informed the development of the draft Code. A summary of the responses received to the questions set out in the Issues paper can be found below.

Local audit in England Code of Audit Practice – Consultation Response (pdf – 256KB)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code incudes three specific criteria that auditors must consider:

a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

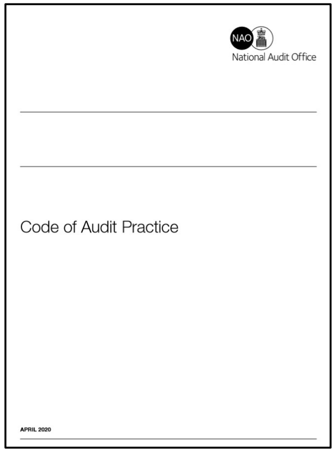
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit and Governance Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, "In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty." These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote "More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions." Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages XX for more information on this topic.

FRC Financial Reporting Council

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Financial Reporting Council – aid to Audit and Governance Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist Audit and Governance Committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the Audit and Governance Committee. It also takes account of commentary from Audit and Governance Committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in Audit and Governance Committee reporting.

As well as illustrating a framework for the Audit and Governance Committee’s evaluation, the Practice Aid sets out practical suggestions on how Audit and Governance Committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the Audit and Governance Committee to consider in relation to key areas of audit judgment, and illustrative Audit and Governance Committee considerations in evaluating the auditor's competencies.

The FRC encourages Audit and Governance Committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit and Governance Committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”

The Practice Aid can be obtained from the FRC website:

https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases,* as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'.* This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

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Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review *'Review of Interim Disclosures in the First Year of Application',* containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf.

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal "Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it's critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future."

Paul goes on to write "Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government's austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

1) The creation of a new arm's length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and

2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it's clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

https://www.themj.co.uk/What-is-the-future-for-audit/214769

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Grant Thornton’s Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available our on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

• businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment

• policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas

• Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

1 Prosperity

2 Dynamism and opportunity

3 Inclusion and equality

4 Health, wellbeing and happiness

5 Resilience and sustainability

6 Community trust and belonging

This year’s index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

1 Ensure that decisions are made on the basis of robust local evidence.

2 Focus on the transformational trends as well as the local enablers

3 Align investment decisions to support the creation of sustainable growth

4 Align new funding to support the creation of sustainable growth

5 Provide space for innovation and new approaches

6 Focus on place over organisation

7 Take a longer-term view

The online report is available here:

https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/

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Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
2) Local government has become increasingly reliant on local taxes for revenues.
3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

https://www.ifs.org.uk/publications/14563


Institute for Fiscal Studies

English local government funding: trends and challenges in 2019 and beyond

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.

CIPFA The Chartered Institute of Public Finance & Accountancy

The Financial Resilience tool is available on the CIPFA website below:

https://www.cipfa.org/services/financial-resilience-index/

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Grant Thornton

An instinct for growth™

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The Audit Findings for Plymouth City Council

Year ended 31 March 2019

23 March 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

This report provides a further update and close to the audit following the last three Audit Finding Reports which were presented to the Council's Audit and Governance Committee on 9th December, 23rd September 2019 and 22nd July 2019.We will provide members of the Council's Audit and Governance Committee with a verbal update as well when we present this report to the Audit and Governance Committee on 23rd March 2020. The Accounts and Audit Regulations 2015 require Local Authorities to publish their financial statements by 31 July each year, irrespective of whether the audit has been completed. The Council complied with this date and published the accounts.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the [group and] Council and [the group and Council's/its] income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken on site from late June 2019 through to March 2020. Initially, there were delays to the completion of our audit work as a result of our own resourcing issues. As the audit has progressed, we have identified a number of errors within the accounts that have required adjustments by management. The area where this has occurred the most is in capital, the valuation of property plant and equipment (PPE) and the detailed disclosure notes required for Financial Instruments. Our work on the valuation of PPE has identified prior period adjustments (PPA) which management have included in the revised version of the financial statements. Significant work has been undertaken at Council, valuer and audit team level to ascertain the validity of property valuations and review the necessary amendments required to ensure that the valuation of the Council's property stock is not materially incorrect.

Our findings to date are summarised on pages 5 to 23.

We have identified nine adjustments to the Statement of Financial Positional. The most significant of these are two prior period adjustments (PPA). The material items related to the value of Other land and Buildings within the Council's Property, Plant and Equipment balance and the valuation of the Energy from Waste The PPA is made up of a change to opening valuations for 201718 for revaluation of Academy schools of £1.938m. The PPA in 201718 related to the Energy to Waste Plant valuation needing to be processed, a misclassification of investment properties which should have been recorded in other land and buildings and a material movement in those depreciated replacement cost (DRC) assets which had not been revalued for the past four years- the largest valued categories being Schools and Visitors Attractions.

In total the PPA relating to 201718 amounts to £27.095m for the energy from waste incinerator and the DRC asset revaluations.

An error was also found relating to the incorrect classification of Investment Property and Other Land and buildings which amounted to a net increase of £98k for investment property valuations.

The total value of the Other Land and Buildings , the Energy from Waste Plant and changes in investment properties mounts to a gross increase of £29,140m. This is made up of: £8.433 relating to the surplus on continuing operations, total surplus on the provision of services of £11.152m and a surplus on the revaluation of non current assets of £17.988m.

The total increase in value of reserves and assets is £33.822m. A further error relating to Capital grants was adjusted amounting to £4.290m.

The adjustments made for the above have led to an increase in the Revaluation Reserve of £18.560m and an increase of £12.518m to the Capital Adjustment Account.

Headlines

Financial Statements (cont'd)	In our report of December 9th 2019 we highlighted to members the possibility of an error in relation those assets not valued on a Depreciated Replacement Cost (DRC) basis for those assets that have not been valued prior to 2017. We highlighted in that the possible amount may well have been circa £29m. This work has now been concluded and we have highlighted in the paragraph above the total impact of the revaluation exercise – i.e. £29.140m. Audit adjustments to date are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. Your previous External Auditors did not make any recommendations in 2017/18 and so no follow-up work was required. Our audit work is now complete. We will require specific representation from management and the Audit and Governance Committee for those items that have not been adjusted. These are included in the Letter of Representation, as a separate document. Subject to the satisfactory conclusion of the items below, we aim to issue an unqualified audit opinion on the financial statements for the year ending 31 March 2019 after the Audit and Governance Committee on 23rd March 2020: • Receipt of management representation letter • Review of Post Balance Sheet Events.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. This covered the risk we identified in our original risk assessment (covering the Council's medium term financial strategy) as well as the new risk identified regarding the Council's investment in properties outside Plymouth. We concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This outcome follows a national Grant Thornton panel which reviewed further information provided by the Council and is a better outcome than reported in the previous audit findings report of 22nd July 2019 which reported a p[possible qualification on an expect for basis subject to further work and Panel review. However, the Council's financial outlook is extremely challenging and active management will be required to safeguard the Council's financial standing with less focus upon the use of reserves going forward. Our findings are summarised on pages 19 to 23. There is no change to our conclusion based on our current understanding of the financial position.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We will not be able to certify the completion of the audit when we give our audit opinion because we still need to complete our work on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

Acknowledgments

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The audit work has been detailed and the council do have a number of complex transactions which have required further audit challenge and testing. Management have been responsive to our audit queries throughout the past few months and continue to work with us as an audit team to amend and review the accounts in order to satisfactorily conclude our audit work.

Summary

Overview of the scope of our audit

This Audit Findings Report presents 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.

As auditor we are 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is 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.

We have not had to alter or change our audit plan, as communicated to you on 11 March 2019, except as follows:

- an additional VFM Conclusion risk identified during our fieldwork regarding the Council's acquisition of investment properties outside Plymouth (see page 21)
- a revision to our revenue risk rebuttal (see page 6)
- we have had to undertake detailed, further work, in relation to the recent McCloud high court ruling which has an impact upon the Pension fund liability (see page 10)

As a result of the errors found, we have also had to undertake enhanced audit testing and procedures regarding the valuation of PPE, capital financing disclosure notes, capital grants received, financial instruments, and the prior period adjustment for Other Land and buildings.

We undertook additional work on the Council's opening balances, recognising that Plymouth City Council is a new audit for Grant Thornton.

Conclusion

Subject to satisfactory clearance of all outstanding items and work on your financial statements, we anticipate issuing an unqualified audit opinion as detailed in Appendix D. The items that we need to complete as part of our closure processes are summarised on page 4 of this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan, although we have no longer applied a separate level of materiality for senior officer remuneration. This was because senior officer remuneration is not complex and is therefore not subject to the potential for error.

	Amount (£)	Comments
Materiality for the financial statements	£9.775m	This was 1.7% of the prior year gross expenditure. We used this for planning stage and the year on year consistency of the Council's expenditure meant that this continued to be relevant.
Performance materiality	£7.331m	This is 75% of the materiality of the financial statements as a whole.
Trivial matters	£0.489m	This is 5% of the materiality of the financial statements as a whole.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition for the majority of sources can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Plymouth City Council, mean that all forms of fraud are seen as unacceptable. We therefore do not consider this to be a significant risk for Plymouth City Council. However, based on the findings of your previous External Auditors we did not rebut this risk for Government grants and other contributions and we therefore planned to undertake additional work in this area. An error was identified on the accounting for the Better Care Fund. Although this is a capital grant, there is a weakness in controls over the expenditure that has to be offset in relation to Government grants. The error also relates to how this was accounted for in 2017/18. The impact of this error is to reduce the capital grants receipts in advance by £4.29m. We have made a specific recommendation to management regarding this issue and this is detailed in Appendix B.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • agreed the journals selected to supporting backing information to assess the reasonableness of journals As part of our audit completion we will: • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. There are no significant issues that we would wish to bring to attention of the Audit and Governance Committee..

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£728 million at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** The Council uses its own internal valuer for the majority of its land and buildings, with the exception of two assets where Plymouth City Council has a share of an asset with one or more other Local Authorities as follows: • Devonport Energy from Waste Plant – joint with Torbay Council and Devon County Council – valuation provided by valuers appointed by Devon County Council • Tamar Bridge – joint with Cornwall Council – valuation provided by valuers appointed by Cornwall Council and Engineers We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the three valuers to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We found that the Devonport Energy from Waste plant was revalued in the year by Devon County Council's valuers, although this revaluation, and the previous revaluation, were not reflected in the Council's fixed asset register and hence its financial statements. A gross adjustment of £15.593mm to the PPE balance has been made on the balance sheet by management. This required a PPA being processed in the revised financial statements. See Appendix B for details The Tamar Bridge was due to be revalued on 1 April 2019. We have noted that this valuation has yet to be completed. We have therefore challenged this valuation given that the Bridge had not been revalued for 4 years. We have written to AECOM as Cornwall Councils management expert to confirm the assumptions underpinning the valuation as well as their qualifications. We have further employed our own internal valuer to asses the basis of the valuation and the calculation provided by AECOM. Following this work our valuer has concluded that the bridge is materially correct and this has been supported by our own internal review. Our valuer has concluded that the base value of the bridge, according to AECOM experts is £107m. In addition to this £7m has been spent in additions to the Bridge in year. Providing an estimated value of £114m. The Council carries 50% of the asset value. The bridge is currently in the balance sheet at a value of £60m – i.e. £120m in total. This therefore gives rise to estimation uncertainty for Plymouth of £3m. We are reporting this to those charged with governance as it is above our trivial level. In addition our expert concluded that the basis on which the asset is valued is not DRC, which is what the Council disclose as the valuation basis. We recommend that as part of the valuation process the basis of valuation be reconsidered by the Council in conjunction with the specialist engineers –AECOM and that specialist valuers are used to undertake the valuation of the bridge going forward.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£728 million at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** As part of our audit work, we identified some assets that had not been valued over the course of the last five years as required by the Code. These assets had nil values attributed to them which we found to be correct. We have recommended that management review the timing and frequency of all assets, especially other land and buildings given that there is a large quantity and value of assets not valued in year, each year. Investment properties are not valued as at the Balance sheet date but rather on 1 January each year. Whilst the Council do value investment properties annually, as directed by the Code, the Council will need to request that either the valuer changes the valuation date to 31st March each year- ie the Balance Sheet date, or undertakes a detailed fair value review at year end to identify any properties that may have changed significantly in value and undertake appropriate valuation techniques in relation to these. Our review of the valuation process and results identified 2 properties that had previously been incorrectly classified as investment properties when they should have been classified as other land and buildings The total value was £1.6m. This has been amended as part of the prior period adjustment for other land and buildings as detailed in Appendix B. Our audit work reviewed those assets that had not been revalued between 2014/15 and 2017/18 as these are the assets that are most likely to see possible material changes over the course of the 5 year rolling programme valuation period. Our work highlighted that those assets that are currently valued on a Depreciated Replacement Cost basis (DRC) are likely to have had a material increase in their valuations between the balance sheet date of 31 March 2019 and the last time that they were valued which in some instances was 2015/16. We discussed this matter with the finance team and the valuation/ property team. As a result of these discussions and audit challenge, the internal valuer undertook a detailed review of those indices that should have been applied to all categories of assets that had not been revalued over the past 4/5 years. By taking the larger valued categories- i.e. Schools and Visitor Attractions, the valuer was able to reduce the possibility of any further material issues occurring across the property stock. The Code states that a full valuation in this instance is preferable, however, applying indices in a detailed manner and undertaking such a detailed exercise is also permitted. As auditors, we would want to determine if the accounts present a true and fair view and are materially accurate. We accept the proposal by the Council to uplift the valuations using appropriate industry and local factors and note that this is a deviation from the Code, however, is acceptable. As auditors, we have reviewed the assumptions made by the valuer, challenged and reviewed data used by the valuer and concluded the indices and changes made to those assets not valued between 2015/16 and 31 March 2019 now show the DDRC assets to be materially correct. The amendments that have had to be made for these items are as follows: - £8,150m for the revaluation of the EFW which needed to be processed for 2016/17 and 201718, £22,301m for increases in values for Schools and Visitor Attractions and transfers of investment properties to Other Land and Buildings. As the Council do not value assets at the balance sheet date, the valuer was able to assess the value of Schools and Visitors Attractions at year end by applying specific indices. The resultant amendment of a decrease of £5,053m to the value of these assets ahs been amended and processed by management. At the year end the total overall impact ha sbeen an increase of £29.140m. We have made specific recommendations which are in Appendix B.

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Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£562 million in the Authority's balance sheet) at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report • obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. Please also see page 14 for a further commentary on our work on this estimate.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
5 **Proposal to reduce the pension fund net liability** In our Audit plan presented on 11 March 2019, we included a specific risk in relation to the plans that the Council were discussing to repay the entire pension fund liability for the Council. As this is a highly unusual transaction this was included in the plan to ensure focus upon the arrangements being put in place to undertake the transaction. The Authority is considering options that could reduce the pension fund net liability, although any payment is not expected to occur until after the financial year end. This type of transaction is material, complex and unusual and has therefore been assessed as a significant risk.	**Auditor commentary** We understand that this transaction has now taken place and has to be recorded in the accounts as a Post Balance Sheet Event. However, as this transaction relates to 2019/20 our work will be ongoing on this for the audit of that year. There is no impact on the Council's financial statements for 201819 as an in-year transaction. As part of our own work on this in 2018/19 we : • appointed our own independent legal advisors to provide us with advice in this complex area • discussed with management the arrangements the Council has in place to assess whether it considers the proposed transaction to reduce the pension fund net liability to be financially sound and value for money • discussed with management the due diligence undertaken by the Authority • assessed the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate We made specific recommendations to management and the Audit and Governance Committee in our two previous Audit Findings Reports to state that should the Council consider that this option is still worth pursuing further, the following recommendations should be adhered to: • obtain independent actuarial advice regarding the estimated pension liability amount • obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money • obtain independent legal advice as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability and using a company to pass monies through • obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations • obtain independent accounting advice • Review the business case and re present to Members; and • ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis. We will review the transaction and associated arrangements as part of our audit work for 2019/20.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Potential impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. This also has implications for the GMP equalisation of pay review and this has been commented upon on page 22.	The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £7.931m, and an increase in service costs for the 2019/20 year of £645k. Management's view is that the impact of the ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.	We have completed an overview of the analysis performed by the actuary and, based on this, consider that the approach that has been taken to arrive at this estimate is reasonable. We are of the view that there is sufficient evidence to indicate that a liability is probable and that this should be included in the pension liability value of the Council on the Balance Sheet.. The Council have decided not to amend for this increase in pension liability. Specific representation has therefore been added to the Letter of Representation to include this matter.
2	**IT General Controls**	Our specialist IT auditors undertook a review of the Council's IT general controls.	No significant deficiencies (where there is a risk of significant misstatement) were identified and we therefore did not need to amend our audit approach. A small number of recommendations were made and the Council has agreed these. Although there are no issues we wish to draw to the Audit and Governance Committee's attention within this report, our IT findings were a separate agenda item at the Audit and Governance Committee meeting on 22 July 2019.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment based on work to date
Land and Buildings – Other - £494m	Other land and buildings comprises £375m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£119m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Tamar Bridge is valued separately. The Council has engaged its own internal valuers for the majority of assets, using the valuers of Cornwall Council and Devon County Council to provide other valuations as detailed on page 7. Plymouth City Council's valuers complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 52% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £22m. Management's assessment of assets not revalued has identified no material change to the values.	Please also see the findings on page 10 regarding the valuation of land and buildings. As part of our work in this area we have: • assessed management's expert • reviewed the Council's arrangements for the completeness and accuracy of the underlying information used to determine the estimate • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • Challenged the assumptions made by the valuer for all assets not valued in year and the valuation dates for investment properties. • Reviewed those assets that had not been valued since 2017 – in particular those assets that are valued on a Depreciated Replacement Cost (DRC) basis and identified material amendments that have resulted in a prior period adjustment (PPA). being required. Enhanced disclosures have also been made to explain to the reader of the accounts what the PPA is related to and how this has impacted upon the figures and notes within the accounts. We recommend, that a detailed technical revaluation of the Tamar Bridge takes place in 2019 20 by a specialist or expert. We also recommend that management enhance the estimation uncertainty disclosure to ensure the bridge's current estimated value and the basis that this has been arrived at is clear to the reader. We have made specific recommendations to management regarding the frequency and timing of valuations.	● **Red**

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Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment based on work to date
Net pension liability – £541m	The Council's net pension liability at 31 March 2019 is £541m (PY £562m) the majority of which relates to the Devon Pension Fund, with a non-material amount relating to the Tamar Bridge and Torpoint Ferry Joint Committee. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There was a £57m net actuarial gain during 2018/19.	Please also see the findings on page 10 regarding the valuation of the net pension liability. As part of our work in this area we have: • Assessed management's expert • Used our auditor's expert (PwC) to assess the actuary and the assumptions made by the actuary. The key assumptions underpinning the actuarial valuation are: (see table below) We have also: • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report • obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	● **Green**

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35% to 2.45%	● Green
Pension increase rate	2.4%	2.4% to 2.45%	● Green
Salary growth	3.9%	3.1% to 4.35%	● Green
Life expectancy – Males currently aged 45 / 65	22.4 years & 24.1 years	22.2 to 25.0 years	● Green
Life expectancy – Females currently aged 45 / 65	24.4 years& 26.2 years	25.0 to 26.6 years	● Green

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Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

Significant findings – matters discussed with management

	Significant matter	Commentary	Auditor view
1	Capital Financing and Expenditure	The CIPFA code of practice on Local authority accounting in the United Kingdom 2018/19 (S4.1.A.3) states that “The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of fixed assets, together with the sources of finance and the Capital Financing Requirement.” (CFR) Note 31 sets out the calculation for the Council, our review of the Council’s reporting identified a number of issues with the note: These are detailed as part of Appendix X Adjusted misstatements. In particular the following items were discussed with management: • The decision to use £1,000k of capital receipts to repay debt has reduced the total repayment of debt to the General Fund by £1,000k. This use of receipts has been challenged by the Ministry of Housing, Communities and Local Government (MHCLG). Currently, the MHCLG is not taking further action but will review the prudential code. Future use of receipts in this way may be prevented. The Council’s current usable capital receipts reserve is £15.2m (2019 £18.2m). • Recognition of the Regional Investment Funding (RIF) loan liability had been identified as a prior year adjustment in the Movement in Reserves Statement (MiRS), when it should be shown as an in year movement as part of note 10 to the accounts. This also needed to be recognised as an increase in the CFR in note 31. None of the amendments impact on the Council’s general Fund balance The CFR should reconcile to the capital balances on the Council’s balance sheet. The Council has reconciled it’s CFR. The draft accounts already recognised an historical error of £45.281m in the treatment of capital grants unapplied. As part of the reconciliation process the Council has identified further errors of £0.271m of unapplied capital grants and £6,028m relating to the initial recognition of donated assets.	Adjustments have been identified to note 31, these are set out in Appendix B adjusted mis-statements. The CFR has been reconciled to the Balance sheet, there remains a trivial unreconciled amount of).382m. Officers have agreed to change the reporting of the RIF loan liability to show as an in-year movement. **Recommendations** The capital accounting entries need to be updated to accord with statutory directions. The Council’s CFR should be reconciled annually to give assurance that capital adjustments are correctly reflected in the accounts. **Management response** The Council will undertake a review of the capital adjustments in the accounts and will ensure that the CFR is fully reconciled to the Council’s balance sheet.

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Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have advised us that they have prepared the financial statements on a going concern basis, although this has not been referred to in the Council’s financial statements.

Management’s view is that the concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly, management is of the view that this will have no effect on Plymouth City Council as a going concern. We have requested that management provide a detailed assessment of going concern in light of future funding information and the budget for 201920. This assessment should cover the 12 months from the opinion date which is likely to be from March 2020.

Work performed

We discussed the going concern principle with management and asked them to provide an assessment of the application of this principle and to assess what disclosures should be included in its financial statements. Management referred us to the budget for 2019/20 and the Council’s medium term financial plan which we reviewed as part of our work on the Council’s VFM conclusion – see page 19 of this report.

Concluding comments

CIPFA’s code of practice on local authority accounting for 2018/19 is clear that an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The issue is simply one around the disclosure within the Council’s financial statements.

Our discussions with management, supplemented by our VFM conclusion work has given us sufficient assurance that the disclosures within the Council’s financial statements are adequate. In reaching this decision we took into account the level of the Council’s reserves and the savings that will be required in order to deliver a balanced budget in 2019/20 and 2020/21.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.
4	**Written representations**	A letter of representation will requested from the Council on the completion of our audit.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to the Council's bankers and other organisations with which the Council has investments and loans. This permission was granted and the requests were sent. Not all have yet been returned with positive confirmation and these have been chased up. We will complete alternative audit procedures if satisfactory responses are not forthcoming.
6	**Disclosures**	A significant amount of changes have taken place to ensure that the disclosures are compliant with the CIPFA code, particularly regarding Financial Instruments. Enhanced disclosures have been added to explain all the Prior Period Adjustments to the reader. This is in accordance with the CIPFA code which aims to bring transparency to readers when material adjustments are made to prior year accounts. Post Balance Sheet event- enhanced disclosure. As a result of the Council's arrangement to reduce its pension liability in October 2019, an adjusting post balance sheet event disclosure has now been added to the accounts. Our work has concluded that this is a non adjusting post balance sheet event. We have made a series of recommendations to Those Charged with Governance in our last 3 Audit Findings Reports and these can be found on page 28.
7	**Audit evidence and explanations/significant difficulties/other financial reporting issues**	All information and explanations requested from management to date has been provided. The Council provided us with a group accounts assessment during our audit. Whilst we concur with the Council's view that group accounts are not required in 2018/19, this assessment needs to be undertaken before the Council prepares its financial statements each year. Looking ahead to 2019/20, the Council may find it beneficial to prepare group accounts for that year on a quantitative basis.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. There are no issues we wish to draw to your attention.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties In our view, the Council's Annual Governance Statement could be improved by: - explicitly referring to the conclusion provided in the Head of Internal Audit opinion - ensuring that the action plan only covers governance issues for the Council and not wider risks e.g. Brexit. We have not applied any of our statutory powers or duties.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m for Income and Expenditure we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We have commenced our work on the WGA consolidation pack but this cannot be concluded until our audit of your financial statements has been completed.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Plymouth City Council in the audit opinion, as detailed in Appendix D, until our work on the Whole of Government Accounts (WGA) consolidation pack has been completed.

Value for Money

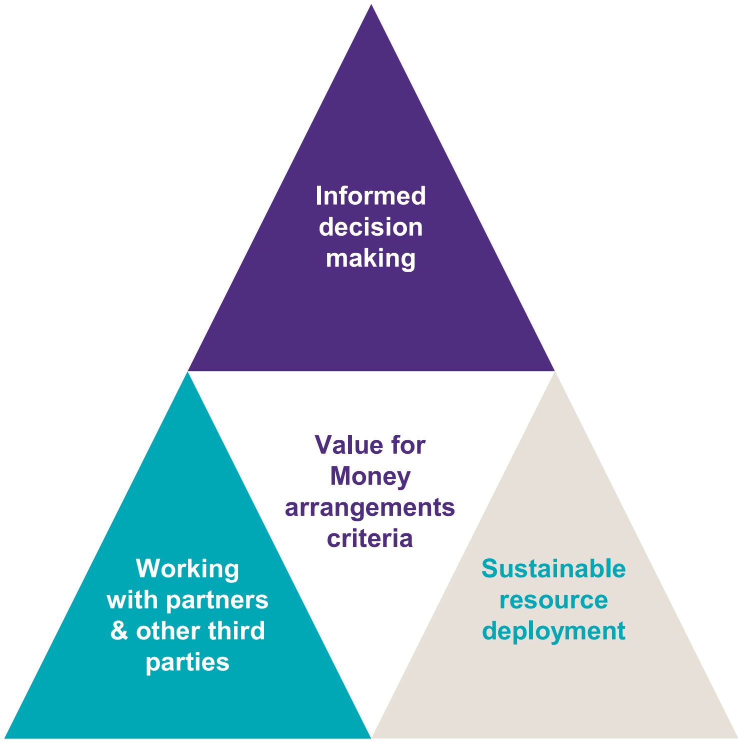
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in early 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to the Council's Audit and Governance Committee in our Audit Plan on 11 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and we identified one further significant risk where we needed to perform further work. This additional risk is regarding the Council's acquisition of investment properties outside Plymouth. Please see page 19 for further information.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the 2018/19 outturn
- the savings of £25.6m required in 2019/20 in order to achieve a break-even position
- the level of general reserves as at 31 March 2019 as any future overspends must met from these
- the governance arrangements in place for the Council’s out-of-area investment properties

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

As noted on page 4, we concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, the Council’s financial outlook is extremely challenging and active management will be required to safeguard the Council’s financial standing.

The text of our proposed report can be found at Appendix D, although this is subject to the completion of our work on the Council’s financial statements.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations to date and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk from the audit plan	**Delivering the budget for 2018/19 and achieving a sustainable financial future** Achieving the budget in 2018/19 will be difficult due to increased demand and overspends within Adult's Social Care and Children's Social Care. Looking ahead, ensuring a sustainable financial future will be challenging due to significant savings required over the next two years and the pressures noted in the two high-spend areas noted above.
Audit work and Findings	The 2018/19 outturn position for the Council is an overspend of £1.117m which was financed by the Council's General Fund. The Council had forecast an overspend throughout the 2018/19 financial year, but from month 6 did manage to reduce the extent of this overspend by introducing more stringent financial controls. In 2018/19 the Council was aiming to deliver savings in the region of £11.5m, however, overspends occurred in the Customer and Corporate Directorate and the People Directorate. The largest overspend was within Children and Young People, £4m, due to increased demand and costs of looked after children's placements. This is an improved financial position on the previous year, however it reduces the amount of the Council's General Fund balance to only £8.05m. The Council has other earmarked General Fund reserves of £24.7m, although it acknowledges that the main General Fund balance is 4.3% of its net revenue budget compared to its target of 5%. Going forward the financial pressures remain and the Council faces significant challenges to deliver its savings in 2019/20 and beyond. As at the end of month 2 (the end of May 2019) the Council is forecasting an overspend of £3.958m (£1.44m Customer and Corporate Directorate and £2.057m within the Children's Directorate). If the Council was not able to reduce this overspend the General Fund reserve would be reduced to £4.092m at the end of the year, a significant reduction, although there are additional earmarked reserves available. The latest position shows a number of corrective actions which lie across all services and will balance the year end position should all be achieved. The Council are working hard to achieve a neutral year end position. Moving forward, the Council have developed a medium term financial plan that continues to evolve in line with Government spending reviews and service delivery plans, this is an ongoing process that will continue to be ratified and developed further over the next year. In 2019/20 the Council is aiming to deliver savings of £25.619m, of which at the time of reporting £3.m remain at risk and do not have plans in place. The Council has improved the monitoring and financial control over its savings plans, with the introduction of risk assessing savings plans and introduced a 'fresh look' approach to identify new ways of working to identify savings, however this approach has not identified significant savings that will benefit 2019/20. These new measures highlight the scale of the challenge faced by the Council. Review of the savings plans provided for the People Directorate indicates that the Council is aiming to deliver savings from a range of different service lines, is reliant on maximising income and grants and assumes that savings will be delivered from quarter 1. The month 2 report on progress to date on all savings plans, identifies that the Council is heavily reliant on one-off savings and vacancy management and that savings require lapsed time before they will be delivered. Active management will be required to safeguard the Council's financial standing.
Conclusion	The Council faces significant challenges to deliver the savings (£25.6m) required in 2019/20. Failure to deliver these savings and manage demand within its Children's service will lead to budget overspends that reduce reserves to unacceptably low levels. The Council is also reliant on a significant amount of one-off savings and vacancy management. These approaches alone are not sustainable and will increase the financial pressures in 2020/21. The approach to medium term financial planning and savings targets continues to be positive and is continuing to be embedded across the organisation. However, taking into account the level of reserves overall available to the Council we concluded that Plymouth City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Key findings

We identified the following significant risk after we had completed our initial risk assessment.

Significant risk identified since our audit plan was issued	**Acquisition of investment properties outside Plymouth** Plymouth City Council has recently acquired a number of investment properties outside the City. This type of activity is attracting a lot of interest nationally, including from the National Audit Office (NAO) and CIPFA, as such investments can potentially carry a higher level of risk as they are pure investments and do not align to any of a Council's strategic ambitions such as economic development. There is a risk that the governance arrangements for such investments are inadequate. These transactions are ongoing and this work will continue as part of the 2019/20 audit plan.
Audit work and Findings	This risk was identified after we had completed our initial risk assessment. The Council has provided us with evidence that its investment strategy (covering its Asset Investment Fund) was approved by Members and that it covers investment within the City's boundaries and the Functional Economic Area, defined as the areas covered by the two Local Economic Partnerships; Cornwall and the Isles of Scilly and Heart of the South West to deliver long-term income generation to the Council (via rental receipts) and stimulate regeneration and economic and employment growth in Plymouth and the Functional Economic Area. The Council has a significant level of investment properties (£198m at 31 March 2019 per the draft financial statements) and there is active involvement of Members in setting the overall strategy and in monitoring the ongoing performance of the properties.
Conclusion	The governance arrangements for out-of-area investments appear to be adequate. We recommend to Members that any future investment in properties adheres to the proportionality rules as set by Central Government, that the appropriate legal and technical advice be obtained for each transaction and that the Council ensure that regular reporting requirements as set by Central Government are adhered to. We will review the ongoing acquisition of investment properties, particularly those out of area to assess the overall arrangements in 2019/20.

Ofsted findings

Background

Children's social care services

In October and November 2018 Ofsted undertook an inspection of children's social care services at Plymouth City Council. Their findings were reported in January 2019.

Summary of Ofsted's Findings

The judgements made by Ofsted were as follows:

Judgement	Grade
The impact of leaders on social work practice with children and families	Requires improvement to be good
The experiences and progress of children who need help and protection	Requires improvement to be good
The experiences and progress of children in care and care leavers	Requires improvement to be good
Overall effectiveness	Requires improvement to be good

Audit Assessment

Although the Council's services were assessed as 'requiring improvement' Ofsted did report a positive direction of travel.

They reported that since the single inspection framework (SIF) inspection in 2014 and the focused visit in 2018, senior leaders have taken clear action to improve the quality of social work practice, and the vast majority of children, young people and families in Plymouth get the right help at the right time.

Ofsted stated that there is a clear commitment to and corporate ownership of children's services, as well as effective strategic partnerships that are well developed. Senior leaders have a good understanding of strengths and areas for improvement. There has been significant progress in establishing an environment in which good social work can flourish by significantly reducing social workers' workloads, increasing management capacity and providing a wide range of learning and development opportunities. They noted significant practice improvements are evident in a number of areas previously identified as weak.
Ofsted noted improvements were required in:

- The quality of strategy discussions, including records of decision-making and action plans.
- The quality of written plans.
- Sufficiency of local placements to meet the needs of older children.
- The quality of recording of supervision and management oversight.
- The quality of services to care leavers, including education, employment and training opportunities.
- The quality of and learning from auditing of casework.

We noted the positive direction of travel and determined that Ofsted's findings were not of such significance to impact on our overall VFM conclusion.

Appendix A Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix c.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services are proposed and we have set out the anticipated fees, the threats to our independence and safeguards that have been applied to mitigate these threats.

	Proposed Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£14,041	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to the Department for Work and Pensions (DWP)
Certification of Teachers' Pensions return	£4,200	Self review Management	Work undertaken after completion of the audit and there are not expected to be material changes arising to subsequent financial statements. Any changes that need to be made to recorded contributions are determined by officers based on our work; they also agree the factual accuracy of any findings we make to Teachers Pensions.
Non-audit related			
None.			

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These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services were set out in our audit plan have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Appendix B Action plan

We have identified 11 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	Red	**Delivering the budget for 2018/19 and achieving a sustainable financial future**	The Council should look for new ways of delivering savings, which are recurrent and not as heavily reliant on one off savings and vacancy management, in order to ensure they are realistic and robust. **Management response** The Council recognises the financial challenges that have arisen from the 2018/19 outturn position and the budget challenges faced in the current and future years. The priority is to address the budget pressures which have been identified at month 2. CMT and Cabinet will continue to explore options to maximise income and identify cost savings and efficiencies, as part of the regular budget monitoring process, to achieve a balanced budget at year end. The Council is in the process of developing its Medium Term Financial Plan and will continue to explore innovative solutions to the resourcing challenges presented by the shift and uncertainty within local government. The uncertainty for medium term financial planning is compounded by national issues and fact local government has had no indication of its future funding and progress on fundamental changes to local government finance such as Fair Funding and Business rates Retention. The Council should pay particular focus to the level of reserves and avoid regular draw on these reserves to support future overspends or budget gaps.
2	Amber	**Revaluation of Devonport Energy from Waste plant**	The Council should engage with Devon County Council's valuers to ensure that it is aware of all revaluations that are undertaken. The Council should formally instruct the valuer and request and understanding of all data used and assumptions made. As part of this request the Council should ensure that they request details of all impairment and fair value reviews up to year end and the balance sheet date. **Management response** The Council have instructed the South West Devon Waste Partnership to instruct Norfolk Property Services (NPS) direct for a valuation for year end (31 March) on behalf of the partnership to ensure that PCC is entitled to a copy of the valuation certificate.

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Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

Action plan contd

	Assessment	Issue and risk	Recommendations
3	Red	**Valuation of Property Plant and Equipment**	We recommend that the Council should: Formally review the frequency of valuations for all property plant and equipment assets and would encourage the Council to make this frequency more regular than every 5 years **Management response** We will undertake a review of the frequency of valuations with the valuers to look at those assets that might need revaluing more frequently.
4	Amber	**Investment Properties**	The Council should ensure that all investment properties are formally reviewed, annually, as at the balance sheet date – i.e. 31 March. . **Management response** We will work with the valuers to ensure that a formal review is undertaken annually of the Council's investment properties with regard to the appropriate classification and value.
5	Amber	**Accounting for Government Grants**	We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for. **Management response** We are reviewing the controls around the accounting for government grants to ensure that the grant income is applied correctly.
6	Amber	**Accounting for Trading Accounts**	The Council need to implement effective controls to account for trading account surpluses or deficits correctly **Management response** We are undertaking a review of the use of coding within PCC and building in more centralised controls during the year and at year end to ensure that trading account surpluses or deficits are accounted for correctly.

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Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

Action plan

We have identified 11 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
7	Amber	**Financial Instrument and complex fair value disclosures**	We recommend that the Council should: Undertake a detailed review of the financial instrument and fair value disclosure requirements for 2019/20 and beyond and obtain the necessary and appropriate expertise so that these complex disclosures are correct in the financial statements. **Management response** We will review the code requirements for the Financial Instrument disclosures as well as taking external advice from our Treasury Management advisors.
8	Amber	**Quality review of capital financing accounting and disclosures**	The Council should implement quality reviews on a regular basis for capital transactions so that all associated notes in the accounts such as the capital financing reserve, capital adjustment account are accurate in the draft financial statements at year end. . **Management response** We will build in appropriate check and review processes in connection with capital transactions, to ensure that all associated working papers and notes are accurate in the financial statements.
9	Amber	**Quality review of the draft financial statements submitted for audit**	We recommend that the Council improve the controls for the accounting for government grants and that all expenditure related to each grant is correctly accounted for. **Management response** We will review our closedown procedures to ensure that a quality review is undertaken of all notes and associated working papers.

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Risk rating
- High – ~~Significant effect on control system (Red)~~
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

Appendix B

Action plan

We have identified 11 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
10	● Red	**Proposal to reduce the pension fund net liability**	We strongly recommend that the Council should: • obtain independent actuarial advice regarding the estimated pension liability amount • obtain independent financial advice from financial advisers regarding the available options to the Council and consideration of all business case options including value for money • obtain independent legal advise as to the legality of the transaction including borrowing from PWLB to transact the payment of the pension fund liability • obtain independent due diligence on any companies or company structures that may be used to transact the payment – paying particular attention to any complexities and risks associated with the Financial Conduct Authority regulations • Obtain advice regarding the use of any company in the transaction; • Update the business plan and re present to Members • obtain independent accounting advice and • ensure that detailed due diligence, business cases, financial information and decision making papers are reviewed and discussed at Member level on an ongoing basis. **Management response** There is ongoing work to reduce the pension fund liability. All of the recommendations are noted.
11	● Amber	**Group Accounts**	The Council should undertake a group accounts assessment early-on in the accounts production process for 2019/20 taking in qualitative and quantitative factors. Disclosures regarding the various components should be clearly presented within the financial statements. **Management response** We will review the process for the group accounts assessment to see how we can bring this work forward.

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Risk rating

- High – Significant effect on control system (Red)
- Medium – Effect on control system (Amber)
- Low – Best practice (Green)

Appendix B

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Better Care Fund 2017/18 and 2018/19 Capital Grant Receipts in Advance Prior Period Adjustment	-£1.95m	£1.95m	0
		-£2.34m	£2.34m	0
	Capital Grants Receipts in Advance	-£4.29m	£4.29m	
	2 Trading Accounts Surplus	-£4.7m	0	Nil impact
	Trading Accounts Expenditure	£4.7m Nil impact	Nil Impact	
	3 **Prior Period Adjustment - PPE**			
	Academy school adjustment for opening balances for 201718		£1,949m	
	DRC assets revalued and Energy from Waste Plant		£27,095m	
	Investment properties to OLB 2017/18	-£1.600m	-£1.600m	
	OLB to Investment Properties 2017/18	-£.706m	-£.706m	
	201819 PPE adjustments			
	EFW	£6,731m		
	Reduction in revalued DRC assets		-£5,053m	
	Overall reserves adjustments			
	Revaluation Reserve		£18,560m	
	Capital Adjustment Account		£12,518m	

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Audit Adjustments Cont.

Note 31: Capital Expenditure and capital financing

Detail	Capital investment £,000	Sources of finance £,000	Balance £,000	Adjusted
CFR as reported in draft accounts			**559,870**	
Adjustment to CFR at 31 March 2018, Initial recognition of donated assets and unapplied capital grants			5,734	Y
	137,116	**(37,130)**		
Additions to Assets held for sale	412			Y
Initial recognition of the RIF loan liability	6,005			Y
Use of capital receipts to repay debt		(1,000)		Y
Other movements in long term debtors		(589)		Y
Minimum Revenue Provision		1,000		Y
Changes to the landfill provision		288		Y
Repayment of a conditional capital grant		900		Y
	6,417	**599**	7,016	
Revised values	**143,533**	**(36,531)**		
Adjusted Capital financing Requirement			**572,620**	
Recognition of Better care fund grants as unconditional		**(4035)**	**568,585**	Y

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Audit Adjustments Cont. Disclosures and Notes

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Disclosure omission	Auditor recommendations	Adjusted?
Financial Instruments		
CCLA - The Council have elected to account for this as fair value through other comprehensive income. Pooled investments do not normally qualify for this as they do not meet the definition of an equity instrument and should be processed through Profit and Loss.	We recommended that the accounts be changed to show these assets as fair value through profit and loss - we do however, accept that a statutory override is in place which currently allows for the accounting treatment to not impact upon CIES. However, this statutory override is only in place for a limited period of time, at which point the council will have to account for these correctly.	No
The draft financial statements did not include all the necessary disclosures relating to the requirements of IFRS 7 and 9 - fair value adjustments. There is also no clear indication of the transitional change being shown on the face of the accounts for the movement to IFRS 9.	The revised version of the accounts ha snow been amended to show the fair value of all financial instruments. The transition was not material and therefore no requirement to detail the transitional change.	Yes
There were no inherent risk disclosures regarding LOBO loans.	The revised financial statements now show the attributed inherent risk to these loans.	Yes
The financial instrument notes did not reconcile to the main statements.	The Council have amended all financial instrument notes and disclosures to ensure that they correspond to the transactions in the main financial statements.	Yes
Recognition of Regional Investment Fund –RIF Loan Liability	£6.005m This was originally shown in the Movement in Reserves Statement as a Prior Period Adjustment however, it was an in year transaction. This has been adjusted in the Movement In Reserves Statement and also the Capital Finance Reserve.	Yes

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Appendix C Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Management's view is that the impact of the McCloud ruling is not material for Plymouth City Council and the financial statements will therefore not be adjusted.	No impact	Cr Net Pension Liability – £7,931	No impact
2	Impact of GMP Equalisation judgment – The Council has considered the impact of the GMP Equalisation judgment on the net pension liability. There is a potential overstatement of £1.875m of the net pension liability as a result of our own calculations and use of our own expert data.	No impact	DR Net Pension Liability -- £1,875 -	No impact- Management have decided not to adjust for this as this is an estimate, Management need to establish their own figure for this from experts and this will be part of the current triennial valuation.
3	The Council's financial statements included an accrued loan which has still not been received. In our view there was insufficient evidence to support the Council's assertion that this loan was sufficiently certain at 31 March 2019. This is a £5m value.	No impact	No overall impact as debtors and loans are both overstated by £5m	No impact
4	The Council has an investment of £23m in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	There is no impact on the Comprehensive Income and Expenditure Statement or the Statement of Financial Position as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years. There is only an effect on the disclosures within the Council's financial instruments. Grant Thornton UK LLP strongly recommend that this is corrected and applied correctly in subsequent year's accounts as the statutory override is only applicable for 5 years and will not be available by MHCLG after that and this will have an impact upon the net income and expenditure of the Council.		
5	The Council have used capital receipts of £1m to offset MRP, however the entries within the accounts are incorrect . This does not have a material impact upon the net worth of the authority.	-1000 1000 Capital Adjustment Account	Cr Usable Capital Receipts DR Capital Adjustment Account	No overall impact
	Overall impact	£0	£6056	£0

Audit Adjustments

Impact of prior year unadjusted misstatements

There are no prior year unadjusted mistatements

Appendix E Fees

We confirm below the expected fees to be charged for the audit. Overleaf we set out the expected fees for the provision of non audit services.

Audit Fees

	Fee per audit plan	Expected fee	Comments (See Note 1)
Council Audit	105,393	TBC	This is the scale fee set by Public Sector Audit Appointments Ltd
Assessing the impact of the McCloud ruling		3,000	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have been considering the impact on the financial statements along with any audit reporting requirements.
Pensions – IAS 19		3,000	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
PPE Valuation – work of experts		TBC	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this. We have also engaged an auditor's expert to support our work on the Tamar Bridge valuation. We have had to undertake detailed testing regarding the valuation of all Property Plant and Equipment assets, as well as specific work on DRC assets revalued and review and assess impact of all Prior Period Adjustments.
Significant risk – Proposal to reduce the pension fund net Liability		TBC	We have been engaged with Officers on this issue since it was first raised with us. We have commissioned our own legal advice given the unusual nature of this transaction and the significance of the amount involved. Work will continue into our 2019/20 audit when this particular transaction was enacted, however, in 2018/19 we did make a series of recommendations to both Management and Those Charged with Governance regarding governance, due diligence and overall management of the process.
Total audit fees (excluding VAT)	**£105,393**	**TBC**	

Note 1 –Any adjustments to the scale fee need to be approved by Public Sector Audit Appointments Ltd.

Fees

Below are the expected fees for the provision of non audit services.

Non Audit Fees

Fees for other services	Proposed Fees £'000	Comments
Audit related services:		
Certification of Housing Benefits Subsidy Return	14,041	Please see note 2
Certification of Teachers' Pensions Return	4,200	Please see note 2
Non-audit services:		
None.		
Total	**£18,241**	

Note 2 – this work has a deadline of 30 November 2019 and has not yet commenced. We will advise a future meeting of Audit and Governance Committee on the outcome of this work and the final fee.

Fees

We set out below the fees from the previous pages and how these agree to the disclosure within note 27 of the Council's financial statements.

Audit Fees

	Proposed fee	Final fee	Per Note 27
Council Audit	105,393	TBC	105,000
Assessing the impact of the McCloud ruling		3,000	Not included (see note 3)
Pensions – IAS 19		3,000	Not included (see note 3)
PPE Valuation – work of experts		TBC	Not included (see note 3)
Significant risk – Proposal to reduce the pension fund net Liability		TBC	Not included (see note 3)
Certification of Housing Benefits Subsidy Return	14,041		14,000
Certification of Teachers' Pensions Return	4,200		4,000
Additional Audit Work on errors and issues identified		TBC	Not included (see note 3)
Total audit fees (excluding VAT)	**£123,634**	**£XX,XXX**	**£123,000**

Note 3 – The Council was not aware of this additional work when it prepared its draft financial statements in May 2019. We will advise the Audit and Governance Committee of the final fees once we have completed our work, discussed the fees with officers and received approval from Public Sector Audit Appointments Ltd.

Draft Audit Opinion

Independent auditor's report to the members of Plymouth City Council
Report on the Audit of the Financial Statements
Opinion

We have audited the financial statements of Plymouth City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Service Director for Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Service Director for Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Service Director for Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Draft Audit Opinion

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception
Under the Code of Audit Practice, we are required to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Service Director for Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Service Director for Finance. The Service Director for Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Service Director for Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Service Director for Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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Draft Audit Opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Draft Audit Opinion

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

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TouchstoneRenard
Management Consultants

Public Sector
Audit Appointments

Future Procurement and Market Supply Options Review

Final Report

Review Team: Harry Machin, Phil Austin and Andrew Herbert

Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

Touchstone Renard Limited
152-160 City Road, London EC1V 2NX

Contact Name: Phil Austin
Email: paustin@TouchstoneRenard.com

CONTENTS **Page**

Acknowledgements

We would like to thank all the people involved throughout the review process, from PSAA and the firms, who gave us their help and support.

Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

Touchstone Renard Limited
152-160 City Road, London EC1V 2NX
Email: office@TouchstoneRenard.com   Web: www.TouchstoneRenard.com
Incorporated in the United Kingdom on 28th December 1987. Company Registration Number: 02208452.

1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

Key issues

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

Firms that are not currently approved to operate in this market

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

Firms that are approved to operate in this market

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31st July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

Options available to PSAA

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

2. PURPOSE AND SCOPE

2.1 Overview

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as t**o maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply** market.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

2.2 Specific issues to be addressed

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

2.3 Other issues

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.

3. WORK DONE AND METHODOLOGY

3.1 Interviews

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19th December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

3.2 Analysing responses

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

4. BACKGROUND

4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

Abolition of the Audit Commission

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

Establishment of PSAA

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

The current appointing period

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

Code of Audit Practice

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

Regulation

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

Registration and licensing

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

Continuing change in the external audit and local audit sectors

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: ▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). ▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.
The Competition and Markets Authority	April 2019	Recommendations re: ▪ Separation of audit from consulting services. ▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. ▪ Introduction of statutory regulatory powers to increase accountability of audit committees.
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: ▪ A redefinition of audit and its purpose. ▪ The creation of a corporate auditing profession governed by principles. ▪ The introduction of suspicion into the qualities of auditing. ▪ The extension of the concept of auditing to areas beyond financial statements.
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other 'Big 4' firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other 'top 10' audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the 'top 10' audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the 'top 10', acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other 'top 20' audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

Firm	Current work for PSAA eligible bodies	Number of KAPs
Incumbents		
GT	40% by value of opted in bodies (183 audits)	26
EY	30% by value of opted in bodies (162 audits)	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO / Moore Stephens	6% by value of opted in bodies (26 audits)	6
Others		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
Total number of key audit partners		***97***

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this 'follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.' We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation's closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31st July 2019:

"The number of delayed audit opinions in local government has risen sharply this year….. **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019**. The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31st July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31st July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

5.2 In the current contract, what works well and what works less well? (Contract holders only)

What works well

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

What works less well

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31st July was mentioned as an issue by every firm, without any prompting from us**. Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

5.3 Number of lots and lot sizes

Six out of the nine approved firms said that they would like to see a larger number of smaller lots. Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.

5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31st July (compared to the pre-2017/18 target date of 30th September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

5.12 Other issues – fees

All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking. Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

Local auditing is more or less unanimously regarded as being unattractive at present, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?

Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts. Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

It has been difficult to persuade non-approved firms to engage with our review. Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA's role in it; while the remaining two firms had very little knowledge of this area.

6.4 Would your firm consider bidding for any local audits in the next round of procurement?

There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.

The following table summarises the position of each of the firms we spoke to:

Firm	Overall position	Comments
1	Mildly interested	Very limited understanding of what local audit involves.
2	Would not rule anything out	The balance of risk and reward is critical. 'If fees are high enough, why not consider it?'. The partnership would have to approve the business case for getting involved. 'The more hurdles there are, the more benefits there would need to be'.
3	Doubtful	They see many obstacles to getting involved in this market. They would need 'very positive assurances' that they had a near certainty of winning some work before they would consider bidding.
4	Negative	'We should stick to our knitting'.
5	Doubtful	Current fee levels would negate any interest.
6	Interested	Would need guidance, support and a small lot(s) to bid for.

6.5 How important would the following factors be?

The need to register as an approved firm / key audit partners

Those firms that were aware of the requirements saw them as a deterrent to entry.

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant 'learning curve'.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

Advice and support being available to assist with your entry to the market

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

Other factors

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?

Lot sizes, locations, values and composition of lots

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

The duration of the contract

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

The balance between price and quality used to evaluate the tenders

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

Whether lots include audits subject to FRC review

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

The legal right of electors to object

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

6.9 Would your firm consider participating in a joint audit appointment? On what basis?

Four of the six firms said they would be prepared to consider a joint audit appointment. Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

7. ISSUES AND OPTIONS

7.1 Introduction

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

7.2 SWOT analysis for the market for audits of PSAA's eligible bodies

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA's eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

Strengths	Weaknesses
▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people's lives.	▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA's eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies. ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.

Opportunities	Threats
▪ The Redmond review could make recommendations that address the firms' current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest	▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements.

7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected 'lessons learned' that CBS highlighted in their report and how these relate to our own findings.

CBS 'Lesson'	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including…	**The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.**
▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market).	These factors remain and are now more strongly felt than before. It is **no longer the case that 'firms are intending to stay in the market'.** Their position is now less certain and dependent on developments ahead of the next procurement.
▪ there is evidence that gaining new entrants will be challenging.	This remains the case.
▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality.	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market.
Given the above factors, positive 'market making' action may be advisable.	If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants.

CBS 'Lesson'	Our comments / current situation
There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted.	This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis.
In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.	This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality.

7.4 Opening up the market to new entrants

Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

  In May 2019 the Cabinet Office made the following statement:

  'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'

7.5 Supply side resources

Issues

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A 'lost generation' of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

Options for PSAA

PSAA could consider setting a specific target to keep all the approved firms, especially the 'Big 4', active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

7.6 Timing of audits

Issues

The government has set a target date of 31st July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30th September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

Options for PSAA

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

7.7 Fees and quality

Issues

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks. Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

Options for PSAA

Of all the issues that PSAA can influence, fees are by far the most important to the firms. Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

7.8 Number of lots and lot sizes

Number of lots

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

Size of lots

All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total. Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

Options for PSAA

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

7.9 Composition and location of lots

Allocation of audits

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

Locations

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

Specialist lots

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

Options for PSAA

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms**. However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

7.10 Contract duration

Issues

The **5 year contract duration is popular with firms and any shorter period would not be welcomed**. There was little support for a longer duration.

Options for PSAA

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

7.11 Contract structure

Issues

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies……….including: local government…..'

Options for PSAA

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

7.12 Joint audit options

Issues

Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms. However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

Options for PSAA

Consider tendering for joint audits as a potential future option. Consider whether there is potential for ‘match-making’ between approved and non-approved firms.

7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

SAAA

The Smaller Authorities’ Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors’ objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

NAO

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

Scotland, Wales and Northern Ireland

Some of PSAA’s current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing ‘best value’ in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

Options for PSAA

PSAA’s options are constrained by the current fragmented structure of the market and by PSAA’s precisely defined role within it.

7.14 Creating a not-for-profit supplier

Issues

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

Options for PSAA

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.

GLOSSARY

Initials	Definition
AC	Audit Commission
ARGA	Audit, Reporting and Governance Authority
AS	Audit Scotland
CBS	Cardiff Business School
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance Accountants
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
KAP	Key Audit Partner
LGA	Local Government Association
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NFP	Not for profit
PIE	Public Interest Entity
PSAA	Public Sector Audit Appointments Ltd.
RSB	Recognised Supervisory Body
SAAA	Smaller Authorities' Audit Appointments
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
WAO	Wales Audit Office

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Audit and Governance Committee

Date of meeting:	23 March 2020
Title of Report:	**Treasury Management Practices, Principles and Schedules 2020/21**
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 CIPFA Code of Practice on Treasury Management requires the Council to publish its practices, principles and schedules each year. The Treasury Management practices, principles and schedules are in place to ensure the Council's Treasury Management policy is adhered to and that working practices and controls are in place to meet the approved strategy.

Recommendations and Reasons

To approve the Treasury Management Practices, Principles and Schedules for 2020/21 as set out in this report to ensure compliance with the CIPFA Code of Practice for Treasury Management.

Note: This report usually has the changes from the previous year highlighted for members however there have not been any real changes to the practices so there is no highlighting in the report.

Alternative options considered and rejected

There are no alternative options. The Council has adopted the CIPFA Code of Practice for Treasury Management which requires the Treasury Management Practices, Principles and Schedules to be scrutinised and approved by the Audit Committee.

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:

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.*

The current volatility and uncertainty within the global financial markets has had a substantial effect on Treasury Management activities. The risk in the Council's investments and loans will be constantly monitored and acted upon in accordance with the principles and procedures set out in the Council's Treasury Management Practices, Principles and Schedules.

Appendices

**Add rows as required to box below*

Ref.	**Title of Appendix**	**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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

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Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 27/02/2020											
Cabinet Member approval: Cllr Mark Lowry approved by email Date approved: 27/02/2020											

TREASURY MANAGEMENT PRACTICES PRINCIPLES AND SCHEDULES 2020-21

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for Plymouth City Council treasury operations are referenced below:

INTRODUCTION

The Audit Committee is required to approve the Treasury Management Practices, Principles and Schedules each year as a requirement of the Council's Treasury Management Strategy.

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in December 2017. The Code requires setting out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is now no longer a requirement to formally approve the Treasury Management Code, but instead the Council is now required by law to have regard to the Code.

Treasury Management is defined by CIPFA as:

> **The management of the Authority's investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks.**

The Ministry of Housing, Communities and Local Government (MHCLG) published revised statutory guidance and an informal commentary on Local Authority Investments for England in February 2018.

'Investments' now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial returns, including but not limited to investment property portfolios. Such non-financial assets are not managed as part of the Council's normal treasury management or under treasury management delegations, but they nonetheless require appropriate investment and risk management under the Code; a separate Treasury Management Practice (TMP 13) in this document is therefore included, specific to these investments.

The Code identifies three key principles:

(1) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

(2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds

(3) They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

(1) The Council will create and maintain, as the cornerstones for effective treasury management

    a. A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

b. Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

(2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

(3) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management

(4) The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies

(5) The Council produces a Capital Financing Strategy which is approved by full council, the Audit Committee may also set the detailed treasury management policies, whilst being clear that overall responsibility remains with full council.

The Treasury Management Practices (TMPs) comprise:

TMP 1: Risk management

TMP 2: Performance measurement

TMP 3: Decision-making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

TMP 13 Non-Treasury Investments (Investments that are not part of Treasury Management Activity)

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

1. TMP 1: RISK MANAGEMENT

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

1.1 The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

1.2 **Credit and Counterparty Risk Management**: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

1.2.1 ***Principle:*** *The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in* ***TMP4 Approved instruments, methods and techniques,*** *and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, as per the Treasury Management Strategy, or with whom it may enter into other financing arrangements.*

1.3.2 Schedule:

Criteria to be used for creating/managing approved counterparty lists/limits	The Section 151 Officer is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria. The criteria will be agreed by Council. The current criteria are contained in the Treasury Management Strategy. The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council's treasury management advisors will provide a counterparty list based on its criteria (determined at least annually) and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from main ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support where applicable, resolution mechanisms for failing financial institution's balance sheet liabilities, CDS information, the composition of an institution's balance sheet liabilities). Investment limits are set by reference to the lowest long-term rating from the agencies and other relevant factors, including external advice. The Council will also take into account information on corporate developments and market sentiment towards investment counterparties. The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution. Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.) Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
Approved methodology for changing limits and adding/removing counterparties Risk management : creditworthiness deteriorates below the minimum criteria (a) ratings are placed on review for downgrade	The Section 151 Officer has delegated responsibility to add or delete counterparties and to review limits to the Council's treasury management advisors as detailed above. Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then - No new investments will be made; - Any existing investments that can be recalled or sold at no cost will be recalled or sold; - Full consideration will be given to the recall or sale of other existing investments with the affected counterparty. Where a credit rating is placed on 'review' for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This policy will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.

Counterparty list and limits	A full individual listing of banking* counterparties based on the criteria will be provided by the Council's treasury management advisors. As credit ratings etc. are subject to change without notice, any changes will be advised by the Council's treasury management advisors. * It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria, whether the security is secured or unsecured, and due diligence on the counterparty's creditworthiness will determine its selection for investment.
Details of credit rating agencies' services and their application	The Council considers the ratings of the main ratings agencies when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.
Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price. The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities. In addition, the Council's officers read the quality financial press for information on counterparties.
Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits will be set for the above, in terms of monetary value/percentage of overall portfolio, where appropriate. Group limits for organisations under the same ownership will be set at the same level as the lead institution in that group.

1.4 Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

1.4.2 ***Principle***: *The* Section 151 Officer *will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.*

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to fund future debt maturities.

1.4.3 Schedule:

Cash flow and cash Balances	The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a single cashflow forecast to determine the maximum period for which funds may be prudently 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. The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned. In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account.
Short term investments	The Council uses various Reserve Accounts, Call Accounts and Money Market Funds to manage its liquidity requirements These Accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.
Temporary Borrowing	Temporary borrowing up to 1 year through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.
Bank Overdraft and standby facilities	The Council has an authorised overdraft limit with its bankers Barclays of £100,000 at an agreed rate of 1% above base rate. The facility is used as a contingency.
Policy in terms of borrowing in advance of need	The Council may need to 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 may be exposed to the risk of both the loss of the borrowed sums, and also that investment and borrowing rates may change during the intervening period. These risks will be managed as part of the Council's overall treasury risk management. The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be 2 years, although linking loans with particular items of expenditure is not required.

1.5 Interest Rate Risk Management: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.5.2 ***Principle****: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.*

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to *take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.*

The Council will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

1.5.3 Schedule*:*

Proportions of fixed/variable rate debt/interest	Borrowing/investments may be at a fixed or variable rate. In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes. The proportion of fixed and variable rate debt will be determined as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The proportion will be kept under review on a regular basis.
Managing changes to interest rate levels	The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. The Council may determine it is more cost effect in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher. Alternatively, the Council may consider forward starting loans where the interest rate is agreed and fixed in advance but the cash is received in later years. This would enable certainty of cost be achieved without suffering a 'cost of carry' in the intervening period. Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Treasury Management Team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Strategic Treasury Management Board as necessary. For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.
Negative interest rates	Should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.

1.6 Exchange Rate Risk Management: The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

1.6.2 ***Principle****: The Council will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.*

1.6.3 Schedule:

Exchange rate risk management	This Council does not, on a day to day basis, have foreign currency transactions or receipts. The Council holds a Euro account for specific European joint working projects. Any unexpected receipts of foreign currency will be converted to sterling at the earliest opportunity. If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice. At the present time statute prevents the Council borrowing in currencies other than Sterling.

1.7 Inflation risk

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

1.7.1 Principle

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Investments over one year	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.
Contractual obligations linked to inflation	The Council will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

1.8 Refinancing Risk Management: The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.8.1 **Principle:** *The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.*

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

1.8.2 Schedule:

Projected capital investment requirements	Three year projections are in place for capital expenditure and it's financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded revenue resources or reserves. Funding will be from internal or external borrowing, as decided. As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route. The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.
Debt profiling, policies and practices	The Council will maintain through its treasury system Logotech reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing. To assist with long-term borrowing decision making the Council creates, with advice and assistance from its treasury advisor, a 'Liability Benchmark' which forecasts the need to borrow over the medium- to longer-term. Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy. Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.
Policy on LOBO call options	The Council's debt portfolio includes loans borrowed on a LOBO (Lender's Option Borrower's Option) basis. The call dates for each LOBO loan are denoted within the Operations Folder and are referenced to the LOBO documentation. Prior to each call date, the Council will evaluate alternative funding sources for comparable interest rates/maturities. This will be discussed at the regular treasury meeting. If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the Council will thoroughly evaluate the new terms and additionally seek advice from the Council's advisor. It is important to remain within the timescale for the Council to exercise its option should the call be made, but not be rushed into a decision.

Policy concerning limits on revenue consequences of capital financings	The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.

1.9 **Legal and Regulatory Risk Management:** The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

1.9.1 ***Principle**: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.*

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.9.2 **Schedule:**

References to relevant statutes and regulations	The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council such as: ▪ CIPFA's Treasury Management Code of Practice and accompanying Guidance Notes ▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments ▪ CIPFA Standard of Professional Practice on Treasury Management ▪ The Local Government Act 2003 ▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments ▪ The MHCLG's statutory Guidance on Minimum Revenue Provision (MRP) ▪ The MHCLG's Guidance on Local Government Investments in England The Local Authorities (Contracting out of Investment Functions) ▪ The Localism Act 2011 ▪ Code of Practice on Local Authority Accounting ▪ The Bank of England's 2017 Money Markets Code ▪ Council's Constitution including: • Standing Order relating to Contracts • Financial Regulations • Scheme of Delegation

Procedures for evidencing the organisation's powers/ authorities to counterparties	The Council's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee. The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them. Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.
Required information from counterparties concerning their powers/ authorities	Investments shall only be made with institutions on the Council's authorised lending list or in securities which meet the Council's approved credit criteria. The Council will only undertake borrowing from approved sources listed in TMP 4.
Statement on political risks and management of the same	Political risk is managed by: • adoption of the CIPFA Treasury Management Code of Practice • adherence to Corporate Governance (TMP 12 – Corporate Governance) • adherence to the Statement of Professional Practice by the Section 151 Officer • the roles of the Audit Committee.

1.10 **Fraud, Error and Corruption, and Contingency Management**: This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

1.10.1 ***Principle****: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.*

Details of systems and procedures to be followed, including Internet services	Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.**
	
	1. Electronic Banking and Dealing
	(a) Banking: The Council's online banking service provided by Barclays is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows:
	• Within the Treasury Management Department
	    o Finance Business Partner
	    o Principal Technical Accountant
	    o Technical Accounting Officers
	    o Finance Assistant
	    o Apprentice
	Officer access is reviewed at least 6 monthly or as necessary.
	
	(b) Access to the Council's treasury management system, Logotech is limited to those officers listed below, each having a separate log-on and password.
	• Within the Treasury Management Department
	    o Finance Business Partner
	    o Principal Technical Accountant
	    o Technical Accounting Officers
	    o Finance Assistant
	    o Apprentice
	These also are reviewed at least 6 monthly or as necessary.
	
	(c) *Access and use of the online ICD Portal, for our Money Market Funds and iDeal for Arlingclose dealing platform, is listed below:*
	• For Fund Selection
	    o Head of Financial Planning & Reporting
	    o Finance Business Partner
	• For Trading, the following members of the Treasury Management team
	    o Principal Technical Accountant
	    o Technical Accounting Officers
	
	Full procedure notes covering the day to day operation of the on-line banking system and the treasury management system are documented.
	
	2. Standard Settlement Instructions (SSI) list : a list is maintained of named officers who have the authority to transact loans and investments
	
	• Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list.
	• A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF.
	• Payment Authorisation:
	• Payments can only be authorised by an agreed cheque signatory(ies) of the Council, the list of signatories having previously been agreed with the Council's bank.
	• Other payments made using online banking system and BACS payments can be authorised by an approved list of signatories.

	• Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts. • Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements.
Verification	Loans and investments will be maintained in registers/treasury management system which will include fees and brokerage paid. Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc. When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.
Substantiation	1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each quarter and at the financial year end. 2. Working papers are retained for audit inspection. 3. The bank reconciliation is carried out monthly from the bank statement to Civica.
Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.
Contingency Management	1. All treasury systems are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the service provider, DELT, to restore files, if necessary. 2. Temporary off-site working facility: The officers who can avail of this facility following an emergency are The Treasury Management Officers who will individually be made aware of the procedures to follow. 3. Electronic Banking System Failure: The Council's bank including the mode of obtaining balance details and information on inflow/outflow of monies and instructions for CHAPS payments can be made over the phone. Hard copies of contact details and account numbers are held onsite, and work mobile phones will be made available. 4. A Disaster Recovery Policy is held by Plymouth City Council.
Insurance Cover details	The Council has Fidelity Guarantee cover. Details of the provider and cover are held by the Corporate Risk and Insurance Team.

1.11 Market Risk Management: This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

1.11.1 Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.11.2 Schedule:

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc.)	Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective. The Council may consider an investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors. The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the Council's annual investment strategy.
Accounting for unrealised gains/losses	The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice. VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss. When first adopting IFRS 9, the new accounting standard from FY 2018/19, the Council irrevocably elected to account for individual investments in "equity instruments" at fair value through other comprehensive income (FVOCI), which is very similar to the available for sale accounting. Investments purchased after the transition to IFRS 9 may also be elected to FVOCI upon acquisition. The Council made the election in the 2017/18 statement of accounts for the 31st March 2018 holdings in strategic bond funds, equity funds, multi asset/diversified funds and property funds. Where pooled funds are classed as capital expenditure, any fair value gains and losses charged to Finance I&E will be reversed out to the Capital Adjustment Account via the MiRS. It might therefore appear that the election to FVOCI is unnecessary, however, since regulations might change in future and the election can only be made on initial recognition or on transition to IFRS 9, the Council has including capital expenditure funds in its election.

2 TMP 2: PERFORMANCE MEASUREMENT

2.1 Principle*: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.*

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. CIPFA supports the use of risk benchmarks in measuring treasury management performance.

The performance of the treasury management function will be measured using the criteria set out below.

2.2 Schedule:

Policy concerning methods for testing value for money	Best value reviews will include the production of plans to review the way services are provided by ▪ Challenging ▪ Comparing performance ▪ Consulting with other users and interested parties ▪ Applying competition principles In order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.
Policy concerning methods for performance measurement	• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability. • Prudential Indicators are local to the Council and are not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis. Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to (i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

Methodology to be applied for evaluating the impact of treasury management decisions	Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to the Treasury Management Meetings throughout the year. The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. The Council's Treasury Management advisers review the existing borrowing and investments and they produce a quarterly report to review the Council's position and benchmark this against other local authorities. The Council participates in the Treasury Management Advisor's quarterly investment benchmarking as well as the Treasury Management Advisor's annual Balance Sheet and Debt benchmarking.
Methodology to be employed for measuring the performance of the Council's treasury management activities	Treasury management activity is reviewed half yearly against strategy and prevailing economic and market conditions through the treasury monitoring report to Strategic Treasury Board. The report will include: a) CFR Funding Ratio (gross borrowing as a % of the Loans CFR) b) Gross and Net Borrowing; Leverage Ratio (gross borrowing as a proportion of net borrowing) c) Average rate on gross borrowing vs weighted average maturity d) The effect of new borrowing and/or maturities on the above e) An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period) f) Total investments including average rate and maturity profile g) The rate of return on investments against their indices for internally and externally managed funds h) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period) i) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy j) Daily bank balances: any major deviations from the target bank balances

<table>
<tr><td>Benchmarks and calculation methodology with regard to risk and return</td><td>Treasury Management Costs –
Costs are split into Debt Management, Investment Management and Other. Investment Management is then shown as cost per £m invested, and Debt Management Costs per £m value of debt.

Investment returns are compared to 7-day LIBID
Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.
• Externally Managed Investment Returns - the growth (i.e. increase in value of the fund) in respect of the monthly average value of the fund.
Debt Management
▪ Average Rate on external debt borrowed in financial year
▪ Average period to maturity of external debt
▪ Average period to maturity of new loans in financial year
▪ Ratio of PWLB and market debt (beginning and end of period)
▪ Ratio of fixed and variable rate debt (beginning and end of period)</td></tr>
<tr><td>Best value</td><td>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.

When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations. These require that :

a) For placing a contract with a value below £100k, at least 3 quotes are required, for contracts between £100k - £150k 5 quotes are required. Above this a formal tender is required.
b) When placing a contract with a value in excess of £172.5k, a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken.
c) If necessary, the Council will also consult with other users of similar services as well as with interested parties.
d) The Council will also evaluate alternative methods service delivery.</td></tr>
</table>

3 TMP 3: DECISION-MAKING AND ANALYSIS

***3.1 Principle**: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time.*

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of investment decisions, the organisation should consider the risks to capital and returns and the implications for the organisation's future plans and budgets.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

3.2 Schedule:

Capital expenditure and investment plans	The 2017 Prudential Code requires the Council to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Council. Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.
Major treasury decisions	As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either: a) Changes to Prudential Indicator(s) during the course of the financial year b) Options Appraisal to determine a funding decision c) raising a new long-term loan / long-term source of finance d) prematurely restructuring/redeeming an existing long-term loan(s) d) investing longer-term (i.e. in excess of 1 year) f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate) g) leasing h) change in banking arrangements i) appointing/replacing a treasury advisor j) appointing/replacing a fund manager k) any other determined by the Council
Process	The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy. A rolling monthly cashflow forecast will be prepared for the ensuing 12 months and will include the financing, borrowing and surplus cash requirements of the Council, for the purpose of: • applying the strategy on a day to day basis • monitoring the results of the strategy • recommending amendments to the strategy to the Council where applicable during the course of the year.

Delegated powers for treasury management	The Section 151 Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.
Issues to be addressed, evaluation, authorisation	In exercising these powers, the Section 151 Officer and those to whom the treasury activity have been delegated will • have regard to the nature and extent of any associated risks to which the Council may become exposed and put in place effective mechanisms for risk management and mitigation; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is appropriate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; is this being carried out. • follow best practice in implementing the treasury transaction. In exercising Borrowing and Funding decisions, the Section 151 Officer will with advice from the council's Treasury Management Advisors: • evaluate economic and market factors that may influence the manner and timing of any decision to fund; • consider alternative forms of funding, including use of revenue resources, leasing and private partnerships; • consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use; • consider ongoing revenue liabilities created; • where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years. 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. In exercising Investment decisions, the Section 151 Officer will: • Determine that the investment is within the Council's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; • the credit risk associated with unsecured investments with banks and building societies • consider the alternative investment products and techniques available if appropriate.
Processes to be followed	The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

Evidence and records to be kept	The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly. Records and working papers will be maintained by the Council electronically.
Other	The Council will maintain in its Operating Folder for the call dates for all LOBOs The Council's Treasury Strategy will also state the maximum exposure to LOBO being called in that financial year. A LOBO is called; the new interest rate will be reviewed against other borrowin rates, and will be redeemed if necessary.

4 TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 ***Principle:*** *The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in* ***TMP1 Risk Management.***

The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate."

4.2 Schedule:

Approved treasury management activities	The Council is permitted to undertake the following activities: ▪ Managing cashflow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending to third party organisations ▪ Redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities. The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

Approved capital financing methods and types/sources of funding	Approved sources of long-term and short-term borrowing include: • Public Works Loans Board (PWLB) or its successor • Any institution approved for investments • Any other bank or building society authorised to operate in the UK • UK public and private sector pension funds (except PCC Pension Fund) • Local Capital Finance Company and other special purpose vehicles created to enable local authority bond issues • UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues • long term money market loans including LOBOs • Temporary money market loans (up to 364 days). • bank overdraft • loans from bodies such as the European Investment Bank (EIB) • Stock issues • Deferred Purchase • Government and EU Capital Grants • Plymouth Bond • Lottery monies • Other Capital Grants and Contributions • Private Finance Initiative • Commercial companies • Pensions Funds • Operating and finance leases • Hire purchase • Sale and leaseback • Any other counterparty you intend to borrow from Internal Resources • Capital Receipts • Revenue Balances • Use of Reserves The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved investment instruments	The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the MHCLG in its Investment Guidance March 2018 (as amended). The Annual Investment Strategy should be approved by full Council The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply. The Council will, where applicable, use the Council's credit criteria. *examples* ▪ Deposits with the UK government, the Debt Management Agency Office (DMO), and UK local authorities ▪ Term deposits with banks and building societies ▪ Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit) ▪ Certificates of deposit ▪ Callable deposits ▪ Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM) ▪ Treasury Bills ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Sterling denominated bonds by non-UK sovereign governments ▪ Covered bonds (i.e. those with underlying collateral) ▪ Unsecured corporate bonds ▪ Reverse Repurchase Agreements ('reverse repos') ▪ Investments with Registered Providers of Social Housing (i.e. housing associations) ▪ Commercial paper ▪ Floating Rate Notes
Investments that are not part of treasury management activity	These are investments which the Council invests in other financial assets and property primarily for financial return. Such activity includes loans supporting service outcomes, investments in subsidiaries and the investment property portfolio. The Council ensures that it has the same robust procedures for the consideration of risk and return and • ensures that all investments, including non-treasury investments are covered in the Capital Strategy. • maintains a schedule of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees.

Use of Derivatives	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). As the Council is unlikely to use derivatives, it is a requirement of the CIPFA Code to clearly detail our policy in the annual treasury strategy. The Council will only use the following standalone financial derivatives: Swaps, forwards, futures and options as these 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 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.
MiFID II professional client status	The Council has reviewed its classification with financial institutions under MiFID II and has registered as a professional client. The consideration of skills and experience is particularly critical where the Council has requested to be treated as a professional client under MiFID II. Designation under MiFID II will be endorsed by the treasury strategy and reviewed frequently to ensure the designation remains appropriate.
Legal Entity Identifier (LEI)	The Council is registered with the London Stock Exchange as a Local Operating Unit to obtain a Legal Entity Identifier (LEI).

5 TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 ***Principle****: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.*

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule below. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

5.2 Schedule:

See Appendix 1 for Organisation Charts

5.3 Schedule:

Limits to responsibilities at Executive levels	Full Council: receiving and reviewing • Prudential Indicators (Capital Expenditure, Authorised Limit, Operational Boundary) • Treasury Management Strategy including the Annual Investment Strategy (unless a Capital Financing Strategy is approved by Full Council in which case only the Investment Strategy needs to be approved by Full Council) • Capital Financing Strategy • receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Audit Committee) The Cabinet: • approval of amendments to adopted clauses, treasury management policy statement, Treasury management strategy and capital financing strategy • budget consideration and approval • receiving and reviewing external audit reports and acting on recommendations • approving the selection of external service providers and agreeing terms of appointment
Principles and practices concerning segregation of duties	The segregation of duties will be determined by the Treasury Management Finance Business Partner. Segregation of duties exists in that: • the officers responsible for negotiating and closing treasury management deals also record the transactions in the cash book and completing cheque and bank reconciliations but are completely separate from the officer(s) who authorise the deals and any payments. • all borrowing/investments decisions must be authorised by the Section 151 officer or other nominated authorised officers (see below), depending on authorisation levels.

Statement of duties/ responsibilities of each treasury post Including absence cover arrangements	The Section 151 Officer • Submit budgets and budget variations in accordance with Financial Regulations and guidance. • Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance • Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy. • In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term. • Establish a measurement and reporting process that highlights significant variations from expectations. • Submit regular treasury management reports as required to the council/cabinet/Audit Committee. • Receiving and reviewing management information reports. • Review the performance of the treasury management function and promote best value reviews. • Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function. • Ensure the adequacy of internal audit, and liaising with external audit. • Recommend on appointment of external service providers in accordance with council standing orders. • Provide regular updates to relevant Cabinet Members. • Delegated authority to approve loans over 1 year and investments up to 10 years. • Delegated authority to approve loan repayments/rescheduling. • The Section 151 Officer may delegate his power to borrow and invest to the Head of Financial Planning & Reporting, Finance Business Partners and relevant Senior Technical Accountants and Technical Accounting Officers as appropriate.

	Head of Financial Planning & Reporting • The responsibilities of this post will include covering the full responsibilities of the Section 151 Officer in their absence. • Delegated authority to approve loans over 1 year and investments up to 50 years. • Delegated authority to approve loan repayments/rescheduling. • Submit budgets and budget variations in accordance with Financial Regulations and guidance. • Establish a measurement and reporting process that highlights significant variations from expectations. Finance Business Partner • Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, mid-year and annual Treasury Management report and Treasury Management Practices. • Recommend early repayment of debt over one year and subject to the approval of the Section 151 Officer, or the Head of Financial Planning & Reporting arrange the repayment of these loans. • Prepare budget for capital financing including all treasury management loan and investment activities including MTFS. • Submitting management information reports to the Treasury Management Board, Section 151 Officer and Head of Financial Planning & Reporting. Finance Business Partner and Principal Technical Accountant • To provide cover in the absence of the Technical Accounting Officer and to cover the full responsibilities of this post. • Maintaining relationships with third parties and external service providers and reviewing their performance. • Adherence to agreed policies and practices on a day-to-day basis. • Identifying and recommending opportunities for improved practices. • Authority to borrow for periods up to 1 year and lending up to 1 month. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Section 151 Officer or Head of Financial Planning & Reporting. • Following approval by the Section 151 Officer undertake all borrowing over 1 year and deposits/investments up to 10 year maturity. • Make recommendations on all lending up to 10 years and borrowing over 1 year maturity. • Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits. Technical Accounting Officer • Negotiates and closes treasury management deals and records the transaction and payments obtaining authorisation as described above. • Carrying out the execution of transactions • Monitoring performance on a day-to-day basis. • Identifying and recommending opportunities for improved practices. • Using the counterparties list provided by the Council's Treasury Management advisers. • Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments. Cover is reviewed at least every 12 months, or as necessary. Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.

	Cover in the absence of the relevant treasury management officer is provided by (depending on authorisation levels:
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	The Section 151 Officer (Chief Finance Officer) and the Head of Legal Services (Monitoring Officer), report into the Strategic Director for Transformation and Change, who in turn reports into the Chief Executive (Head of Paid Services).

5.4 Dealing

Authorised officers	Responsible officer for borrowing/investment decisions :
	
	Borrowing activity:
	• Section 151 Officer
	• Head of Financial Planning & Reporting
	• Senior Finance Analyst
	• Finance Business Partner
	Lending activity:
	• Section 151 Officer
	• Head of Financial Planning & Reporting
	• Senior Finance Analyst
	• Finance Business Partner
	
	Authorising payments for borrowing/lending
	• Overnight;
	    o Technical Accounting Officer
	• Under 1 year
	    o Finance Business Partner
	• Over 1 year
	    o Section 151 Officer
	    o Head of Financial Planning & Reporting
	Transaction recording:
	• Principal Technical Accountant
	• Technical Accounting Officer

Dealing limits	Internally Managed Investments: • Deposits up to 3 months with unlimited value with the Debt Management Office or £10m with a Local Government organisation or £20m with an approved bank or building society subject to the limits detailed in the Council's Annual Treasury Management Strategy and the approved lending list.
Dealing platforms / portals	iDealTrade Money Market Fund portals used by the Council
List of approved brokers	Brokers used by the Council are named in TMP 11: External Service Providers

Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers are taped by the brokers, but not by the Council.
Direct dealing practices	Direct dealing is carried out with institutions and with externally managed pooled funds identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty / fund has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures. The template for the Council's Standard Settlement Procedures is included in the Operational Schedule.
Inter-authority dealing	The Council also deals with other local government authorities to invest and borrow funds for treasury management purposes. A record of all deals, together with their specific terms, will be maintained by the Council.
Deal Ticket pro-forma	Deals will be recorded as per the deal ticket pro-forma (pro-forma maintained at operational level)
Settlement transmission procedures	• settlements are made by CHAPS. • all CHAPS payments relating to settlement transactions require authorisation by the Finance Business Partners in Finance. • all CHAPS payments require 1 bank signatures • the details are transmitted online to the Council's bankers.
Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker. Investments • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator • Chaps payment transmission document Loans: • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.

Arrangements concerning the management of counterparty funds	• The Treasury Management Finance Business Partner has responsibility for updating the Council's records with any credit developments. • The Treasury Management Finance Business Partner is tasked with the responsibility for checking that records have been correctly updated to reflect any credit developments.

6 TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 ***Principle**: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.*

As a minimum, the Council and Audit Committee will receive:

- *An annual report on the strategy and plan to be pursued in the coming year*
- *A mid-year review*
- *An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.*

The Strategic Treasury Management Board will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are outlined below.

6.2 Schedule:

Capital Strategy:	This is a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. It is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy should include: • Capital expenditure, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions. • Commercial activities, including due diligence processes, the Council's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements. • Long-term context in which capital expenditure decisions are made for the above, risk and reward considerations and impact on the achievement of priority outcomes. • Debt management, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the Council's approach to treasury management. • Other long-term liabilities, such as financial guarantees. • Knowledge and skills, including a summary of that available to the Council and its link to the Council's risk appetite. The strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting. The Section 151 Officer will report explicitly on the affordability and risk associated with the Capital Strategy and, where appropriate, have access to specialised advice to enable the members to reach their conclusions. The Section 151 Officer will also ensure that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members. Although there is no requirement in the Code for this to be an annual document, nor for it to be approved before the start of the financial year, the Council will undertake this exercise each year.

Frequency of executive reporting requirements	The Section 151 Officer will annually submit budgets and will report on budget variations as appropriate. The Section 151 Officer will submit the **Prudential Indicators** and the **Treasury Strategy Statement (including Annual Treasury Management Strategy)** and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Council before the start of the year. The **Annual Treasury Report** will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September. A **Mid-Year Treasury Report** will be prepared by the Section 151 Officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Council during the year.
Content of Reporting: 1. Prudential Indicators	The Council will set the following Prudential Indicators, revise if necessary, and in its annual / semi-annual reports publish 37actual outturn (where appropriate) in respect of: ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt Treasury indicators ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. The Prudential Indicators are approved and revised by Council and are integrated into the Council's overall financial planning and budget process. The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

2. Treasury Strategy Statement including the Annual Investment Strategy	The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following: • Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years • Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy for the forthcoming year(s) *(see below*)* • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. Based on the HMCLG's Guidance on Investments, the Council has produced an Annual Investment Strategy (AIS) which sets out ▪ the objectives, policies and strategy for managing its investments; ▪ the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances; ▪ the limits for the use of Non-Specified Investments. The AIS will be integrated into the Treasury Strategy Statement. The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.
3. Annual Treasury Outturn Report	The Section 151 Officer will produce an annual report for the Audit Committee on all activities of the treasury management function (including the performance of investment groups) as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year. The main contents of the report will comprise: ▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the Financial Year; ▪ the prevailing economic environment ▪ a commentary on treasury operations for the year, including their revenue effects; ▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council ▪ compliance with agreed policies/practices and statutory/regulatory requirements ▪ compliance with Prudential Indicators; ▪ performance measures. ▪ training /continuous professional development undertaken by treasury officers. The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

4. Mid-Year Treasury Report	The Section 151 Officer will produce a mid-year report for Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year. The main contents of the report will comprise: • Economic background • Economic forecast (including interest rates forecast) • Treasury Management Strategy Statement update • Performance versus benchmarks • Borrowing information (including premature repayment, new loans information) • Information on investments, including current lending list • Prudential indicators relating to treasury management • Governance framework and scrutiny arrangements The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.
Content and frequency of management information reports	The Treasury Management Finance Business Partner provides information for the council's Treasury Management advisors who then provide a quarterly monitoring report to the Strategic Treasury Management Board. This report includes details of: • borrowing and investment activity undertaken including forward deals • brokers' fees • performance of internal and external investments against benchmark • cash flow monitoring • interest rates and forecasts • extent of compliance with the treasury strategy and reasons for variance (if any) • any other, e.g. details of daily bank balances against target balances • Prudential Indicator monitoring and compliance

7 TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 ***Principle:*** *The Section 151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with* ***TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.*** *The form which the Council's budget will take is set out in the schedule below.*

The Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with ***TMP6 Reporting requirements and management information arrangements.***

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

7.2 Schedule:

Statutory/regulatory requirements	***Balanced Budget Requirement***: The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects:, (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and (b) revenue costs which flow from capital financing decisions. S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.
Accounting practices and standards	CIPFA's Accounting Code of Practice on Local Authority Accounting in the UK

Financial Statements	The Financial Statements comprise: ▪ An explanatory foreword ▪ Accounting policies, changes in accounting estimates and errors ▪ Presentation of financial statements ▪ Movement in reserves statement ▪ Comprehensive income and expenditure statement ▪ Balance sheet ▪ Cash flow statement ▪ Housing revenue account ▪ Collection Fund (England) ▪ Statement of Responsibilities ▪ The Accounting Statements ▪ Additional Financial Statements (Housing Revenue Account, Collection Fund) ▪ Notes to the financial statements ▪ Statements reporting reviews of internal controls or internal financial controls ▪ Events after the reporting period ▪ Related party disclosures
Format of the Council's accounts	The current form of the Council's accounts is available within the Finance Department.
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.

<table>
<tr><td>Treasury-related information requirements of external auditors</td><td>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.

Information is this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
▪ Prudential Indicators.
▪ Treasury Management Strategy including Annual Investment Strategy.

<u>External borrowing</u>:
• New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
• Loan maturities.
• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
• Analysis of loans outstanding at year end including maturity analysis.
• Analysis of borrowing between long- and short-term
• Debt management and financing costs
    ▪ calculation of (i) interest paid (ii) accrued interest
    ▪ interest paid
• MRP calculation and analysis of movement in the CFR.
• Bank overdraft position.
• Brokerage/commissions/transaction related costs.</td></tr>
<tr><td></td><td><u>Investments</u>:
• Investment transactions during the year including any transaction-related costs
• cash and bank balances at year end
• short-term investments at year end
• long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
• calculation of (i) interest received (ii) accrued interest
• actual interest received
• external fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
• basis of valuation of investments
• evidence of existence and title to investments (e.g. Custodian's Reports.
• schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.</td></tr>
</table>

	<u>Cash Flow</u> ▪ Reconciliation of the movement in cash to the movement in net debt ▪ Cash inflows and outflows (in respect of long-term financing) ▪ Cash inflows and outflows (in respect of purchase/sale of long-term investments) ▪ Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources <u>Other</u> ▪ Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes ▪ Details of (treasury-related) material events after balance sheet date not reflected in the financial statements. ▪ External advisors'/consultants' charges
Internal Audit	Internal Audit conducts a review of the treasury management function and probity testing, as per their annual plan. The internal auditors will be given access to treasury management information/documentation as required by them.
Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.
Costs for treasury management	The budget for treasury management forms part of the Finance budget.

8 TMP 8: CASH AND CASH FLOW MANAGEMENT

8.1 ***Principle****: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with* ***TMP1 [2] liquidity risk management****. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.*

8.2 Schedule:

Arrangements for preparing /submitting cash flow statements	Cash flow forecasts will be viewed over one time horizons and will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances. The cash flow forecasts and statements are held at operational level. The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods. An **outline medium-term cash flow** model is prepared as part of the MTFS budget process, with projections for 2 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves. A **detailed annual cash flow** is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a monthly basis. It identifies the major inflows and outflows on a month by month basis. It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council's various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years. **Daily cash flows** show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the excel cashflow document.

<table>
<tr>
<td>Content and frequency of cash flow projections</td>
<td>The detailed annual cash flow model includes the following:
• revenue income and expenditure based on the budget.
• profiled capital income and expenditure as per the capital programme.

Revenue activities:
<u>Inflows</u>:
▪ Revenue Support Grant
▪ Precepts received
▪ Non domestic rates receipts
▪ NDR receipts from national pool
▪ Council tax receipts
▪ DSS / other government grants
▪ Cash for goods and services
▪ Other operating cash receipts

<u>Outflows</u>:
▪ Salaries and payments on behalf of employees
▪ Operating cash payments
▪ Housing Benefit paid
▪ Precepts paid
▪ NDR payments to national pool
▪ Payments to the capital receipts pool

Capital activities including financing
<u>Inflows</u>:
▪ Capital grants received
▪ Sale of fixed assets
▪ Other capital cash receipts

<u>Outflows</u>:
▪ Purchase of fixed assets
▪ Purchase of long-term investments
▪ Other capital cash payments

Financing, Servicing of Finance/Returns on Investments
<u>Inflows:</u>
▪ New long-term loans raised
▪ New short-term loans raised
▪ Interest received
▪ Discount on premature repayment of loan

<u>Outflows</u>:
▪ Loan repayments
▪ Premium on premature repayment of loan
▪ Short-term investments
▪ Capital element of finance lease rental payments
▪ Interest paid
▪ Interest element of finance lease rental payments</td>
</tr>
</table>

Monitoring, frequency of cash flow updates	The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with: • net RSG and NDR payments as notified; • actual salaries and other employee costs paid from account bank statements; • actual payments to Inland Revenue from general account bank statements; • actual council tax received; • actual housing benefit; • actual capital programme expenditure and receipts.
Bank statements procedures	The Council receives online bank statements uploaded on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.
Payment scheduling	The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards: • Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice. • All other creditors to be paid within 30 days of receipt of invoice.
Monitoring debtor/ creditor levels	Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report which will include an analysis of debt by age and details and details of recovery status. The level of Creditor invoices being processed / remaining unpaid is monitored on a daily basis by the Transaction Centre. A report is produced within three days of the BACS run with details all BACS and cheque payments for the next day in advance and recorded in the cashflow spreadsheet.
Banking of funds	Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the cashiers section are banked weekly. All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.
Listing of sources of information	The treasury function receives cash flow information from the following persons/departments: Type of Information – Source Capital Spend and Receipts – Capital Accounting Team Government Grants – Logasnet Payroll – HR payroll department Debtors and Creditors – Transaction Centre Loans and Deposits – Treasury Management Team
Practices concerning prepayments to obtain benefits	The following practices concerning prepayments are followed to obtain benefits: All prepayments must be authorised by the approved signatory in the respective department.

9 TMP 9: MONEY LAUNDERING

9.1 Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should "embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities".

9.2 ***Principle****: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.*

9.3 Schedule:

Anti money laundering policy	This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.
Treasury documentation	The Council will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include: – Awareness of what constitutes money laundering; – The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed; – Maintaining up-to-date direct dealing and SSI mandates with counterparties

Nomination of Responsible Officer(s)	(a) The Council has nominated the Section 151 Officer to be the responsible officer(s) to whom any suspicions relating to transactions involving the Council will be communicated. (b) The responsible officer(s) will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions. (c) The responsible officer(s) will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).
Procedures for establishing the Identity of Lenders and Borrowers	(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4. (b) The Council will not accept loans from individuals. (c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list. (d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/ Prudential Regulation Authority's website. (e) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement. (f) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed. (g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts. (h) If the Council takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals. (i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.

10 TMP 10: TRAINING AND QUALIFICATIONS

10.1 Principle: *The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.*

The Section 151 Officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

10.2 Schedule:

Qualifications/ experience for treasury staff	Part or fully qualified or training towards qualification of one of the accepted accountancy bodies, i.e. CIPFA, ACA, ACCA, CIMA. Member of the Association of Accounting Technicians (AAT) part or fully qualified. Attend treasury training as provided by our Treasury Advisors.
Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are: ▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF ▪ Any courses/seminars run by Treasury Management Consultants. ▪ Attending CIPFA seminars and workshops ▪ Training attended by those responsible for scrutiny of the treasury function The Council participates in a CIPFA Employer Accreditation Scheme for CPD purposes which is based on planning, recording and evaluating development.
Records of training received by treasury staff	Treasury-related training records are maintained.
Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management.

11 TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

11.1 Principle: *The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule below.*

11.2 Schedule:

Contract threshold	The Council's Financial Regulations require that a formal contract is in place with external service providers where the contract value is £200k and above. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of service providers and procedures and frequency for tendering services	(a) Bankers to the Council Barclays Bank 3 Bedford Street Exeter EX1 1LX Tel: 0345 3010 927 Contract period: Commenced 1st April 2014 (b) Treasury advisor Arlingclose Limited 35 Chiswell Street, London, EC1Y 4SE Tel: 08448 808 200 Contract period: Commenced 1st January 2015 (c) External Fund Manager King & Shaxson 6th Floor, Candlewick House, 120 Cannon Street London, EC4N 6AS

Details of service providers and procedures and frequency for tendering services (cont'd)	(d) Brokers: It is considered good practice for the Council to have at least two brokers and to spread business between them. Tullett Prebon Limited Level 3, 155 Bishopsgate, London, EC2M 3TQ Tel: 020 7200 7000 Tradition (UK), Beaufort House, 15 St. Botolph Street, London, EC3A 7QX. Tel: 020 7198 1500 London Currency Brokers, LCB House, 8A The Broadway, Pitsea, Essex, SS13 3AY. Martin Brokers (UK) Plc, 1Churchill Place, Canary Wharf, London, E14 5RD. Tel: 020 7469 9000 Sterling International Brokers Limited 1Churchill Place, 18th Floor, London, EC4 5RD. Tel: 020 7962 9960 Imperial Treasury Services Office 7, 25 St Andrew Street, Hertford Hertfordshire SG14 1HZ Arlingclose Limited 35 Chiswell Street, London, EC1Y 4SE Tel: 08448 808 200
Regulatory status of services provided	All financial services providers are regulated by the Financial Conduct Authority (FCA).
Details of service provided by Treasury Advisor	The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments. The responsibility for borrowing, investments and risk management remains with the Council
Bribery Act	The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers

12 TMP 12: CORPORATE GOVERNANCE

12.1 *Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.*

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

12.2 Schedule:

Stewardship responsibilities	The S151 Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	The following documents are freely available for public inspection: ▪ Annual Statement of Accounts ▪ Budget Book ▪ 5 Year Capital Plan ▪ Treasury Management Policy ▪ Treasury Management Strategy ▪ Capital Strategy ▪ Budget Monitoring Reports ▪ Annual and Half Year Treasury Report
Council's website.	Financial information is additionally available on the Council's website.
Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Audit Committee and officer/member briefing sessions.

TMP 13: INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

13 **The Council** recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all the organisation's investments are covered in the capital strategy, investment strategy and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities may differ from that for treasury management.

The Council will maintain a schedule setting out a summary of existing material investment, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

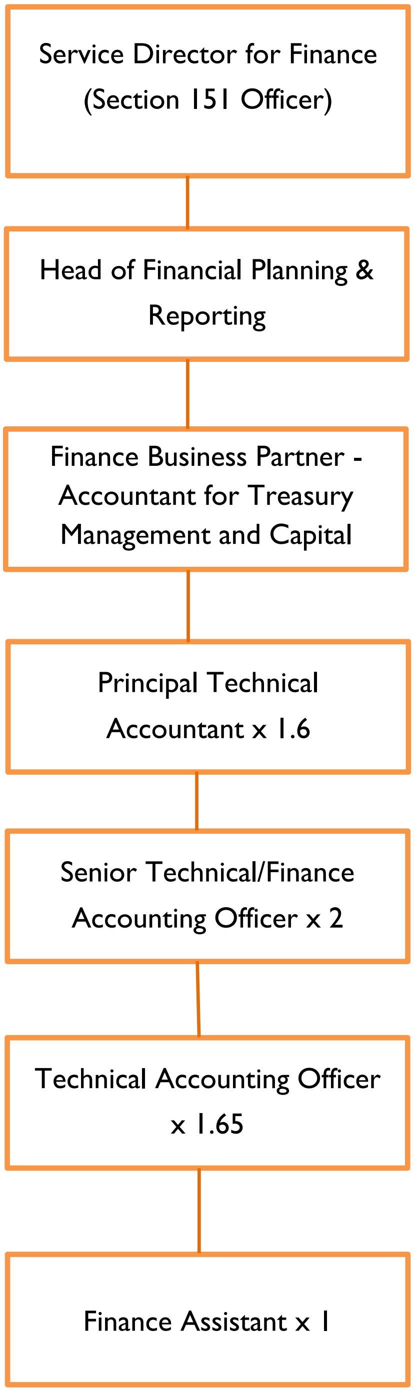
The Council recognises that many of the principles underlying TMPs 1 to 12 will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ significantly, and these are laid out below. A published schedule has been agreed by Council that sets out the investment practices for non-treasury investments and this will be complied with by all officers or agencies responsible for such investments.

13.1 Schedule

Register of non-treasury investments and financial guarantees	The Council will regularly updated a list of non-treasury investments, existing material investment, subsidiaries, joint ventures and liabilities and financial guarantees. An outline of such investments is in the Council's Capital Strategy.
Schedules to be maintained	The published schedule is agreed by full Council and sets out the organisation's investment management practices for non-treasury investments. Details are set out in the Council's capital strategy and will cover the following areas: • Risk management • Decision making, governance and organisation • Reporting and management information • Performance measurement and management • Training and qualifications.
Risk Management	Follow TMP1 and schedules as detailed previously, including investment and risk management criteria for any material non-treasury investment portfolios. Due diligence processes and procedures are undertaken to reflect the additional risk the Council is taking on.
Independent and expert advice	Independent expert advice is sought for property purchases as part of the due diligence.
Training and qualifications	Relevant knowledge and skills in relation to non-treasury investments will be arranged and maintained

Appendix 1

Organisation Chart for Capital and Treasury Management (FTE)



Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	23 March 2020
Title of Report:	**Internal Audit Charter & Strategy 2020/21**
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

Re-affirmation of the Devon Audit Partnership Internal Audit Charter and Strategy.

There are no changes to the 2020/21 Internal Audit Charter from the document approved by this Committee in March 2019 and the Internal Audit Strategy is also unchanged except for an update to staff numbers and professional qualification in Section 6 – Resources and Skills to ensure details accurately reflect resources as at March 2020.

One of the requirements of the Public Sector Internal Audit Standards (PSIAS) is that the purpose, authority and responsibility of the internal audit activity are formally defined in an internal audit charter and strategy, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The internal audit charter and strategy are in the accompanying documents.

The PSIAS sets additional Public Sector requirements where the internal audit charter and strategy must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

The Audit Strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities. It will communicate the contribution that Internal Audit makes to the organisation and should include:

- internal audit objectives and outcomes;
- how the Head of Devon Audit Partnership will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
- how Internal Audit's work will identify and address significant local and national issues and risks;
- how the service will be provided, and
- the resources and skills required to deliver the Strategy.

The Strategy should be approved, but not directed, by the Audit and Governance Committee.

1. The Charter and Strategy complies with the mandatory requirements of the Public Sector Internal Audit Standards.
2. Delivery of the Internal Audit Service will be by the Devon Audit Partnership.

Recommendations and Reasons

Members of the Audit and Governance Committee agree the Internal Audit Charter & Strategy for the year 2020/21.

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 and the Public Sector Internal Audit Standards.

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) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	2	3	4	5	6	7
A	Internal Audit Charter and Strategy 2020/21							

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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

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Originating Senior Leadership Team member: Andrew Hardingham
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 04/03/2020
Cabinet Member approval: Cllr Lowry Date approved: 11/03/2020

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PLYMOUTH CITY COUNCIL

INTERNAL AUDIT CHARTER (March 2020)

MISSION

The Mission of Devon Audit Partnership is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight across its partners.

TERMS OF REFERENCE

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

DEFINITIONS

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council's Audit and Governance Committee and senior management is the Council's Corporate Leadership Team.

The PSIAS make reference to the role of "Chief Audit Executive". For The Council this role is fulfilled by the Head of Devon Audit Partnership (HoDAP).

STATUTORY REQUIREMENTS

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

> *5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Service Director for Finance is the 'Section 151 Officer''. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

THE PURPOSE AND AIM OF INTERNAL AUDIT

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge his / her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for The Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of the Council, adding value whenever possible.

PROFESSIONALISM, ETHICS AND INDEPENDENCE

Being Professional

We (Devon Audit Partnership) will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors (IIA’s) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council’s relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

Our Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditors. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

Being Independent

Internal Audit should be independent of the activities that it audits.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit and Governance Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Chief Executive, the S.151 Officer and the Chair of the Audit and Governance Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

(2) (a) make available such documents and records; and
(b) supply such information and explanations; as are considered necessary by those conducting the internal audit.
(3) In this regulation "documents and records" includes information recorded in an electronic form.

In addition, Internal Audit, through the HoDAP, where deemed necessary, will have unrestricted access to:

- the Chief Executive
- Members
- individual Heads of Service
- Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

ACCOUNTABILITY

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The Head of Devon Audit Partnership fulfils the role of Chief Audit Executive at the Authority and will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit activity.

The Service Director for Finance 'Section 151 Officer' will liaise with the Head of Devon Audit Partnership and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Devon Audit Partnership reports functionally to the Audit and Governance Committee on items such as:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving reports from the Head of Devon Audit Partnership on the section's performance against the plan and other matters;
- approving the Head of Devon Audit Partnership's annual report'
- approve the review of the effectiveness of the system of internal audit.

The HoDAP has direct access to the Chair of Audit and Governance Committee and the opportunity to meet with the Audit and Governance Committee in private.

RESPONSIBILITIES

The Chief Executive, Service Directors and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Head of Devon Audit Partnership will provide assurance to the Service Director Finance 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The HoDAP will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping him/her meet his/her obligations under the Local Government and Housing Act 1989 and the Council's Constitution. The HoDAP will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- advising on internal control implications of new systems;
- providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- being responsible for reporting significant risk exposures and control issues identified to the Audit and Governance Committee and to senior management, including fraud risks, governance issues.

INTERNAL AUDIT MANAGEMENT

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the HoDAP (as Chief Audit Executive) must meet, and includes:

- be appropriately qualified;
- determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- include in the plan the approach to using other sources of assurance if appropriate;
- be accountable, report and build a relationship with the Council's Audit and Governance Committee and S.151 Officer; and
- monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

These criteria are brought together in an Audit Strategy which explains how the service will be delivered and reflect the resources and skills required.

The Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The HoDAP should also have the opportunity for free and unfettered access to the Chief Executive and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

INTERNAL AUDIT PLAN AND RESOURCES

At least annually, the Head of Devon Audit Partnership will submit to the Audit and Governance Committee a risk-based internal audit plan for review and approval. The HoDAP will:

- develop, in consultation with Heads of Service, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit and Governance Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit and Governance Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

It is a requirement of the Council's Anti-Fraud and Corruption Strategy that the Head of Devon Audit Partnership be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will also include sufficient resource to carry out proactive anti-fraud work.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

REPORTING

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit and Governance Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.
The aim of every Internal Audit report should be:

- to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and

- to recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Head of Devon Audit Partnership is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Head of the Devon Audit Partnership will

- submit periodic reports to the Audit and Governance Committee summarising key findings of reviews and the results of follow-ups undertaken;
- submit on an annual basis an Annual Internal Audit Report to the Audit and Governance Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

RELATIONSHIP WITH THE AUDIT AND GOVERNANCE COMMITTEE

The Council's Audit and Governance Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit and Governance Committee are set out in the Council's Constitution (Part E Responsibility for Functions).

The Head of Devon Audit Partnership will assist the Committee in being effective and in meeting its obligations. To facilitate this, the HoDAP will:

- attend meetings, and contribute to the agenda;
- ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor.

In December 2016 Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service who completed an external validation of the Partnership. Terry concluded that;

> "It is our overall opinion that the Devon Audit Partnership **generally conforms*** to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

*** Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards*

CHARTER – NON-CONFORMANCE AND REVIEW

Any instances of non-conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit and Governance Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit and Governance Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit and Governance Committee.

Devon Audit Partnership

March 2020

Auditing for achievement

PLYMOUTH CITY COUNCIL

INTERNAL AUDIT STRATEGY (March 2020)

1 INTRODUCTION

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance.

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Service Director for Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The PSIAS refers to the role of Chief Audit Executive and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For the Council, the role of Chief Audit Executive is provided by the Head of Devon Audit Partnership (HoDAP).

The PSIAS require the HoDAP to produce an Audit Charter setting out audits purpose, authority and responsibility. We deliver this through our Audit Strategy which:

- is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- will communicate the contribution that Internal Audit makes to the organisation and should include:
    - internal audit objectives and outcomes;
    - how the HoDAP will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
    - how Internal Audit's work will identify and address significant local and national issues and risks;
    - how the service will be provided, and
    - the resources and skills required to deliver the Strategy.
- should be approved, but not directed, by the Audit and Governance Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.

2 INTERNAL AUDIT OBJECTIVES AND OUTCOMES

The primary objective of Internal Audit is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the HoDAP aims to fulfil the statutory responsibilities for Internal Audit by:

- identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- providing managers with an opinion on, and recommendations to improve, the effectiveness of risk management, control and governance processes;
- providing managers with advice and consultancy on risk management, control and governance processes;
- liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- providing the Council, through the Audit and Governance Committee, with an opinion on governance, risk and control framework as a contribution to the Annual Governance Statement.

3 OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK

As stated above, one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings should also be held to discuss issues arising and other matters.

The HoDAP will report progress against the annual audit plan and any emerging issues and risks to the Audit and Governance Committee.

The HoDAP will also provide a written annual report to the Audit and Governance Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit and Governance Committee will:

(a) include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
(b) disclose any qualifications to that opinion, together with the reasons for the qualification;
(c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
(d) draw attention to any issues the HoDAP judges particularly relevant to the preparation of the Annual Governance Statement;
e) compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and

(f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

4 PLANNING, INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS

The audit planning process includes the creation of and, ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

Assignment planning

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

5 PROVISION OF INTERNAL AUDIT

The Internal Audit for The Council is provided by Devon Audit Partnership

The Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is reviewed and updated to reflect changes in working practices and standards.

Internal Audit Performance Management and Quality Assurance

The PSIAS state that the HoDAP should have in place an internal performance management and quality assurance framework; this framework must include:

- a comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately;
- seeking *user feedback* for each individual audit and periodically for the whole service;
- a periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit and Governance Committee;
- internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self-assessment); and
- an action plan to implement improvements.

Performance Measures and targets

The Head of Devon Audit Partnership will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see over).

Internal Audit Performance Monitoring Targets.

Performance Indicator	Full year target
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

There are a number of other indicators that are measured as part of the audit process that will be captured and reported to senior management.

Task	Performance measure
Agreement of Annual audit plan	Agreed by Chief Executive, CMT and Audit and Governance Committee prior to start of financial year.
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time.
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Issued within 15 days of finishing our fieldwork. Report is “accurate” and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues.
Annual internal audit report	Prepared for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to management and audit committee.	Presentation was clear and concise. Presenter was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.

Once collated the indicators will be reported to the S.151 Officer on a regular basis and will be summarised in an annual report. Performance indicator information will also be presented to the Audit and Governance Committee for information and consideration.

The Head of Devon Audit Partnership is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

Customer (user) feedback

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed at two levels:

- for each individual audit; and
- for the Internal Audit service as a whole.

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from:-

- auditees;
- senior leadership; and
- executive management.

The results from our feedback will be reported to Senior Management and the Audit and Governance Committee in the half year and annual reports.

Internal quality reviews

Devon Audit Partnership management have completed a self-assessment checklist against the PSIAS and have identified that there are no omissions in our practices. We consider that we fully meet over 95% of the elements; partially meet 3% (6); and are not required to or do not meet 2% (5) of the elements. The self-assessment will be updated annually, and, if management identify areas where we could further strengthen our approaches, these will be added to the Quality Action Improvement Plan.

In December 2016 Devon Audit Partnership welcomed Terry Barnett, Head of Assurance for Hertfordshire Shared Internal Audit Service and his colleague Chris Wood, Audit Manager, who completed an external validation of the Partnership.

Terry and Chris concluded that;

“It is our overall opinion that the Devon Audit Partnership **generally conforms*** to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

**** Generally Conforms*** *– This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards*

6 RESOURCES AND SKILLS

Resources

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Chief Audit Executive (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

Devon Audit Partnership currently has c.40 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter), we also operate from offices at Torridge DC (Bideford), Mid Devon DC (Tiverton) and South Hams/West Devon Councils (Totnes). The

Partnership employs a number of specialists in areas such as Computer Audit, Contracts Audit and Counter Fraud Investigators as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff includes: -

- 3 x CCAB qualified
- 6 x qualified IIA
- 2 x qualified computer audit (QICA & CISA)
- 1 x risk management (IRM)
- 10 x AAT qualified
- 7 x ACFS (accredited counter fraud specialists)
- 4 x ILM (Institute of Leadership & Management) level 5 or above

Devon Audit Partnership uses Pentana MK as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

Staff Development and Training

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

Devon Audit Partnership

March 2020

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	23 March 2020
Title of Report:	**Internal Audit Plan 2020/21**
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

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). The PSIAS confirm that the Council should periodically prepare a risk-based plan of Internal Audit activity that is designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

The PSIAS state that 'the chief audit executive' must communicate the internal audit activity's plans and resource requirements to senior management and the board (Audit & Governance Committee) for review and approval.

Recommendations and Reasons

Members are requested to review and approve the Internal Audit Plan for 2020/21.

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) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	2	3	4	5	6	7
A	Internal Audit Plan 2020/21							

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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	2	3	4	5	6	7

Sign off:

Fin	pl.19.20.247	Leg	34387/0503	Mon Off	Click here to enter text.	HR	Click here to enter text.	Assets	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: 27.02.2020
Cabinet Member approval: Cllr Lowry Date approved: 11/03/2020

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Internal Audit

Internal Audit Plan 2020-2021

Plymouth City Council
Audit Committee

March 2020

Official

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

CUSTOMER SERVICE EXCELLENCE CSE

Devon Audit Partnership	Confidentiality and Disclosure Clause
The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Torridge and Mid-Devon councils and we aim to be recognised as a high quality internal public sector service provider. We work with our partners by providing professional internal audit service and assurance services 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 .	This report is protectively marked in accordance with the government security classifications. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a ‘Board’ and of ‘senior management’. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council’s Audit and Governance Committee and senior management is the Council’s Corporate Management Team.

This Council’s Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council’s Internal Audit Service, which is provided by the Devon Audit Partnership (DAP) as represented in the audit framework at appendix 1, and the scope of Internal Audit work. The PSIAS make reference to the role of “Chief Audit Executive”. For The Council this role is fulfilled by the Head of Devon Audit Partnership. The Audit and Governance Committee, under its Terms of Reference contained in the Council’s Constitution, is required to review and approve the Internal Audit Plan to provide assurance to support the governance framework (see appendix 2).

The chief audit executive is responsible for developing a risk-based plan which takes into account the organisation’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation as represented in appendix 3.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope is discussed and agreed with management with the view to providing management, the Chief Finance Officer (Section 151) and members with assurance on the control framework to manage the risks identified. The plan will remain flexible and any changes will be agreed formally with management and reported to Audit and Governance Committee.

Expectations of the Audit and Governance Committee for this annual plan

Audit and Governance Committee members are requested to consider:

- the annual governance framework requirements;
- the basis of assessment of the audit work in the proposed plan;
- the resources allocated to meet the plan;
- proposed areas of internal audit coverage for 2020/21.

In review of the above the Audit and Governance Committee are required to approve the proposed audit plan.

Robert Hutchins
Head of Audit Partnership

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Annual Service Level Plans

Customer & Corporate / Finance

Good governance lies at the heart of how councils manage change and deliver improvement and the Local Government Act 1972 and other legislation requires local authorities to make specific statutory appointments to carry out particular duties. Our work will consider the arrangements in place to enable key officers to properly discharge their statutory responsibilities and effectively contribute to the governance of the organisation.

With ever more services available digitally, the risk remains that a cyber incident could result in the loss of data as well as disruption to council services. Audit will undertake some work to assess the Cyber Security arrangements in place against standards defined by the NCSC and industry best practice. We will liaise, as appropriate, with the Corporate Information Manager and Delt.

Assurance work will be undertaken on areas termed as key financial systems; these process the majority of income and expenditure of the Council, and which have a significant impact on the reliability and accuracy of the annual accounts.

Executive Office

As a result of a number of electoral registration issues affecting the city in the run-up to the UK Parliamentary General Election on 12 December 2019, the Select Committee have requested some audit work to be undertaken, the scope of which will be agreed with the Chair of the Select Committee and key officers.

Place

The Council has an investment portfolio of £197m generating over £10m of rental income. The Head of Service is keen for audit to undertake a review which will evaluate the effectiveness of the systems and procedures in place to ensure prompt and accurate billing of rent.

Changes within Street Services has seen the appointment of new members of the management team who have requested time in the audit plan to review Trade Waste which has been subject to change. Within this service area there are a considerable variety and volume of consumable items and we will review the processes and procedures in operation to manage and account for these items.

As the Council continues its drive to bring long term empty homes back into use, providing much needed accommodation to those in housing need and improving the built environment. Audit will review the processes and procedures in place to enable this work to be achieved; consideration will also be given to the relationships involved and Nolan principles.

People

Nationally, Councils continue to struggle not to overspend their allocated budgets for children with complex Special Educational Needs and Disability (SEND), known as the High Needs Block. The Head of Service is keen to identify if further efficiencies can be achieved. Our focus will be the governance, processes and procedures relating to the contractual arrangements.

Review of On Course South West following the Council's action to transfer the adult and community education provider to the City Council in August 2019.

Work will be undertaken within Community Connections once their new business solution Esuasive is fully rolled out and embedded. Consideration will be given to how it links with the Dynamic Purchasing system used to administer Disabled Facilities Grants. The Head of Service has also requested that Audit undertake a validation exercise on the way in which Anti-Social Behaviour tools are now being used.

ODPH

Due to changes within the service a pot of days has been included for use by Director of Public Health. A meeting to discuss the work to be delivered will be arranged in due course when the picture will be clearer to determine where the days are to be used.

Value Added

All our work aims to "add value" the authority, be this by way of improving control and minimising risk, or making the most of opportunities in an effective manner. We will undertake the annual follow up on all audit areas identified as 'Improvements Required' in 2019/20. Proactive anti-fraud work will be carried out in liaison with DAP's Counter Fraud Team.

Service Area Overview of Audit Coverage

Thematic Overview Audit Coverage

Customer & Corporate / Finance	Executive Office	People	ODPH	Place
Purchasing Cards	Electoral Services	SEND Contracts	Pot of Days – scope of work to be determined	Commercial Properties – Rent Roll
Housing Benefit Overpayments	Minute Books	Domiciliary Care Services		Empty Homes Scheme
Collection Fund		Alliance Contract		Street Lighting
Acting Up Duties		Anti-Social Behaviour Tools		Trade Waste
		On Course South West		

Core Assurance

- Business Processes & Governance – Declarations of Interest, Grant Certification, Governance Arrangements – Statutory Posts
- Key Financial Systems – Inc. Main Accounting System, Creditors, Treasury Management, Payroll, Council Tax, Business Rates, Housing Benefits
- ICT – Operational Arrangements (common to key systems), Cyber Security (arrangements to safeguard the Council's logical data assets)

The above diagram shows the thematic approach to the elements proposed for audit coverage in the coming year as identified through risk assessment and discussion with Senior Management. This overview is supported by the proposed audit reviews and associated risks.

High Level Audit Plan

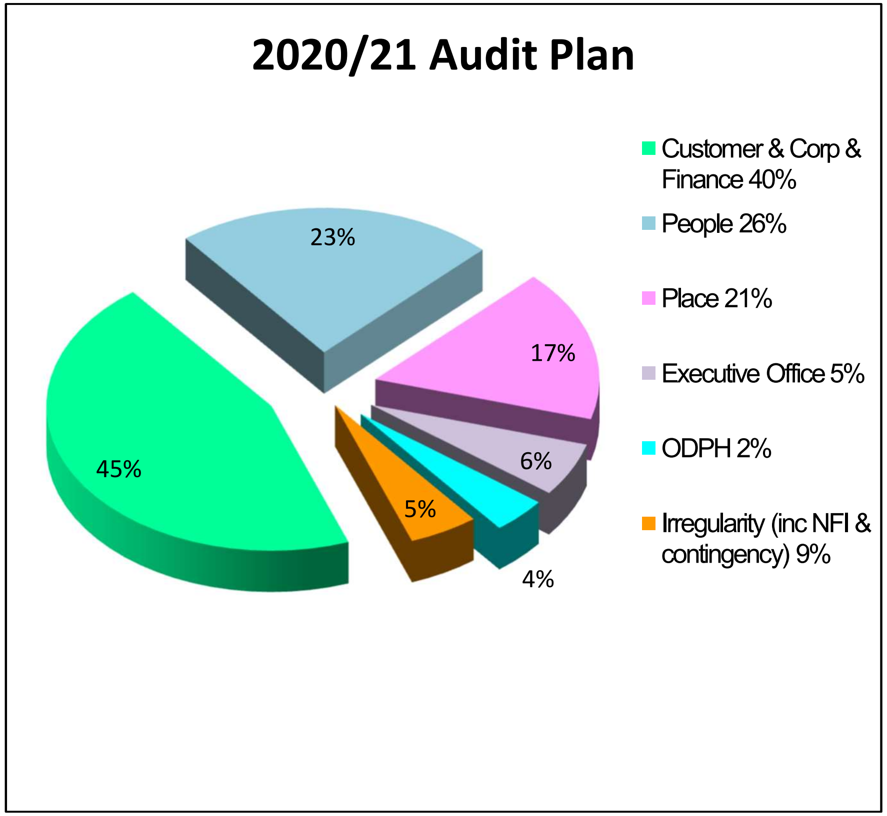
This table shows a summary of planned audit coverage for the year totalling 1,112 direct days. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the Internal Audit Plan includes a small contingency to allow for unplanned work

We have set out our plan based on the current organisational structure for the Authority. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review.

The following pages give a brief overview of the focus of proposed audit coverage for the year.

A detailed analysis of proposed audit reviews is provided in the following schedule.

In addition, we estimate that our work on maintained schools within the City will total 68 days.



Proposed audit reviews and associated risks

Risk Assessment Key

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

ANA - Audit Needs Assessment risk level

Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Customer and Corporate / Finance				
Core Assurance – Key Financial System				
Material Systems – System Admin	ANA - High	Review of the control environments in place to ensure the integrity of the Academy, Civica,Care First and CoreHR systems.	Q3 – Q4	15
Civica Financials: • Creditors • Main Accounting • Debtors	ANA - High - High - Medium	System walkthrough to consider the design and effectiveness of key controls with focused test sampling to determine compliance. Follow-up of any recommendations made in 19/20.	Q2 – Q4	55
Academy Revs & Bens: • Housing Benefits • Council Tax • Business Rates NNDR	ANA - High - Medium - Low	System walkthrough, focused risk-based sample testing and follow-up of 20/21 reviews for each service area.	Q3 – Q4	62
Treasury Management	ANA - Medium	System walkthrough, focused risk-based sample testing and follow-up of 19/20 review.	Q3	10
CoreHR - Payroll	ANA - High	Following implementation of the new CoreHR Payroll system we will review the adequacy and effectiveness of the control framework and perform a range of sample testing to ensure compliance with those controls.	Q3	35
Core Assurance - Other				
Cyber Security	ANA - High	Audit will continue to assess the Cyber Security arrangements in place to safeguard the Council's logical data assets. We will refer to standards defined by the NCSC and industry best practice and liaise, as appropriate, with the Corporate Information Manager and Delt.	Q1 – Q2	30
Governance Arrangements – Statutory Officers	ANA - Medium Client Request	Local authorities operate within a governance framework of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative. There are a number of statutory posts	Q1 – Q3	25

Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		within the Council and we will review the arrangements in place to ensure they are sufficiently robust to enable those officers to discharge their duties effectively.		
Finance Service	ANA - Medium Client Request	Review of the Finance Service to link into the modernisation programme.	Q1 – Q3	30
Income Collection	ANA - High	System review will include consideration of the effectiveness of income collection arrangements in operation across the Council.	Q3	25
Business Rates Exemptions	Client Request	Review of the business rates list across the city to review the reasons for those detailed on the exemptions lists.	Q3	5
Collection Fund	ANA – Medium Client Request	Review of the effectiveness of the administration of the collections fund, including bad debt provision for Council Tax & Business Rates.	Q1 – Q4	10
Procurement	ANA – High Client Request	Review of all procurement controls operating across the City Council.	Q2 – Q3	25
Purchasing Cards	ANA - High	Spot checks on the use of purchasing cards to ensure compliance with Council procedures.	Q1 – Q2	20
Recruitment	ANA – High Client Request	The recruitment process currently under review and a “pot of days” has been requested by the Service Director; scope and timing of work to be determined.	Q1 – Q4	20
Acting Up Duties	ANA – Medium Client Request	Review the adequacy of processes and procedures in place when officers “act up” and temporarily take on additional duties or a higher role. Some compliance testing will be undertaken and consideration given to policies, sign off and authorisation levels, legal requirements.	Q1 – Q4	15
Declarations of Interest	ANA – Medium Client Request	The public rightly expect the highest standards of behavior and we will review the policy and processes in place for officers to make any declarations of interest.	Q1 – Q4	15
Housing Benefit Overpayments	ANA – Medium Client Request	A piece of work to identify the potential loss to the City Council as claims with attachment of benefits transfer to Universal Credits.	Q2	10

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Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Client Financial Services	ANA – High	Detailed follow-up to measure progress in implementing the action plan following a significant review 18/19 and will include those processes undertaken by Livewell SW.	Q2 – Q3	10
Schools Financial Value Standards (SFVS)	Statutory ANA - Low	Collection of SFVS self-assessments completed by schools. Preparation of the Direct Schools Grant (DSG) Chief Financial Officer (CFO) Assurance Statement for 19/20 to be returned to DfE by 31st May 2020	Q1 & Q4	3
Audit Advice to Customer & Corporate / Finance and carry forward for completion of 19/20 work	n/a		n/a	37
Audit planning, monitoring and performance reporting	n/a		n/a	20
Audit Governance	n/a		n/a	18
Executive Office				
Core Assurance - Other				
Electoral Services	ANA – High Client Request	Work requested by the Select Committee. Scope to be discussed and agreed with the Chair of the Select Committee and the Asst Chief Executive.	Q1 – Q2	25
Minute Books	ANA – Low Client Request	There is a legal obligation for local authorities to retain signed minutes of committee meetings. Review of existing practice to identify opportunities to create efficiencies.	Q3	7
Gifts & Hospitality Follow-Up	ANA - Medium	Follow-up to the 19/20 review which was Improvements Required.	Q4	3
Audit Advice to Executive Office	n/a		n/a	10
Audit planning, monitoring and performance reporting	n/a		n/a	10
Audit Governance	n/a		n/a	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
People				
Core Assurance – Key Financial System				
CareFirst – Domiciliary Care	ANA – High Client Request	Undertake substantive testing of Dom Care returns to check for any under / over payments.	Q3 – Q4	30
CareFirst - Children Independent Placements Follow-Up	ANA – Medium	Detailed follow-up to the 19/20 review which was Improvements Required.	Q3 – Q4	10
Core Assurance - Other				
Finance & Assurance Review Group (FARG)	ANA – High Client Request	The purpose of FARG is to provide oversight, scrutiny and assurance of the integrated fund and under the membership requirements laid down in the terms of reference, internal audit will continue to have a seat on FARG to providing real time support and challenge through their attendance.	Q1 – Q4	3
Special Guardianships (Children) Follow-Up	ANA – High Client Request	Review undertaken in 19/20, detailed follow-up requested by the service late in 20/21.	Q4	10
Special Educational Needs & Disability (SEND) Contracts	ANA – Medium Client Request	Review of send contracts – detailed scope to be determined with the Head of Service.	Q2 -Q3	25
Alliance Contract	ANA – Medium Client Request	Review of the arrangements to ensure openness and transparency.	Q2 – Q3	10
Children’s Additional Spend	ANA – Low Client Request	Small number of days toward the end of year to look at children’s “additional spend”.	Q4	5
On Course South West (OCSW)	ANA – Medium Client Request	Review of the effectiveness of the systems and procedures operated by OCSW now that they have been brought back “in-house”.	Q3	15
Anti-Social Behaviour Tools	ANA – Medium Client Request	Audit review and validation of the way in which Anti-Social Behaviour tools are being used.	Q2	15
Fully CATERed	Regulator Req Client Request	Year-end testing to make sure that the year-end position is not understated and to provide internal audit assurance to the external auditor.	Q1	8
Community Connections – New Business Solutions		Once the new Esuasive system is fully rolled out and embedded, in liaison with the service we will review the links between Esausive and the Dynamic	Q4	25

Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		Purchasing System and review past audit recommendations where actions were dependent on implementation of the new system.		
Life Chances Fund (Pause Project)	Statutory Client Request	Validation of claims in Sept 2020 & March 2021.	Q2 & Q4	5
Families with a Future (Payment by Results)	Statutory Client Request	Audit review and certification for each monthly claim.	Q1 – Q4	25
Audit Advice to People and carry forward for completion of 19/20 work	n/a		n/a	30
Audit planning, monitoring and performance reporting	n/a		n/a	20
Audit Governance	n/a		n/a	18
Office of the Director of Public Health				
ODPH	ANA – Medium Client Request	Due to changes taking place within the directorate a pot of days has been requested. Audit to meet with key officers within the service early 20/21 when the picture will be clearer to determine how the days are to be used.	Q2 – Q4	20
Audit Advice to Public Health	n/a		n/a	10
Audit planning, monitoring and performance reporting	n/a		n/a	9
Audit Governance	n/a		n/a	7
Place				
Empty Homes Scheme	ANA – Medium Client Request	Review to consider the processes, procedures & relationships necessary for bringing empty homes back into use and maximising New Homes Bonus.	Q2 – Q3	20
Trade Waste	ANA – High Client Request	Changes to the trade waste operation have been introduced and we have been asked by management to undertake a full review of the system and processes.	Q3 – Q4	20

Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Control of Fuel, Fuel Cards & Fuel Containers	ANA – Medium Client Request	Fuel costs overbudget – review of the effectiveness of the procedures and practices in place. Requested by both the Service Director for Finance and the Head of Street Scene, Waste & Business Development.	Q1	15
Street Services – Stores and Stock Control	ANA – Medium Client Request	Review the effectiveness of the systems and procedures used to administer and control consumable items e.g. personal protective equipment, chemicals, wheelie bins, bags and other stock.	Q2	15
Garage	ANA –Medium Client Request	Follow-up of the 19/20 audit review of the garage.	Q3	5
Safety Camera Partnership	ANA – Low	It has been proposed that the governance arrangements for the Safety Camera Partnership are reviewed and the findings shared with partners (Plymouth City Council, Devon County Council, Torbay Council). A small number of days to be included in each audit plan for this work.	Q2	2
Street Lighting	ANA – Medium Client Request	Review of the administrative processes and procedures for the management of street lighting.	Q3 – Q4	15
Commercial Properties – Rent Roll	ANA – High Client Request	The Council's investment portfolio is worth £197m and generates over £10m of rental income. Detailed review of the rent of the rent roll process and a follow-up of the proforma process.	Q2 – Q3	30
New Business Solutions - Tech Forge (Cloud)	ANA –Medium Client Request	Audit assurance required in respect of the project to migrate of property data to Tech Forge Cloud. Work undertaken by the service will include data cleanse, centralisation of data, interfaces with Civica Financials.	Q1 – Q2	5
Grant Certification	Statutory	Those grants where the grant determination requires independent certification of expenditure by Internal Audit.	Q1 – Q4	20
Audit Advice to Place	n/a		n/a	15
Audit planning, monitoring and performance reporting	n/a		n/a	15
Audit Governance	n/a		n/a	15

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Risk Area / Audit Entity	Risk / Audit Needs Assessment (ANA)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Irregularities and National Fraud Initiative (NFI)				
Advice, Irregularities, NFI & Contingency		Co-ordination of the NFI exercises across the Authority. We will also continue to investigate irregularities referred to it us managers. Cases which we consider fraudulent will be referred to the DAP Counter Fraud Team for investigation and possible prosecution. Where control weaknesses are identified, the Audit Team work with service areas to address these issues.	Q1 – Q4	25 30

Fraud Prevention and Detection and Internal Audit Governance

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Devon Audit Partnership will continue to investigate instances of potential fraud and irregularities referred to it by managers and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. The joint working arrangements between the Internal Audit and Counter Fraud teams, enables intelligence to be shared and resources focussed on higher risk areas to prevent a fraud occurring.

Additionally, guidance introduced by CIPFA, in their 'Code of practice on managing the risk of fraud and corruption', and also the Home Office 'UK Anti-Corruption Plan', further inform the direction of counter-fraud arrangements. Nationally, the notable areas of fraud include Housing Benefit, Council Tax, Housing and Tenancy, Procurement, Insurance, Abuse of Position, Blue Badges, and Direct Payments (Social Car

The Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. Departments supplied 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. In February 2020 Electoral Registration and Council Tax data was uploaded, with further data sets to be uploaded in October 2020.

Internal Audit Governance

An element of our work is classified as Corporate Governance – this is work that ensures effective and efficient audit services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances, this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include:-

- Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. External Audit, Audit South West);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during the year;
- On-going development within the Partnership to realise greater efficiencies in the future.

Partnership working with other auditors

We will continue to develop and maintain effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We participate in a range of internal audit networks, both locally and nationally which provide for a beneficial exchange of information and practices with the aim of improving the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work.

Appendix 1 - Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance”.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

The Standards require that the Head of Internal Audit must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Head of Internal Audit has taken account of the Authority’s risk management framework. The plan has been adjusted and reviewed, as necessary, in response to changes in the Authority’s business, risk, operations, programs, systems and controls. The plan takes account of the requirement to produce an internal audit opinion and assurance framework.

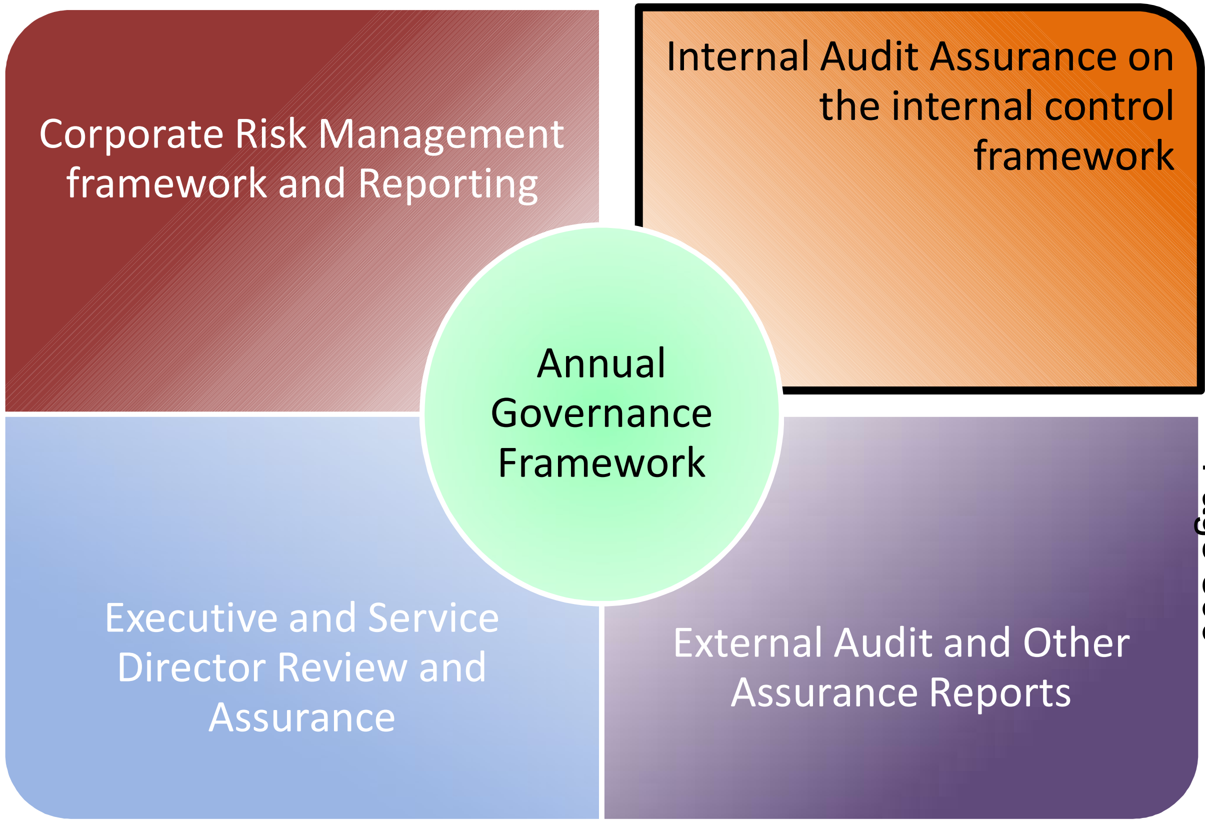
This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements

We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

Appendix 2 - Annual Governance Framework Assurance

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

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-
- be prepared by senior management and signed by the Chief Executive and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that is followed to ensure that the governance arrangements remain effective. This will include comment upon;
  - The Authority;
  - Audit Committee;
  - Risk Management;
  - Internal Audit
  - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA Framework *Delivering Good Governance in Local Government 2016.*



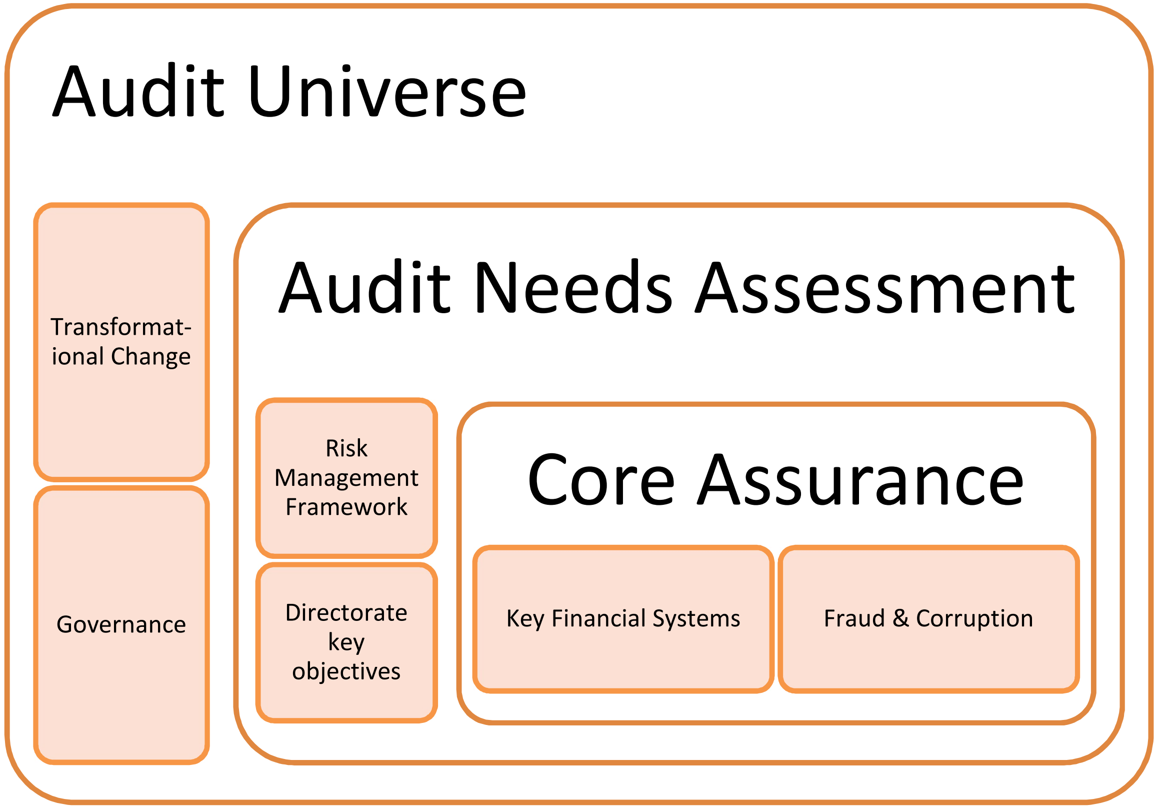
The AGS needs to be presented to, and approved by, the Audit and Governance Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Annual Governance Statement Working Group, CMT and Internal Audit that the statement meets statutory requirements.

Appendix 3 - Audit Needs Assessment

We employ a risk-based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.

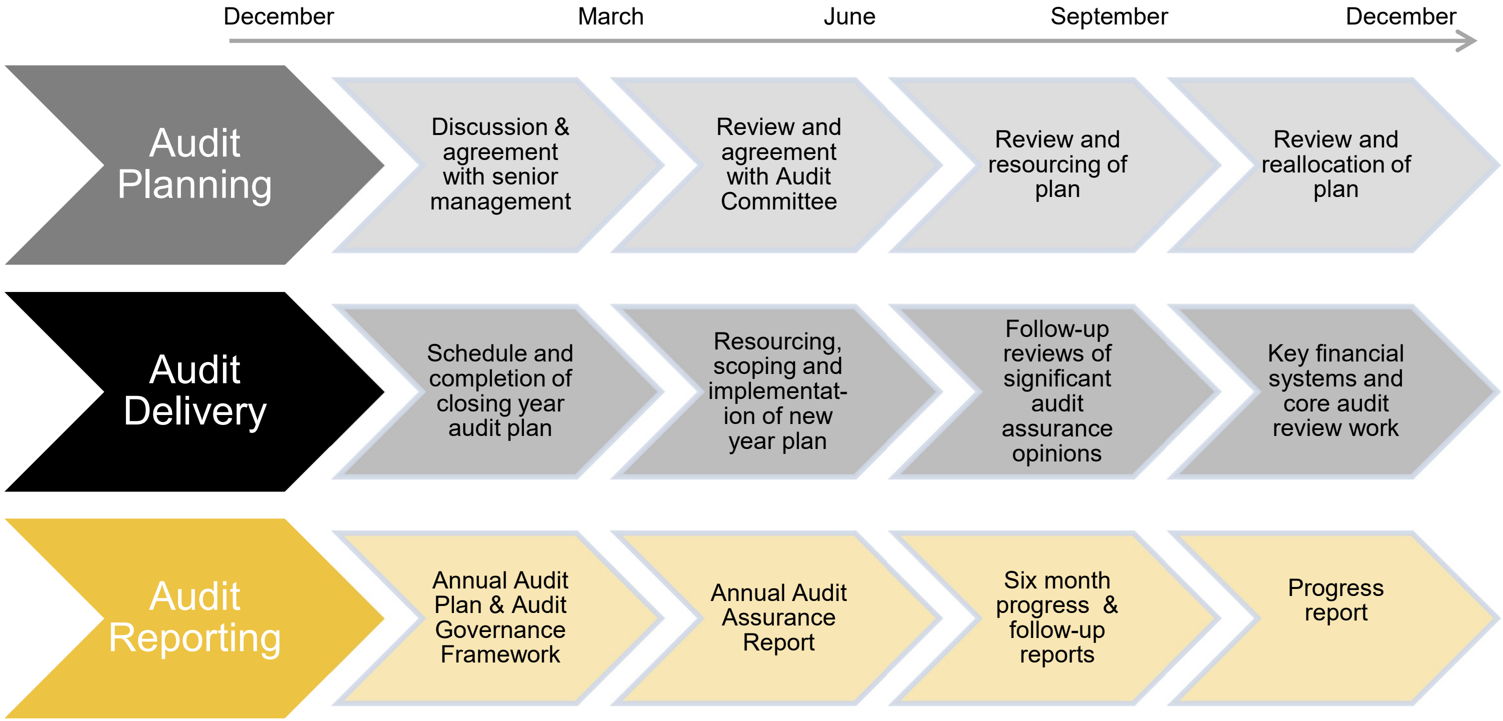
The resultant Internal Audit Plan is set out in the ‘proposed audit plan’. There are a number of areas where risk, needs assessment and discussions with management have identified audit need but where there are not sufficient resources in the plan to review them at this stage (see appendix 5). The plan will remain flexible and should priorities need these areas may for part of the planned work.



The audit plan for the year plan has been created by:

- Consideration of risks identified in the Authority’s strategic and operational risk registers
- Review and update of the audit universe
- Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives
- Taking into account results of previous internal audit reviews
- Taking into account Internal Audit’s knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council’s delivery plans
- Requirements to provide a “collaborative audit” approach with the external auditors

Appendix 4 - Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / Jan 2020	Directorate planning meetings
March 2020	Internal Audit Plan presented to Audit & Gov Committee
	Internal Audit Governance Arrangements reviewed by Audit & Gov Committee
	Year-end field work completed
Apr 2020	Annual Performance reports written
Jul 2020	Annual Internal Audit Report presented to Audit & Gov Committee
	Follow –up work of previous year's audit work commences
Sept 2020	Progress report presented to Audit & Gov Committee
Dec 2020	Six-month progress reports presented to Audit & Gov Committee
	2021/22 Internal Audit Plan preparation commences

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Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	23 March 2020
Title of Report:	**Strategic Risk and Opportunity Register**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Giles Perritt (Assistant Chief Executive)
Author:	Julie Hosking
Contact Email:	Julie.hosking@plymouth.gov.uk
Your Reference:	GP/JH
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report
This report provides a summary of the latest formal monitoring exercise completed for the Strategic Risk and Opportunity Register for the period September 2019 to February 2020.

Appendix B to the report provides 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 reported on the Register has increased from 15 to 16.

Recommendations and Reasons
The Audit and Governance Committee is recommended to:
Approve the current position with regard to the Strategic Risk and Opportunity Register. Reason: As part of the Committee's responsibility for monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.

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
The Strategic Risk and Opportunity Register includes links to the Corporate Plan priorities – monitoring of control action for strategic risks therefore contributes to the delivery of the council's core objectives.

Implications for the Medium Term Financial Plan and Resource Implications:
None arising specifically from this report but control measures identified in Directorate Operational 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, 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) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Strategic Risk Monitoring Briefing							
B	Plymouth City Council's Strategic Risk and Opportunity Register							

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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**

Sign off:

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Originating Senior Leadership Team member: Assistant Chief Executive											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 05/02/2020											

Cabinet Member approval: *[electronic signature (or typed name and statement of 'approved by email/verbally')] Approved via email*

Date approved: 10/03/2020

Appendix A – Strategic Risk Monitoring Briefing

1.0 Introduction

1.1 The position with regard to the Strategic Risk and Opportunity Risk Register was last reported to this Committee on 23 September 2019. This report provides a summary of the latest monitoring exercise covering the position as at 29 February 2020.

2.0 Strategic Risk and Opportunity Register – Monitoring Summary

2.1 In accordance with the strategy requirement for twice-yearly monitoring, the latest review and monitoring exercise was completed in February 2020 with the results discussed, and further actions agreed, by Corporate Management Team on 25 February 2020.

2.2 Attached to this report at Appendix B is the revised Strategic Risk and Opportunity Register showing the current status of each risk and any movement in risk score compared with previous monitoring periods, together with explanatory commentary on the key issues for each risk.

3.0 Headline Issues

3.1 Red Risks

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 - (Row No. 1)

Grant funding announcements from Central Government have been delayed due to a number of national political events, which makes medium term financial planning extremely difficult. As a result of this uncertainty the MTFP will be presented to Members in the autumn of 2020.

Workforce Modernisation Programme underway looking at initiatives to modernise the way services work in order 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 to generate savings.

Red Risk SF3 - Being unable to deliver Council services within the envelope of the resources provided in 2019/20 – (Row No. 2)

The inherent assumption within budget planning is that spending departments will absorb the increased cost of service demand and inflation through proactive management action and efficiencies through "business as usual" operations. To minimise the impact upon the overall cost base for the Council, additional costs accepted within budget plans are only those that are exceptional in nature and not avoidable. Additional management solutions and escalated action to deliver further savings from service initiatives will be brought to the table in order to address the in-year forecasted overspend of £2m.

Red Risk SCYPF2 – Projected in-year increase in costs and demand in Children's Social Care caused by the complexity of need and level of provision and support needed. This includes specialist residential provision – (Row No. 3)

The service has seen additional staffing support required for complex young people arrangements of care and temporary accommodation plans. All placements continue to be regularly monitored and reviewed. Residential block contract "Caring in Partnership" is being maximised to keep children local and to avoid higher out of area associated costs. Central government have recognised the pressure that the sector is under and have provided an additional grant of £5m, however, this will not be available until 2020/21.

Red Risk SEPS1 – Continued issues across the secondary education system that impact on the level of pupil attainment – (Row No. 4)

The Policy for Intervention, Challenge and Support for Schools describes how the Council makes the decision to intervene to support a school and what this intervention will look like. Work surrounding raising standards, leadership and peer mentoring programme is ongoing.

3.2 New Risk

Amber Risk SCEO5 - Ensuring departments are adequately prepared and resilient to deliver essential council services in light of the global outbreak of COVID-19 (Coronavirus) – (Row No. 6)

The Council's response to Covid-19 is being led by the Corporate Management Team and the Director of Public Health. There are well established plans in place to respond to a pandemic in the city, alongside key partners. The Council's public health team is in daily contact with Public Health England and NHS colleagues and other key partners. Covid-19 leads have been identified for each department and key service areas, who will help ensure issues for each area are identified and managed. Business continuity plans for each service area are also being looked at to ensure we will be able maintain services in the event that there is a significant impact in Plymouth.

3.3 Risk Score Reduced

Amber Risk SCEO3 - Failing to, or inability to understand impacts of the UK leaving the EU in light of uncertainty during transition period adversely affects the Council's ability and capacity to manage changes and deliver its objectives. (Reduced from 16 to 12) – (Row No. 9)

It is now clear the UK will leave the Single Market and Customs Union on the 31 December 2020. The UK and EU have agreed to work towards a future economic and security partnership deal, including an ambitious free trade deal. The Council will keep its 'no deal' plans under review to ensure readiness is maintained during the transition period.

4.0 Summary and Conclusion

4.1 The Council's success in dealing with the risks that it faces can have a major impact on achievement of key priorities, objectives and ultimately therefore, the level of service to the community.

4.2 Risk management is formally aligned and working alongside other compliance functions which helps to promote a joined-up approach to all aspects of governance.

4.3 This aligned approach acts as an effective early warning system for the recording, monitoring and management of risks that threaten the delivery of the Council's strategic objectives and plans.

4.4 The next formal review of the Strategic Risk and Opportunity Register will take place in August 2020.

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ROW NO	RISK REF	DEPT	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence and risk category)	LINK TO CORPORATE PLAN	KEY CONTROLS / SOURCES OF ASSURANCE (aligned to three lines of defence) Policies and procedures Link to business plan Delegations of authority / Fraud checks Risk and control framework Performance Management Project Management reviews	Programme Boards Functional compliance reviews Working Groups	Audit Reports Regulatory Reviews Snr Executive Committees Scrutiny Committees Portfolio Boards Peer Reviews	PREVIOUS RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING /CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION / ASSURANCE PLAN	HOW WILL PROGRESS BE MEASURED (LIST MEASURABLE BENEFITS AND NON-QUANTIFIABLE BENEFITS)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					First Line of Defence (Operational management activity)	Second Line of Defence (Strategy/Policy oversight and support)	Third Line of Defence & Framework Oversight (Audit / Member, Snr Executive and External oversight/validation)	Jul-19			Feb-20									
								P	I		P	I								
1	SF2 ORR (OF2) IRR BREXIT	Finance	**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 Risk Category: FINANCIAL Risks linked to UK leaving the EU: EU/E101 Financial impacts of preparation and response on the Council given current financial constraints EU/E102 Economic impact creates financial impacts on the Council (given current financial constraints) - enhanced financial instability should the UK enter a recession post-leaving EU that impacts on local economy, ability of residents to pay council tax, increases the number eligible for council tax support and negatively impact investments and affect the MTFP.	Spending money wisely	Higher profile of Council's finances at both Corporate Management Team (CMT) and Cabinet. Budget presented to senior officers and members in scoreboard format, delivering greater transparency and challenge. Workforce Modernisation Programme underway looking at the way the council works to operate in a modern and efficient way to meet customers expectations, examining current budget and actual spend; contracts; income opportunities and any synergies and efficiencies across the whole council. Departmental Reps assessing the potential impact of leaving the EU upon services. Regular reports are reported to CMT and Scrutiny.	Regular Finance Management meetings to review the current financial position. The Cabinet have been briefed and plans are continually reviewed and developed to close the affordability gap. Finance and Assurance Review Group (FARG) monitor integrated commissioning risks	Progress reported within monthly finance reporting to Cabinet members. Monthly reports presented to Scrutiny. RAG rating document circulated to members of Scrutiny. Continued Member engagement in Budget process and MTFP setting process by having regular Member briefings. CMT have the MTFP as a standing agenda item. Audit & Governance Committee oversee the financial reporting process. The Chief Internal Auditor supports the Audit & Governance Committee and reviews its effectiveness annually.	5	5	**25**	5	5	**25**	R	Treasury Management diversification of portfolio to increase income and longer term actions to reduce risks from future interest rate rises. Investment in income earning assets. Ambitious capital programme and strategic investments from income earning assets. Cross department strategy on grant maximisation. Deep dive review of all budgets to review current projected pressures. Implementation of strict recruitment controls with a CMT Panel created to authorise new posts.	Better return on the investment portfolio. Income generation monitored via revenue budget. Improved efficiency and reduced costs. Increase in successful bids. Reduced contract costs.	Ongoing Qtly MTFP updates Ongoing Qtly reviews Ongoing Ongoing	Paul Looby	Andrew Hardingham	Katie Harris
2	SF3 IRR	Finance	**Being unable to deliver Council services within the envelope of the resources provided in 2019/20** leading to negative impact on budgets, loss of reputation, negative impact on front line services and a negative opinion from external audit. Risk Category: FINANCIAL	Spending money wisely	RAG ratings have been identified for all savings and cost pressures that emerge during the year including an analysis of which savings have been delivered and which are at risk. Budget presented to senior officers and members in scoreboard format, delivering greater transparency and challenge. Budget sessions and DMTs.	Finance and Assurance Review Group monitor Integrated Commissioning risks. CMT have MTFP as a standing agenda item.	Progress reported within monthly finance reporting to Cabinet members. Monthly reports are presented to Scrutiny. Continued member engagement in budget process and MTFP setting process by having regular member briefings. Audit and Governance Committee oversee the financial reporting process. The Chief Internal Auditor supports the Audit and Governance Committee and reviews its effectiveness annually. Higher profile of Council's finances at both CMT and Cabinet. CMT have the MTFP as a standing agenda item. Staff suggestions for cost saving have been requested. Portfolio Holders undertaking line-by-line reviews of budgets.	5	5	**25**	5	5	**25**	R	Treasury Management diversification of portfolio to increase income. Investment in income earning assets. Ambitious capital programme and strategic investments from income earning assets. Cross department strategy on grant maximisation. Implementation of outcomes from 'Fresh Look' Programme which will improve efficiency and reduce costs whilst still delivering benefits to the customer. Significant savings are focussed in the following key programmes:- Growth, Assets and Municipal Enterprise (GAME2); Integrated Health and Wellbeing; Identification of new revenue funding sources to support the budget e.g. use of section 106 income in current and future years. Investigating earlier implementation of Fees and Charges, review of reserves, bad debt provision, accelerated income generation. Further capitalisation. Undertaking an in year review of all services to ensure a balanced budget can be achieved. Additional management solutions and escalated action to deliver further savings from service reviews.	Better return on the investment portfolio. Income generation monitored via revenue budget. Improved efficiency and reduced costs. Increase in successful bids. Reduced contract costs.	Ongoing Qtly MTFP updates Ongoing Qtly reviews Ongoing	Paul Looby	Andrew Hardingham	Katie Harris
3	SCYPF2 ORR (OCYPF1) IRR	Children's Social Care	**Projected in-year increase in costs and demand in Children's Social Care** caused by the complexity of need and level of provision and support needed. This includes specialist residential provision. Risk Category: FINANCIAL	Spending money wisely	Independent fostering review action plan. Fortnightly placement review. Review of staying put arrangements and financial remuneration. Maximise local residential placements to avoid higher out of area associated costs. Residential block contract "Caring in Partnership" is being maximised to keep children local.	Finance and Assurance Review Group (FARG). Service Director persistently raising matter of budgetary pressures at all staff meetings. Director and Finance review all financial assumptions. Fortnightly Programme Boards	Independent fostering review Regional Youth Justice Board	4	5	**20**	4	5	**20**	R	Urgent work is underway council-wide to find additional savings across the organisation which is being supported by a budget management group. Additional management solutions and escalated action to deliver further savings from service reviews. Implementation of the Fostering Project Delivery Plan - Front door end to end project to enhance processes for recruitment of carers. Ongoing rigour in decision making to manage demand. Ensuring action plan milestones are reached.	Financial Results Delivery Performance	Ongoing monitoring	Jean Kelly	Alison Botham	Sandy Magee
4	SEPS1 IRR	Education, Participation & Skills	**Continued issues across the secondary education system that impact on the level of pupil attainment** Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	A caring council - Improved schools where pupils achieve better outcomes	Ofsted inspection outcome tracking. Data analysis. Plymouth Education Board Policy for Intervention, Challenge and Support for Schools makes clear the relationship with schools.	Trust development to secure school improvement. LA oversight of Maintained Schools	Education & Children's Social Care Overview & Scrutiny Committee. Standards Partnership and LA work across system	4	5	**20**	4	5	**20**	R	Plymouth Education Board (PEB) (and sub groups) will increasingly hold all schools to account. Development of an accountability and support model involving a number of partners. School improvement work will create a partnership of distinct interventions to drive improvement and raise achievement. Cause for concern meetings. Inclusion strand of PEB work. Proposed Inclusion Mark for the City to celebrate inclusion.	Ofsted Inspection results. Over 50% secondary schools good or better. Attainment levels and data analysis. Evidence of innovative solutions based programmes that are evaluated against outcomes.	Review Mar 20	Judith Harwood	Alison Botham	Julie Reed
5	SEPS2 ORR (OEPS5) IRR	Education, Participation & Skills	**Growing volume and complexity of demand across services increases risk of failure to meet statutory duties** and impacts our ability to improve outcomes for vulnerable children and young people with Special Education Needs and Disabilities (SEND):- Short/medium-term consequences:- -Compliance failures -Customer disappointment/failure to manage expectations -Media reporting and adverse publicity -Damage to reputation -Impact on other departments/increased caseloads -Reduced staff resilience - uncertainty of 'End 2 End' review Long-term consequences:- -Litigation -Reduced ability of those affected to achieve full potential / impact on future economy / increased demand for adult services Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	A caring council - Keep children, young people and adults protected	Ofsted inspection outcome tracking; Role profiles are reviewed when staff leave; KPIs	Monitoring of EPS Scorecard; Monitoring of risks	Ofsted inspections; Plymouth Education Board; Education & Children's Social Care Overview & Scrutiny Committee	4	4	**16**	4	4	**16**	A	Action plans to manage impact; Performance management going forward; Review of Service demands to identify trends; Strategic planning for the department will set our future arrangements to secure functions and capacity; Move to partnership working with schools to secure functions and improve capacity. The development of an integrated Children's Service will better align Education and Social Care. Action plans will manage the strategic oversight of the repositioning of the school/Local Authority (LA) partnership and schools expectations of the role of the LA.	Delivery plans and clear service standards; Performance Scorecard; Actions from staff wellbeing and stress surveys.	Ongoing	Judith Harwood	Alison Botham	Julie Reed

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PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER

ROW NO	RISK REF	DEPT	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence and risk category)	LINK TO CORPORATE PLAN	Policies and procedures Link to business plan Delegations of authority / Fraud checks Risk and control framework Performance Management Project Management reviews	Programme Boards Functional compliance reviews Working Groups	Audit Reports Regulatory Reviews Snr Executive Committees Scrutiny Committees Portfolio Boards Peer Reviews	PREVIOUS RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING /CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION / ASSURANCE PLAN	HOW WILL PROGRESS BE MEASURED (LIST MEASURABLE BENEFITS AND NON-QUANTIFIABLE BENEFITS)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					First Line of Defence (Operational management activity)	Second Line of Defence (Strategy/Policy oversight and support)	Third Line of Defence & Framework Oversight (Audit / Member, Snr Executive and External oversight/validation)	Jul-19			Feb-20									
								P	I		P	I								
6	SCEO5	CEX (CMT)	**Ensuring departments are adequately prepared and resilient to deliver essential council services in light of the global outbreak of COVID-19** (Coronavirus). Possible long-term consequences:- -Health and social care systems may become overloaded. -Normal life is likely to face wide disruption particularly due to staff shortages affecting the provision of essential services. -There will be strain on the economy. Risk Category: SERVICE DELIVERY / REPUTATION	Providing quality public services	Business continuity exercise undertaken based on worst case scenario; Strategic response plan and guidance for managers; Corporate Business Continuity Incident Management Plan; Rapid work on policy decisions has been undertaken; Each department has a Covid-19 lead as well as BCM lead; Following national guidance; Guidance website in place; Close liaison with Public Health England.	Strategic Business Continuity Group in place; Covid-19 office set up to coordinate action and communications, Emergency Ops Coordination prepared.	Shadow Council Emergency Management Response Team in place; The LGA is liaising with Public Health England (PHE), the Department for Health and Social Care and the Ministry of Housing, Communities and Local Government regarding the evolving situation with the outbreak of the Coronavirus; Director of Public Health in close contact with PHE	New			4	4	**16**	A	Extended Business Continuity Management plans in place (following Pandemic Plan framework); Compliance with national guidance re: social distancing and social isolation; Supplementary guidance to managers being following; Communication plan in place.	Monitor sickness and self-isolation absence; Monitor guidance from government agencies; Monitor ability to deliver key services.	Ongoing monitoring	Corporate Management Team	Giles Perritt	Maddie Halifax
7	SF5 IRR	Finance	**The Council not meeting its obligation to keep data secure by failing to adhere to Data Protection Act 2018 Regulations** results in loss of trust in the Council and/or financial penalty from the Information Commissioner's Office (ICO) Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	Providing quality public services	Staff awareness training has been rolled out. Incident reporting and management in place. Escalation of breaches to Senior Information Risk Owner (SIRO). Annual IT Health Check Regular vulnerability scans carried out IT Infrastructure patching policy in place Pro-active monitoring by Babcock. ICO Action Plan. Information Audit completed for all departments Staff workshops completed re: GDPR	Devon Information Security Partnership (DISP) Information Lead Officer Group (ILOG) raise awareness within department Completion of mandatory eLearning being tracked through Balanced Scorecards	Senior Information Risk Owner (SIRO) in place. Annual Information Governance report to Audit and Governance Committee External Compliance assessment. CMT regularly briefed.	5	3	**15**	5	3	**15**	A	Roll out staff awareness training to all staff. Implement greater reporting consistency within directorates. Implement improved incident analysis within the Service Desk. Improved contract management with partners. Implement greater reporting consistency within directorates. Implement improved incident analysis within the Service Desk. Standardised breach management processes distributed to key staff. Implement compliance requirements into Delt business as usual - This is a workstream of the information management project. Corporate Privacy Notice complete, service specific Notices being finalised.	Reports from HR training detailing completion statistics Improved breach reports distributed to directorates Detailed breach reports for partners and escalation at contract management meetings Monitor action plan through ILOG	Ongoing Ongoing Ongoing Ongoing	John Finch	Andy Ralphs	Emma Rose
8	SCEO4 ORR (OCEO11) BREXIT	CEX	**Failing to adequately prepare and deliver combined local and Police and Crime Commissioner elections** which could result in an Election Petition against the Council and damage to our reputation. Risk of not having enough staff or locations available, failure of our IT systems or contracted services, failure to manage the impact of last minute registration activities or higher election turn-out (queues at polling stations), heightened stress level for all elections team members and other key partners. Risk Category: REPUTATION / COMPLIANCE, REGULATION AND SAFEGUARDING	Providing quality public services	Election Risk Register Stakeholder and Communication Plan to core and wider team to prepare. Communications plan towards PCC staff. Partners have been briefed and confirmed readiness (IT/Polling stations / Printers and other key partners).	Call out Returning Officer/Local Returning Officer to CMT for support Data quality review	Strategic Election Board Electoral Registration Select Committee Data quality review of Electoral Registration signed off by Association of Electoral Administrators (AEA)	5	3	**15**	5	3	**15**	A	Ongoing monitoring		Ongoing	Glenda Favor-Ankersen	Giles Perritt	Maddie Halifax
9	SCEO3 ORR (OCEO12) IRR BREXIT	CEX	**Failing to, or inability to understand impacts of the UK leaving the EU** in light of uncertainty during transition period adversely affects the Council's ability and capacity to manage changes and deliver its objectives. Risk Category: REPUTATION	Providing quality public services	Brexit Organisational and City specific risk registers linked to corporate risk registers. Department Brexit lead officers in place. Port Liaison Group established with key stakeholders. Plymouth Brexit Business Group launched in collaboration with Devon and Plymouth Chamber of Commerce. All departments have reviewed business continuity plans. Corporate web page with links to government advice. Growth Board on-line advice tool. Officer attendance at local and regional events. Brexit impact scoping within MTFP. Government funding announced. Scenario planning has been undertaken. We will keep no deal plans under review until December 2020 to ensure readiness is maintained during the transition period.	Brexit Officer Group in place. Established groups with our business community and Port stakeholders. Plymouth Growth Board. Local Enterprise Partnership.	Brexit, Infrastructure & Legislative Change Overview & Scrutiny and Select Committee. Overview and Scrutiny and Select Committee. Brexit Resilience and Opportunities Group (HotSW LEP). CMT - quarterly update.	5	3	**15**	4	3	**12**	A	Continued regional engagement to maintain strong influence. Continue to act promptly on government guidelines when issued. Continue to bid for additional funding from Central Government particularly around Port responsibilities. Keep no deal plans under review to ensure readiness is maintained until Dec 2020. Brexit Officer Group action plan shows programme of work identified leading up to Dec 2020.	Reports to Brexit, Infrastructure & Legislative Change Overview & Scrutiny Group	Ongoing monitoring	Kevin McKenzie	Giles Perritt	Maddie Halifax
10	SSS1	Street Scene & Waste	**Risk of non delivery of a plan for waste that delivers increased recycling levels in Plymouth** and ensures it meets the PFI targets agreed in the SW Devon Waste Partnership The city's recycling targets are achieved and the service is modernised and fit for purpose so that the increase in demand on the service in accordance with the Plymouth Plan Housing Growth can be met Risk Category: DEVELOPMENT & REGENERATION	A growing city - A green, sustainable city that cares about the environment	The Way We Work Opportunity Assessment in place across Street Scene and Waste Department focussing on back office systems and processes which are designed to improve the delivery of frontline services for customers. Measures either delivered or in progress include communications campaigns; utilising other teams in the Council who are engaging with residents to also encourage recycling; improving service request resolution times; optimising crew routes; and new technology to transform task allocations and data recording. Utilising Street Services Information Management System (SSIMS) data recorded by crews to target domestic compliance with recycling standards. Increased the number of community recycling bins within the city	Monthly Modernisation Board to review progress against Modernisation Plan, supported by regular Performance meetings to assess customer experience. Monthly Balanced Scorecard of KPIs which include recycling rates.	The South West Devon Waste Partnership (SWDWP) hold quarterly meetings.	3	4	**12**	3	4	**12**	A	Continued delivery of alternate weekly collections against adopted business case - monthly monitoring with SWDWP partners with regard to disposal tonnages. Utilisation of commissioned participation survey to target areas that have lower rates of recycling. Introduction of home composting scheme. Further use of SSIMS data to make intelligent decisions targeting interventions.	Delivery against Modernisation Plan, service standards and KPIs. Monitoring of tonnages against forecasted disposal amounts	Ongoing	Phillip Robinson / Chris Lynn	Anthony Payne	Andy Sharp

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER

ROW NO	RISK REF	DEPT	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence and risk category)	LINK TO CORPORATE PLAN	Policies and procedures Link to business plan Delegations of authority / Fraud checks Risk and control framework Performance Management Project Management reviews	Programme Boards Functional compliance reviews Working Groups	Audit Reports Regulatory Reviews Snr Executive Committees Scrutiny Committees Portfolio Boards Peer Reviews	PREVIOUS RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING /CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION / ASSURANCE PLAN	HOW WILL PROGRESS BE MEASURED (LIST MEASURABLE BENEFITS AND NON-QUANTIFIABLE BENEFITS)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					First Line of Defence (Operational management activity)	Second Line of Defence (Strategy/Policy oversight and support)	Third Line of Defence & Framework Oversight (Audit / Member, Snr Executive and External oversight/validation)	Jul-19			Feb-20									
								P	I		P	I								
11	STS1 IRR	Office of the Director of Public Health	**Failure to reduce Health Inequalities** will mean our poorest residents continue to live shorter lives as well as more years in ill health. This risk impacts the city's growth ambitions as well as the sustainability of the health and social care system through increased demands on welfare care, support and health services. Further risk of failing to achieve the city's vision where "an outstanding quality of life is enjoyed by everyone" and the key Caring Plymouth objective to reduce health and social inequalities. Reducing inequalities particularly in health and between communities is a long term priority for the City Council to support the delivery of the vision for Plymouth where an outstanding quality of life is enjoyed by everyone Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	A caring city - Reduced health inequalities	Thrive Plymouth framework was adopted by full council in 2014 and links directly to the Plymouth Plan and Integrated Commissioning Strategies. It provides good foundation to achieve prevention in all services and decision making processes. The focus of Thrive Plymouth in year one was on workplace health and wellbeing, in year two it was on schools and young people, in year three it was on localising the national 'One You' health improvement campaign. In year four was on mental wellbeing (focussing on the five ways to wellbeing) and in year five was on people connecting through food. The current year six focus is arts, culture, heritage and health and is using the Mayflower 400 commemorations as the vehicle for delivery. This was launched on 29 November 2019. The focus of year seven (starting in November 2020) will be trauma informed. Worked with partners to launch four Wellbeing hubs	Finance and Assurance Review Group review Joint Integrated Commissioning Risk Register quarterly.	The Health & Wellbeing Board. Thrive Plymouth integral to the original Plymouth Plan and updated information included in the refreshed version (monitored via CMT/Cabinet/Full Council.) The Director of Public Health's (DPH) annual report focusses on the previous year of Thrive Plymouth (highlighting successes and challenges)	3	4	**12**	4	3	**12**	— A	Persistent action across the Council is required at many levels to tackle inequalities by addressing the wider detriments of health. The public health team and partners continue to work with employers (year one focus) and schools (year two focus) to influence healthier lifestyles. The team continues to embed and promote the national One You campaign across the city. The 'five ways to wellbeing' has been adopted across the city as the single approach to improving mental wellbeing. The work that started in year five on 'people connecting through food' is ongoing with a number of new initiatives developed. Thrive Plymouth has an annual focus determined by local and national priorities an annual action plan is developed and implemented. The Thrive Plymouth Network will continue to meet on a quarterly basis to ensure delivery of the programme.	At the highest level health inequalities can be measured in changes in life expectancy. ODPH produces a report each year to monitor this, along with a Thrive Plymouth Performance Framework providing more detail at a local level. Each year of the Thrive Plymouth campaign is evaluated and reported upon in the subsequent DPH annual report.	Nov-20	Sarah Lees / Rob Nelder	Ruth Harrell	Katharine O'Connor
12	SHR1	Customer & Corporate HROD	**Maintaining Corporate/Senior Leadership Team capacity and resilience to deliver the Corporate Plan.** Potential for adverse impact on the citizens of Plymouth and the Council's reputation if strategic workforce plans are not effectively implemented. We take responsibility for our actions, care about their impact on others and expect others will do the same. Critical success factors; attraction, recruitment, development and retention of senior leaders; organisational design which is fit for purpose to deliver our statutory duties and Council objectives; Senior Leaders reporting they feel safe, happy and thriving at work with appropriate arrangements in place to support resilience Risk Category: SERVICE DELIVERY / REPUTATION	Providing quality public services	Organisational Restructure toolkit in place. CMT/SLT leadership development programme under evaluation. Team Plymouth quarterly events in place. Multi-agency coaching network in place. Occupational Health and Employee Assistance Programme in place. Succession Plans being developed for all critical roles. Agile HR policies and procedures available on staffroom. Workforce data. Sickness absence and staff turnover. Agency/interim spend controls.	We develop our succession plans as part of the Workforce Modernisation Board HSW Steering Group Chief Officer Appointment Panel (COAP) have agreed total reward scheme for senior leaders.	Organisational Design proposals approved by Council. People Strategy endorsed by CMT. Senior Leadership capacity has increased with the permanent appointment of the Strategic Director for People in December 2019. Appointment to Service Director for Street Service - Feb 2020. Interim permanent recruitment has also commenced.	2	5	**10**	2	5	**10**	— G	Organisational Development Phase 2 Action Plan for the Senior Leadership Team to be implemented to include: Strategic workforce plans for the Senior Leadership Team. Implementation of 'The Way We Work' programme (technology, information management, accommodation) to enable the right conditions for success. Review of senior structure to provide resilience and capacity - April 2020	Sickness absence due to stress, anxiety or depression; performance against Council's objectives; delivery of People Strategy; staff survey; wellbeing and resilience survey; safety climate survey; senior leadership staff turnover; exit interviews	Apr-20	Kim Brown	Andy Ralphs	Clare Cotter
13	SSPI1	Strategic Planning & Infrastructure (Housing & Infrastructure)	**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 Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	A caring council - Keep children, young people and adults protected	National guidance has been produced and actioned or communicated by PCC. A strategic overview on affected buildings has taken place and communication to all relevant building owners. 24 hour patrols and a full list of fire and safety measures have been fully implemented at three sites including compartmentalisation and all publically owned buildings are being reviewed. Sprinkler system is being installed in three Devonport towers.		The responsibility lies with the individual building owners but PCC and Devon and Somerset Fire and Rescue Service (DSFRS) have taken the lead on communicating relevant information to all affected properties. Strategic lead overview (Gold) at PCC with support from DSFRS and the relevant affected building 'responsible person'. Central Governments 'DELTA' system (to identify all risk buildings) has been completed and closed out.	2	3	**6**	2	5	**10**	↗ G	Monitoring of remedial measures by PCC to ensure building owners are carrying out their responsibilities effectively. Re-cladding of some buildings has taken place and is satisfactory. Some buildings still have the ACM but are currently being procured to action and interim measures still in place.	Internal business process monitoring. PCC taking a complete overview of monitoring and intervention where necessary. Possible enforcement action in the future via relevant legislation.	May-20	Paul Barnard	Anthony Payne	Andy Sharp
14	SCYPF1 IRR	Children's Social Care	**Risk to vulnerable children and young people in the care system, by not delivering early intervention and prevention** and responding as soon as possible to their needs and promote better long term life outcomes. Early intervention aims to promote better long term life outcomes for families, and in doing so, also prevent them needing more intensive and higher cost services in the future, such as children's social care or the criminal justice system. Risk Category: COMPLIANCE, REGULATION & SAFEGUARDING	A caring council - Focus on prevention and early intervention	Troubled Families Programme Early Help Assessment Tool The Children and Young People's Commissioning Plan Families with a Future initiative	CYP System Design Group. Performance and Complaints monitoring.	Local Safeguarding of Children Board. Claims Validation 'spot check' compliance achieved from the Troubled Families Team of the Ministry of Housing, Communities and Local Government	3	3	**9**	3	3	**9**	— G	Continue to drive forward change across the partnership in relation to whole family working, engagement with the Early Help Assessment Tool process, data exchange and achieving the outcomes required within the Troubled Families Outcomes Plan.	Reduction in caseloads	Ongoing	Tracey Green / Siobhan Wallace	Alison Botham	Sandy Magee
15	SSPI2 BREXIT	Strategic Planning & Infrastructure (Housing & Infrastructure)	**Risk of failing to deliver the range of housing to meet Plymouth's need** via the Joint Local Plan (JLP) and the Homes for Plymouth Programme Risk Category: DEVELOPMENT & REGENERATION Brexit Risk: Potential impact of rising material costs and shortfall of labour on Plan for Homes and Capital Programme	A growing city - A broad range of homes	Driving progress on previous Plan for Homes site releases to seek accelerated construction of new homes, regularly reviewed. Sites identified in the JLP 5 year land supply regularly reviewed to consider what actions might bring forward sites currently in years 6 and 7 into 5 year supply. Each JLP site now has a Delivery Strategy, with various forms of proposed intervention based upon the identification of resources. Data base established to allow for more effective review of actions and progress. Review of partnerships and partners to manage delivery and ensure capability and maximise capacity, including funding for new homes. On-going strategic relationship management with Homes England to achieve a fair share of the national funding.		Plymouth Growth Board. GAME Board. JLP Member Steering Group. JLP Leadership Delivery Group.	3	3	**9**	3	3	**9**	— G	Undertake a Strategic Land Review of PCC sites to identify sites for housing delivery. Strategic Land Review completed and a number of sites have been agreed to be dedicated to Plan for Homes 3 which will support delivery of new homes. Plan for Homes 3 has established a Housing Investment Fund that will help fund interventions in the market to unlock more delivery. We will consider acquiring and lending to unlock direct delivery. Reviews of small and stalled sites complete with delivery strategies to be implemented. Development of bids to a number of Government funding programmes to support new homes e.g. Accelerated Construction. Housing Infrastructure Fund, Land Release Fund, Starter Homes and Care and Support Funding. Ongoing work with Homes England and MHCLG to unlock funding and making the case for a fairer allocation of national funding for homes. Ongoing innovation to improve the proactive and fast track approach to planning to deliver housing. Starter Homes Land Fund Partnership Authority to work with Homes England to bring forward a portfolio of stalled, lapsed and brownfield sites to unlock delivery and accelerate new homes in what is becoming a highly competitive environment for government funding.	Regular reports to Portfolio Holders. JLP Member Steering Group and JLP Leadership Group	Annual delivery monitoring year end and on going	Paul Barnard	Anthony Payne	Andy Sharp

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER

ROW NO	RISK REF	DEPT	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence and risk category)	LINK TO CORPORATE PLAN	Policies and procedures Link to business plan Delegations of authority / Fraud checks Risk and control framework Performance Management Project Management reviews	Programme Boards Functional compliance reviews Working Groups	Audit Reports Regulatory Reviews Snr Executive Committees Scrutiny Committees Portfolio Boards Peer Reviews	PREVIOUS RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING /CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION / ASSURANCE PLAN	HOW WILL PROGRESS BE MEASURED (LIST MEASURABLE BENEFITS AND NON-QUANTIFIABLE BENEFITS)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					First Line of Defence (Operational management activity)	Second Line of Defence (Strategy/Policy oversight and support)	Third Line of Defence & Framework Oversight (Audit / Member, Snr Executive and External oversight/validation)	Jul-19			Feb-20									
								P	I		P	I								
16	SED1 BREXIT	Economic Development	**Risk of not delivering sustained and accelerated economic and population growth** in line with the Council's Corporate Plan and vision for the City which could lead to higher unemployment and lack of the right labour skills to match the needs of businesses. Risk Category: DEVELOPMENT & REGENERATION Risks linked to the UK leaving the EU: EU/E104 A reduction in EU student numbers and difficulties in accessing EU grants. UK and/or Plymouth not considered an attractive place to study causes a loss of student economy. EU/E105 Economic impact on the city due to loss of direct support from the EU. EU/E103 Loss of Foreign Direct Investment (FDI) into the city. Manufacturers no longer consider the region an attractive place to operate from due to negative perception of the UK, the implementation of import tariffs or inability to recruit sufficient staff results in loss of jobs, loss of business rate income and stalls our growth ambition.	A growing city - Economic growth that benefits as many people as possible	Key investment headlines which the Council are directly involved in delivering to help drive sustainable economic growth include: • £100m Completed Projects • £200m Projects onsite • £900m Development pipeline • 3271 Direct Jobs • 1737 Indirect Jobs • £45.6m external funding • £273m inward investment Place have undertaken direct development including (Hearder Court), Oceansgate (phases 1 &2), The Box (£46m project), alongside enabling investments such as Derry's roundabout and former BHS store (£70m), Civic Centre (£40m), The Range (£25m) Plymouth Railway Station (£80m). Additionally strategic transport projects to unlock growth and help drive productivity have secured a £435m pipeline of recently completed, underway or pending schemes. This includes £74m of secured third party funding alongside outstanding bids amounting to a further £244m	GAME Programme Board.	Growth Board.	3	3	**9**	3	3	**9**	G	Future plans include: Oceansgate Phase 3; Delivery of the Derrys Roundabout Development (110 bed Premier Inn & 500 bed student accommodation; former BHS store (new B&M store and 2 new restaurants), The Box Opening (£46m project, 365 jobs and projected 250k visitors, UK's biggest cultural project opening in 2020; Civic Centre (£40m project, apartments, public realm and Civic Square improvements); New George / Old Town St (new public realm / pavilion retail units , £30m partnership between British Land and Council); Derriford District Centre (food store, retail, leisure, new homes and improved transport links); regeneration of Plymouth Railway Station (£80m project, refurb of Intercity Place, new car park, hotel, University facility, retail and office facilities, improved public realm); Direct Development Programme (Header Court phase 3, Broadley Park, Derriford & Embankment Road). Business Support - development of the marine/blue tech sector, co-ordinating inward investment, levering off the Local Enterprise Partnership to improve connectivity and exploiting the Mayflower 400 to reposition the city at the centre of commemorations. We are developing Nuclear and Marine national deals linked to the HotSW Productivity Plan further building on our strengths. Brexit element of this risk will be considered in line with corporate Brexit risk template. Series of business support projects (growth hubs, start up and advice) commissioned. Launched new STEM strategy.	Monitor:- Weekly wage rates, Gross Value Added per hour worked. Job Seeker Allowance claimants. Youth Job Seeker Allowance claimants, Business births, employee numbers, visitor numbers, growth in jobs	Ongoing	David Draffan	Anthony Payne	Andy Sharp
		IRR	Links to Joint Integrated Commissioning Risk Register																	
		ORR	Links to Operational Risk Register																	
		BREXIT	Links to Brexit Risk Register																	

Audit and Governance Committee

PLYMOUTH CITY COUNCIL

Date of meeting:	23 March 2020
Title of Report:	**Contract Standing Orders - Procurement**
Lead Member:	Councillor Chris Penberthy (Cabinet Member for Housing and Co-operative Development)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Philip Symons
Contact Email:	Philip.symons@plymouth.gov.uk
Your Reference:	PSY10032020
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report seeks consideration of approval to proposed changes to the Contract Standing Orders as set out in the supporting documents, so that they are relevant and fit for purpose.

Inclusive of a format change; making the document concise. It is our hope that this will assist in their compliance and increase client awareness of the details within each section.

Recommendations and Reasons

1. That the committee approve the updated Procurement Contract Standing Orders as set out in Appendix A.
2. That the Procedural Notes are accepted within the Approved Governance Documents section listed within the constitution as supporting documents.
3. That the committee provide delegated authority to the Section 151 officer to make minor changes in regards to the references to "OJEU" and "OJEU Threshold" if and when this changes as part of the Brexit negotiations due to conclude at the end of 2020. This is due to the fact that this links to EU regulations that the Council may or may not be subject to pending the decisions that will made by Central Government.

The Contract Standing Orders (CSOs) govern how the Council undertakes tendering and contracting with third party suppliers and are a formal part of the Council's wider governance, i.e. the Constitution.

The proposed changes to the Contract Standing Orders follows a full review and overhaul of the previous Contract Standing Orders which has included engagement with key stakeholders who operate under the current CSOs. Primary the changes include:

i. Optimising efficiencies through streamlining authorisation arrangements proportional to risk
ii. Rationalising the layout and structure of the documents to aid clarity
iii. Strengthening details around expectations on how specific matters are to be dealt with
iv. Updating to take into account the changing shape of modern day local government

The aims of the updates proposed are to aid the Council in the delivery of efficient and effective procurement arrangements in a manner that also supports necessary probity and accountability in how the Council spends public monies.

Alternative options considered and rejected

The proposals put forward are a significant change in both the formal and structure but also the approaches that would be applied. The work in development of the CSOs has been informed from approaches applied elsewhere, take into account views from officers who apply the current CSOs, and input from key internal stakeholders, including, Service Director, Legal Services, Finance, Audit and staff within the Service. As such the proposals with this report are deemed fit for purpose for the future needs of the Council.

It is noted that options other than recommending for approval are available, in particular these would be to propose relevant changes with relevant grounds for those changes or indeed to reject the proposed approach providing with clear grounds and reasons why. Please note that ‘no change’ is not an option and in the event of either of the above circumstances then clear direction should be provided to enable necessary adjustments to be carried out.

Relevance to the Corporate Plan and/or the Plymouth Plan

The Contract Standing Orders will form a fundamental governance framework in supporting the efficient and effective delivery of how the Council advances successful delivery of the Plan. The CSOs set out the expected standards and overall governance for all contract that are let on behalf of the Council with the specific aims of them being lawful as well as delivering value for money in how the Council commercially contracts.

In addition the CSO and integral supporting documents such as the Social Value Policy provide a robust policy framework to support expectations around economic growth, social wellbeing and environmental matters.

Implications for the Medium Term Financial Plan and Resource Implications:

The Contract Standing Orders and integral supporting documents will provide a robust governance framework to assist the delivery of best value in how the Council contracts with third party suppliers and provide a sound platform for the resulting delivery of those contracts.

As this is a fundamental change there will be the need to undertake necessary communications and training to staff and members around the changes and how best to ensure that the CSOs are complied with. These cost would be covered within existing resource / budgets.

Carbon Footprint (Environmental) Implications:

The outcomes from the recommendation of the Policies methods will attribute initiate:
Specific tenders themselves will take into account implications around things like: carbon footprint, green spaces, environmental policies and the climate emergency.

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.*

Core implications and risks associated directly with this report are that the proposed changes either are not adhered to or followed as intended. The risks of not adopting the changes are:

- Potential non-compliant activity with the Public Contract Regulations 2015
- Restricting future efficient and effective means to contracting with third party suppliers

- Not taking the opportunity to streamline current processes and procedures to make them more proportional around activities required to risks presented

As noted the CSOs are intended to provide the robust commercial governance to how the Council undertakes contracting, so approval of the CSOs themselves will provide a framework for how tendering is done. Specific tenders themselves will take into account implications around things like:

- Child Poverty
- Community Safety
- Health and Safety
- Risk Management

Appendices

**Add rows as required to box below*

Ref.	Title of Appendix	**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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Contract Standing Orders – Procurement (Inc. Appendices)							
B	CSO Submission – Track Change info							

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 <u>unpublished</u> 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 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**
n/a							

Sign off:

Fin	akh.19.20.282	Leg	MS.11/03/20.	Mon Off	n/a	HR	n/a	Assets	n/a	Strat Proc	HG/PS/539/CP/0320
Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 11/03/2020											
Cabinet Member approval: Councillor Chris Penberthy by email Date approved: 13/03/2020											

PLYMOUTH CITY COUNCIL

Contract Standing Orders

Contents

CONTRACT STANDING ORDERS

SECTION 1 - Background and context

Purpose of the document

1. The purpose of these Contract Standing Orders (CSOs) are to set out the governance framework for how the Council undertakes commercial spend with Third Party Suppliers for the provision of Supplies, Works & Services from those Suppliers.

2. The CSOs form an essential part of the Councils Constitution and are to be read in conjunction with the supporting **Procedural Notes - see Appendix 1.**

3. The accompanying Procedural Notes explain how the CSOs are to be complied with and must be followed and given due regards to them as compliance with the CSOs.

4. The CSOs and supporting Procedural Notes are to be applied in order to ensure:
   - **4.1** Compliance with European (EU) Procurement Directives and Public Contracts Regulations 2015 as amended from time to time (the Regulations);
   - **4.2** The commercial interests of the Council are duly safeguarded along with the interests of elected Members and Officers;
   - **4.3** Probity and sound reputation of the Council is maintained in respect of procurement and commercial arrangements;
   - **4.4** Robust commercial governance is in place with related risks duly understood, effectively managed and mitigated;
   - **4.5** Fulfilment of duty to Best Value plus maximising value for money and efficiencies;
   - **4.6** Minimising and wherever possible avoidance of fraud and / or malpractice in commercial matters.

5. The Regulations are not extracted or transposed and where reference is within the documents, the Regulations need to be considered and complied with. These can be viewed at the following: http://www.legislation.gov.uk/uksi/2015/102/contents/made

6. The CSOs set out the following:
   - **6.1** The Legislative framework which are applicable;
   - **6.2** Overarching principles to be applied;
   - **6.3** When the rules apply, when they do not apply and when they can be exempted;
   - **6.4** Details on routes to market decisions;
   - **6.5** Processes to be followed when commissioning, procurement and contracting;
   - **6.6** Key financial thresholds that apply to tendering and commercial activity;
   - **6.7** Key stakeholders roles / responsibilities and consequences if not followed.

When the CSOs apply

7. The CSOs will apply:

7.1 In circumstances where the Council expects to spend money or provide other value for Works, Services or Supplies;

7.2 To both capital and revenue expenditure.

8. In the case of Concessions, reference should be made to **Procedural Note: Concessions** and the associated Concessions Contracts Regulations 2016. These can be viewed at the following: http://www.legislation.gov.uk/uksi/2016/273/contents/made

9. In the event of an unforeseen emergency or a disaster involving immediate risk to persons, property or serious disruption to Council services or significant financial loss; any Strategic Director can approve progressing work as required. The Strategic Director must:

9.1 Prepare a report for the next Cabinet on the actions taken;

9.2 Ensure due process to fulfilling the requirements to the CSOs are in place as soon as practically possible following risk being mitigated.

When CSOs can be Exempted

10. It should be the default position to follow the CSOs in all situations, but it is recognised that on occasions it may not be possible or in the best interest of the Council to do so.

11. In such circumstances that the CSOs cannot be followed, **Procedural Note: Exemptions** must be applied for all spend over £5,000.

12. Exemptions can only be applied in the event of following situations:

12.1 Resulting in **Breach or Conflict of Statutory Duties** if CSOs were applied, and / or;

12.2 Evidence of **Limited Market** that negates wider public interest, and / or;

12.3 **Unavoidable / Time Critical** considerations that would result in negative **Reputational Implications** to the Council if action outlined within the Exemption application is not followed and / or;

12.4 Detriment to **Personal Welfare of Service Users**, where there is a likelihood that vulnerable service user(s) would be placed in unnecessary or inappropriate risks if the proposed actions within the Exemption application are not undertaken.

13. It is noted that the Council has the authority to apply Exemptions to the CSOs but must comply with national and European Union laws and regulations.

14. Furthermore, the approval of an Exemption provides the necessary transparency and accountability in terms of decisions to the approach to be applied but it does not preclude the need to follow the Procurement Gateway & Contract Procedure.

When the CSOs do not apply

15. The CSOs do not apply to the following arrangements:

- **15.1** Appointment outside the Council's control, eg/Appointment of external auditors;
- **15.2** Employment Contracts;
- **15.3** Specific licensing requirements eg/TV License or Public Entertainment License;
- **15.4** Planning and Highway Agreements, eg/Section 106, 278 and 38;
- **15.5** Allocation of Grant payments by the Council to third parties;
- **15.6** Acquisitions and disposals of land or buildings;
- **15.7** Individual budgets for personal care services;
- **15.8** Financial dealings by the Chief Finance Officer in respect of dealing in money markets or obtaining finance for the Council;
- **15.9** Contracts offered by the Head of Legal Services for the appointment of counsel;
- **15.10** Contracts where a sole Supplier has exclusive rights eg/alterations to statutory undertakers apparatus;
- **15.11** Disposal of surplus Goods / Supplies;
- **15.12** Loan payments or loans from the Council to third parties provided on market terms (otherwise State Aid considerations may apply);
- **15.13** Where it is clear no need to go through a procurement process on the basis of other regulatory or legislative grounds;
- **15.14** Subscriptions to National Organisations, eg/Local Government Association;
- **15.15** Professional subscriptions where not having membership would detrimentally impact on the Council's ability to fulfil its purpose;
- **15.16** Procurement of certain insurances not available on open market eg/Marine.

16. In cases where the CSOs do not apply, other rules and regulations will likely apply. The Responsible Officer shall ensure that they adhere to any relevant rules and legislation, and if in doubt seek advice on those other relevant rules and legislative regulations.

Other relevant Laws, Regulations and Policy

17. In applying the CSOs due regards must be taken to complying with:

- **17.1** All relevant national law and EU procurement law;
- **17.2** All relevant EU procurement rules and guidance;
- **17.3** The Constitution, including Part B – Budget and Policy Framework and Part H Financial Regulations.

Proportionality

18. Commercial approach shall be proportionate to the risks and resources required to fulfil the requirements. The CSOs outlined are considered to be the minimum to be followed.

19. The CSOs and application of them takes account of applying proportionality. In the case of requirements which are subject to the Regulations OJEU Thresholds then compliance in line with the Regulations should be made.

20. For below OJEU Threshold the principles to be applied in a proportional manner. The CSOs take account of key elements of proportionality in the Thresholds applied within the CSOs and decision points.

Breaches and non-compliance

21. Consequences of not applying due process in how contracts and commercial arrangements are established can be significant. Compliance with the CSOs is mandatory.

22. Those with responsibility for fulfilling their duties in line with the CSOs are required to maintain ongoing knowledge and awareness to ensure compliance.

23. In addition, it will be the responsibility of Responsible Officers (including those with line management responsibilities) to address non-compliance swiftly and in the most appropriate way according to the circumstances.

24. Any potential misuse or non-compliance of the CSOs will be reported to the appropriate officer. Non-compliance with the CSOs may result in the Council's Disciplinary Policy and Procedure being applied. In respect of wilful, negligent, repeated or other serious breaches this could result in significant sanctions and even dismissal. http://documentlibrary.plymcc.local/documents/Policy_and_procedure_disciplinary.docx.pdf

25. Means of reporting concerns can also be raised anonymously in line with the Council's Whistleblowing Policy. http://documentlibrary/documents/Policy%20-%20whistleblowing.pdf

26. In the event of a suspected breach reference should be made to **Procedural Note: Breach of the Contract Standing Orders**.

SECTION 2 - SOURCING STRATEGY

Key Principles

27. Those responsible in application of the CSOs in how procurement and commercial activity is undertaken shall apply the following key principles:

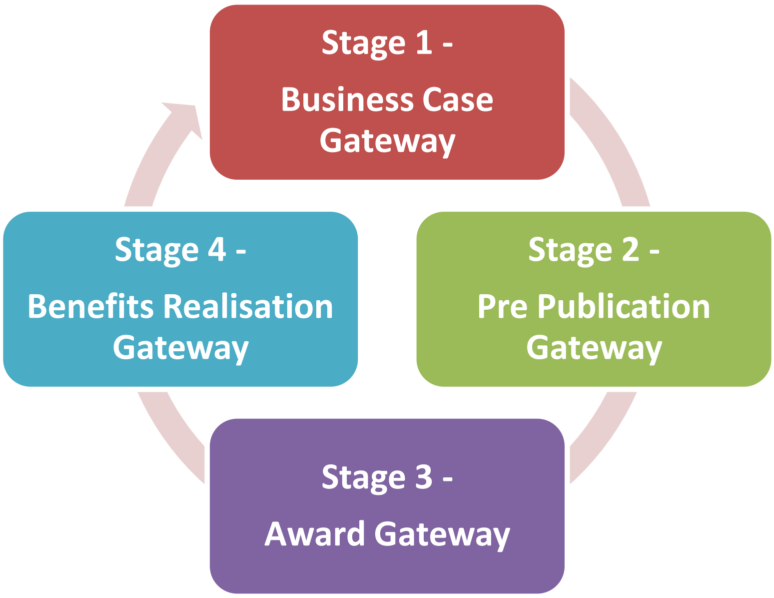
27.1 Transparency
27.2 Equal Treatment
27.3 Proportionality
27.4 Non-discrimination
27.5 Mutual Recognition

28. **Section 5** provides more details on the required Roles and Responsibilities of key stakeholders.

Sourcing Strategy - Route to market decisions

29. Where the Council undertakes the services internally, these should be the first point of consideration, prior to the consideration of external sourcing routes.

30. The CSOs recognise that there will be a range of existing commercial arrangements in place. Where an additional or new requirement exists the Sourcing Strategy outlines key decisions that need to be made in regards to priority order and sequencing ahead of commencing any formal decision to undertake a new procurement. A business case will need to be established in respect of the procurement as indicated in Key Thresholds Table 1.



31. Authorisation will be required at four key stages as shown above. Consideration shall be made around relevant areas of due diligence. The areas of assurance required will vary depending on the subject matter of the contract.

32. Due regard should also be taken to the tender and authorisation thresholds set out within section 3 of the CSOs.

33. One of six procurement procedures must be used as appropriate for the particular procurement: Open, Restricted, Competitive procedure with negotiation, Competitive dialogue, Innovation partnership, or Negotiation without prior publication. These must be performed in accordance with The Public Contracts Regulations 2015. http://www.legislation.gov.uk/uksi/2015/102/contents/made

34. The Responsible Officer shall be responsible for carrying out appropriate due diligence to understand proportional risks related to the spend and ensure relevant and proportional means of mitigation are considered. This is to be done in conjunction with relevant Specialist Subject Matter Officers to consider risks and mitigations relevant to their area of expertise. This may include representatives from relevant functional areas of the Council and may include, as appropriate: legal, HR, finance, health and safety, ICT, asset management and others.

35. In the event of a project(s) being funded from capital; then the Responsible Officer will be required to ensure that the project(s) have been formally registered onto the Capital Programme. For such projects no procurement process shall commence unless the project has been registered onto the Capital Programme. See Capital Governance Project Funding Policy, http://documentlibrary.plymcc.local/documents/capital_programme_governance.pdf

Sourcing Strategy Steps

36. Step 1 – Grant / Funding Conditions

35.1 Where external Grant / Funding is being considered this should form part of the necessary due diligence work for the project ahead of seeking, and if successful accepting the external Grant / Funding to ensure that the Council can comply with any necessary conditions that would be applied.

35.2 Where an external Grant or Funding stream is secured as part of the project, care shall be taken to ensure the funding conditions are satisfied and complied with; to avoid risk to the loss of the Funding being made in full or in part to the Council.

35.3 This should include engagement with relevant internal Subject Matter Experts.

37. Step 2 – Exiting Contract / Framework Agreement

36.1 If an existing Corporate Contract exist, then the default route to market would be the Corporate Contract. This would be subject to the Contract permitting modifications and proportional consideration is made to rights to modify in line with the Regulations, in particular Section 6 and regulation 72 - see: http://www.legislation.gov.uk/uksi/2015/102/part/2/chapter/2/crossheading/ontract-performance/made

36.2 Due consideration must also be made to whether the modification of the existing contract and/or framework call off offers value for money. Terms of the existing contracts must also be considered to mitigate risks of non compliance if it were decided to procure the requirement with another Supply route eg/ Exclusivity terms.

36.3 Use of existing framework call-off agreement(s) are optional so must pass value for money test in order to proceed.

36.4 Details on current Corporate Contracts Register can be found at https://www.supplyingthesouthwest.org.uk/

38. Step 3 – Council Teckal Company Arrangements

37.1 Steps 3 and 4 can be undertaken at the same time. The Council has a number of company's which it has established to fulfil its various functions.

37.2 Where there is an existing Council Company the first stage of decision making should be whether the requirements can be secured through the respective company. reference should be made to part 88**.**

37.3 Where the requirements are not currently serviced by one of the Council's Company; the question should be raised as to whether it should form part of an existing Company or establishment of a new Company.

39. Step 4 – Formal Procurement Process

38.1 The formal process should aim to carry out all necessary due diligence including but not limited to:

38.1.1 Clearly identify the need for the Works, Service or Supplies;

38.1.2 Understanding the legal power to entering into contract;

38.1.3 Confirming options and determine best route to market;

38.1.4 If the project is a capital project, then the project has to be accepted onto the Council's capital programme.

38.1.5 Considering the Council's procurement business plan and any other associate strategic objectives as appropriate;

38.1.6 For works procurements >£1,000,000 then the National Skills Academy Client Based Approach for the employment and skills shall apply;

38.1.7 Determining the most appropriate commercial model and contract type, including the appropriate level of contract management resource required to manage the contract.

40. Consideration shall also be made in relation to the Council's Social Value Policy and its requirements to tenders above and below OJEU thresholds evaluation of tender award criteria. The Social Value Policy aims to positively impact engagement with Small Medium Enterprises (SME) and the local economy. This can positively impact the wider strategic objectives of the Council and its partners. http://democracy.plymouth.gov.uk/mgConvert2PDF.aspx?ID=99353

SECTION 3 - FINANCIAL THRESHOLDS

Calculation of Contract Values

41. When estimating the total contract value, the estimate shall be:

- **40.1** For the whole life term of any anticipated contract, for example, if the contract value is estimated at £50,000 per annum for two years, then the total contract value will be an estimated £100,000. If the length of a contract is uncertain and the value cannot be reasonably estimated, its total value will be its total value over 4 years; The total estimated spend and not split down or subdivided to avoid the application of these or any other Regulations;
- **40.2** Net of Value Added Tax (VAT);
- **40.3** The value of any non-monetary consideration or benefit the Council is giving;
- **40.4** The value of anything the Council is getting for free as part of the contract;
- **40.5** The value of any amount that could be paid by extending the contract.

42. Where the initial contract value estimate is within 10% of the relevant Official Journal of the European Union (OJEU) Threshold. A furthermore detailed calculation shall be conducted in accordance with regulation 6 of the Regulations. http://www.legislation.gov.uk/uksi/2015/102/regulation/6/made

43. In the event of a Concession then **Procedural Note: Concession Arrangements** should also apply.

44. A single contract must not be undervalued or split into smaller contracts to circumvent the thresholds as set out in the Regulations.

45. OJEU Thresholds: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850566/PPN_for_New_Thresholds_2020_pdf.pdf

46. Social and Other Specified Services, the appropriate OJEU Threshold in relation to Authorisation and Contract Signature stages to apply. Public Contract Regulations – Schedule 3 http://www.legislation.gov.uk/uksi/2016/273/schedule/3/made

Key Thresholds Table I – Quotation and Tendering Thresholds

ACTIVITY	Up to £5k	Over £5k to £25k	Over £25k - relevant OJEU Thresholds	Over Relevant OJEU Threshold
Tender process	**Minimum:** One Tender Quotations (non-verbal) Preferably: From PL Postcode	**Minimum:** Three Tender Quotations (non-verbal) Preferably: Two from PL Postcodes	**Minimum:** Three Tender Quotations (non-verbal) Preferably: Two from PL Postcodes	Formal Advertised Tender
Business Case Required?	No	No	Yes	Yes
Formal Advertisement of Opportunity?	Optional	Optional	Optional (If Advertised Contracts Finder utilised)	OJEU & Contracts Finder
Formal Publication of Award?	Optional	Optional	Contracts Finder	OJEU & Contracts Finder
Contract Published on Contract Register?	Not required	Yes	Yes	Yes
Use of Electronic Tendering System?	Optional	Yes	Yes	Yes
Procurement Service Responsible? [-1]	Yes (except in case of Self-Serve: Please refer to Self Service Procedure)	Yes (except in case of Self-Serve: Please refer to Self Service Procedure)	Yes	Yes

[-1] Procurement Service defined as both the core Procurement Service team and / or Strategic Commissioning

Key Thresholds Table 2 – Authorisation and Contract Thresholds

STAGES	Up to £25k	>£25K to £150K	>£150K to £500K Supplies/Services >£150k to £2MM for Works	>£500K Supplies/Services >£2MM Works to £3MM	Over £3MM or a key Decision
Who can Authorise Business Case Gateway?	Responsible Officer	Head of Service	Service Director	Portfolio Holder	Cabinet
Who can Authorise Pre-Publication Gateway?	Responsible Officer	Head of Service	Service Director	Service Director	Service Director
Who can award the contract?	Responsible Officer	Head of Service	Service Director	Portfolio Holder	Cabinet
Approval Documents Required (minimum requirement)	n/a	Business Case and Contract Award Report and Officer Individual Executive Decision (if applicable)	Business Case and Contract Award Report and EIA and Officer Individual Executive Decision	Business Case and Contract Award Report Part1 & Part2 and Executive Decision and EIA	Business Case and Contract Award Report Part1 & Part2 and Executive Decision and EIA
Form of Contract / Contract Signature	Council Purchase Order / Standard Terms	Formal Signed Contract	Formal Signed Contract	Formal Signed Contract or Signed Sealed Contract	Formal Signed Contract or Signed Sealed Contract

SECTION 4 - APPLICATION AND APPROACH

Due Diligence

47. Relevant subject matter experts (eg/ Service Area teams, Legal Services, Finance, etc.) are to be consulted at appropriate times during the procurement process.

48. Prior to the commencement of the procurement; all officers (including those involved as part of any evaluation teams) are required to sign a declaration of direct or indirect interest, canvassing and confidentiality form. The completed form should be retained as part of the records.

Low Value / Self-Services (below £25,000)

49. With prior agreement with the Procurement Service; procurements £25,000 and below may be undertaken on a self-service basis direct by the client Service area.

50. Self Service - This means staff will be able to purchase Supplies, Services and Works £25,000 and below without having to go through the Procurement Services Function. This service is designed to help front line services by speeding up the process of obtaining Supplies, Services and Works; which ultimately benefits the customers of our services.

51. Not all departments are approved for Self Service. Self Service is permitted for departments by the Procurement Service. The CSOs must be complied with and training successfully completed.

Timescales

52. Quotation and Tender timescales for submission shall be reasonable, sufficient and proportional to enable Suppliers to submit a suitable response and facilitate genuine competition.

53. Where the procurement route is to re-tender an existing contract; appropriate timescales are essential to ensure continual service. Any re-tendering exercise must comply with the CSOs and the Regulations.

54. Due regard should be taken to the Regulations in regard to OJEU Threshold Tenders and associated timescales related to the various procurement processes therein.

Preliminary Market Consultation

55. Where relevant and proportional to do so; appropriate market intelligence through preliminary market consultation is permitted and encouraged with the intention to inform the procurement process and potential Suppliers. Where such consultation takes place care shall be taken that it is in line with the Regulations, in particular regulation 40 and 41. http://www.legislation.gov.uk/uksi/2016/273/part/3/made

eTendering

56. The Council's eTendering System shall be used as the means of seeking Quotes and Tenders in line with Thresholds as set out in Table 1 - Quoting and Tendering Thresholds. The eTendering System shall be compliant with the requirements of the Regulations.

Advertising Opportunities

57. Publishing of quotation / tender opportunities shall be in line with Thresholds as set out in Table 1 Quoting and Tendering Thresholds. The primary means of advertising shall be via Contracts Finder, any associated Portal in connection with the Council default eTendering System and for OJEU Tenders the Official Journal.

58. Advertising of OJEU Tenders shall be in line with the requirements of the Regulations in particular regulations 49 and 50 plus 106 in regards to Contracts Finder. http://www.legislation.gov.uk/uksi/2016/273/part/3/made

Procurement Clarifications

59. Where Quotations / Tenders are placed via the Council's eTendering System then Clarifications regarding the procurement are only permitted via that System.

60. Discussions with tenderers after submission of a Tender and before the award of a contract must be in accordance with Section 2:27 of the CSOs.

Evaluation

61. Quotations / Tenders will be evaluated in accordance with the evaluation criteria disclosed and published on issuing of the Quotation / Tender eg/Price, Quality, Social Value.

62. Reference should be made to the Procurement Service templates and guidance in order to ensure a consistent, fair and transparent approach.

Opening of Quotations / Tenders

63. In line with Table 1 where Quotations / Tenders are submitted via eTendering System and be transmitted by electronic means. Quotations and Tenders submitted by electronic means shall ensure that:

- **62.1** evidence that the transmission was successfully completed is obtained and recorded through the Systems auditing functionality; and,
- **62.2** Quotations / Tenders submitted are not opened until the deadline has passed for receipt of tenders.

64. Quotations / Tenders received after the specified date and time be assessed in line with **Procedural Note: Late Submissions.**

65. Where on receipt of Quotations / Tenders information is felt to be missing or omitted then reference should be made to **Procedural Note: Missing / Omitted Information**.

66. In the exceptional circumstance where a Quotation / Tender submission has been received by a medium other than that of the Councils eTendering System then due process shall be put in place to maintain probity and accountability; upholding the principles as set out in the CSOs.

Contract Award

67. Contracts awarded over £25,000 shall have the award notified on Contracts Finder in line with regulations 109 and 112 of the Regulations.
http://www.legislation.gov.uk/uksi/2015/102/regulation/112/made

68. Contract Award Notices for OJEU Tenders shall be in line with the Regulations and take into account any requirements and conditions around Standstill.

69. A contract may only be awarded by an officer with the requisite delegated authority to award contracts. The authorised officer should make sure that the budget holder responsible for the contract has sufficient funds in place to sustain the contract prior to award. For all procurements valued at above £500,000 the decision to award a contract must be made by the cabinet member for the relevant portfolio.

Application of the Light Touch Regime

70. Under the Regulations the Council can apply flexibility to the approach and procedures for certain Services. A list of services to which the Light Touch Regime applies can be found in Schedule 3 of the Regulations.
http://www.legislation.gov.uk/uksi/2015/102/schedule/3/made

71. The Light Touch Regime only applies to contracts over the stated threshold as defined by the European Union OJEU Thresholds. Below this Threshold the requirements a proportional approach should apply as applicable and appropriate application of the CSOs.

72. Although the use of the flexibility in such situation is encouraged principles of the European Treaty still apply meaning procurement procedures and the award of contracts shall be fair, transparent and non-discriminatory.

73. The application of the Light Touch Regime does not negate the requirement to comply with the CSOs and follow the Council's formal decision-making processes.

Terms and Conditions

74. Wherever possible and appropriate to do so, contracts shall be based on the Council's Terms and Conditions, related to the subject matter of the contract.

75. Terms and Conditions shall be stated and disclosed at time of tendering.

76. Where this is not the case then suitable justification shall be made for audit purposes. Justification may include (but is not limited to) procuring from ("calling off") other parties' Framework Agreements pursuant to which the terms and conditions of that Framework Agreement will be applicable.

77. In such cases consideration of the implications of those terms and conditions is required prior to purchasing from the Framework Agreement and suitable advice shall be obtained as required.

Contract Arrangements

78. Contracts must be in writing. Electronic signatures may be used in accordance with the Electronic Signature Regulations 2002 provided assurance the arrangements are secure.

79. Contracts shall be executed as a deed (Sealed Contract) if they are

- **77.1** For Works contracts (e.g. construction), or
- **77.2** Where the Council may wish to enforce the contract more than six years after its end; or
- **77.3** Nil consideration or the price paid or received under the contract is a nominal price and does not reflect the value of the supplies or services; or
- **77.4** the Total Value exceeds £1,000,000; or
- **77.5** if the Head of Legal Services advises they must be executed as a deed; or probate.

80. Where Sealed Contracts are required to be executed as a deed then Legal Services shall be engaged. Contract Signatory thresholds are outlined in Table 3.

Table 3 – Contract Signatory Thresholds

Threshold	Action	Who	Outcome
Up to £25,000	Purchase Order / Standard Terms	Responsible Officer with appropriate Budget responsibilities.	Contract formed under Purchase Order / Standard Terms.
Over £25,000 up to EU Thresholds (Services)	Signed Terms and Conditions or Sealed	Responsible Officer with appropriate Budget responsibilities. Procurement Service & Legal Services required in event of Sealed.	Formal signed Contract or Sealed if deemed necessary.
Over EU Threshold	Signed Terms and Conditions or Sealed	Head of Service, Service Director & Legal Services required in event of Sealed.	Formal signed Contract or Sealed if deemed necessary.

81. In the event of any ambiguity on the appropriate level of authorisation required; the overarching Financial Regulation 24.3 will take precedence.

82. Reference should also be made to Table 1. Contracts above £5,000 will have details placed on the Contracts Register.

Contract Management and Monitoring

83. Contract management and monitoring arrangements shall be undertaken in a manner that is commensurate to risks.

84. Ensuring the suitable contract records are in place is the responsibility of the Responsible Officer. During the life of all contracts the appropriate Strategic or Service Director shall ensure that the Council's approved processes for contract management are adhered to.

Modifications to Contracts / Framework Agreements

85. Particular attention shall be given to modifications of contracts or Framework agreements including variations, extensions and innovations.

86. Where a modification to the contract or Framework Agreement is not expressly provided for in the initial procurement documents and the Contract or Framework Agreement, the involvement of both Procurement Service and Legal Services is required to assess the commercial and legal implications of any such modification.

87. Where necessary consultation with subject matter experts maybe required. All modifications shall be in writing and in accordance with the terms of the relevant Contract or Framework Agreement. Due regard shall be taken to the Regulations in particular Section 6 regulation 72.
http://www.legislation.gov.uk/uksi/2015/102/regulation/72/made

Teckal Contract Award

88. A contract can be direct awarded to a public sector entity when compliant with Regulation 12 of The Public Contracts Regulations.
http://www.legislation.gov.uk/uksi/2015/102/regulation/12/made

SECTION 5 - ROLES AND RESPONSIBILITIES

89. Defined roles and responsibilities:

Section 151	Ensuring overall probity in respect of related financial matters, through relevant controls and monitoring.
Corporate Management Team	Maintaining a strategic overview of compliance with the CSOs and overall accountability for non-compliance with the CSOs in their respective areas of responsibility. Instructing relevant changes to ensure compliance and controls remain effective. Authorisation in line with levels as set out in the Authorisation Process.
Elected Members	Ensuring compliance with the Members' Code of Conduct, including in relation to any interests they may have, and any specific responsibilities they have in relation to the CSOs themselves. Make such decisions as are referred to them for determination in relation to these Rules.
Monitoring Officer	To ensure lawfulness and fairness of decision-making. After consulting with the Head of Paid Service and Responsible Finance Officer, the Monitoring Officer will report to Council if he/she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. To provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Councillors. Acting as the ultimate point of escalation in respect of breaches or non-compliance with the CSOs and associated Procedural Notes.
Head of Procurement Service	Overall ownership of the CSOs and ensuring that the overall framework for commercial considerations is complied with robustly and effectively. Ensuring compliance with the Council's overarching decision-making responsibilities and providing related guidance. On occasions will also have the same responsibilities as outlined in the Responsible Officer definition.
Legal Services	Leading on the overall ownership of commercial matters related to Contract Terms and Conditions. Point of escalation in relation to formal challenges within procurement or contract matters.
Portfolio Holder	Ensuring accountability by Officers is maintained with responsibilities for delivery of the CSOs.
Procurement Service	Acting as primary advisory service in relation to public sector procurement, commercial and contract management matters. In the case of Social Care / Commissioning the direct line of responsibility will be with the Product Portfolio Managers.
Responsible Officer	This will include Service Leads and those with responsibilities in any of the following activities, including:

	Quoting, Tendering or contract renewals in line with the CSOs and associated Procedural Notes Seeking additional advice where these CSOs do not apply. Ensuring there is a genuine and legitimate business requirement for the spend and an approved budget and acting with the authority as budget holder or the budget holder. Ensuring that the appropriate Authorisations have been received in respect of committing spend. Drafting fit for purpose specifications for each procurement, that meet the requirements of the procurement. Providing justification for any deviation from the approved Sourcing Strategy. Accurately estimating the total contract value at the start of each procurement. Conducting sourcing / procurement in line with the Authorisation Process. Diligently applying Exemptions process where relevant. Diligent contract management for contracts which are within their jurisdiction. Reporting matters of breach or non-compliance. Engaging the Procurement Service where the project / Tender is in excess of £5k (or £25k in case of Self Service)
Service / Strategic Director	Authorisation in line with levels as set out in the Authorisation Process and Scheme of Delegation as set out in the Constitution. Ensuring awareness and compliance within their respective areas of responsibility. Escalation point to investigate and / or action breaches and non-compliance within the respective area of responsibility and, where necessary, onward escalation to Director / Monitoring Officer.
Subject Matter Expert	Subject Matter Experts shall be relevant subject matter experts related to specialisms or professions, e.g. service area teams, Legal Services, Finance, Health and Safety, etc.) are to be consulted at appropriate times during the procurement process.

APPENDIX 1 - Supporting Information

Procedural Notes:

- Breach of Contract Standing Orders
- Concessions Arrangement
- Exemptions
- Late Submissions
- Missing / Omitted Material

APPENDIX 2 – DEFINITION OF KEY TERMS

Breach: Where there has been failure to comply with an aspect of the Contract Standing Orders.

Commercial Assurance and Authorisation: Means the assurance and authorisation around the appropriately qualified and procured Supplier and commercial terms of contract relevant and proportional to the subject matter of the Works, Supplies and / or services. The award of all contracts must follow the Council's decision making processes as appropriate to the value/risk associated with the contract.

Concession Arrangements: Meaning where the provision and the management of services or the execution of works is entrusted to one or more economic operators, the consideration of which consists either solely in the right to exploit the services or works that are the subject of the contract or in that right together with payment. See also Procedural Note: Concession Arrangement

Contract Register: Means the formal Contract Register of the Council to comply with the Local Government Transparency Code 2015 see www.supplyingthesouthwest.org.uk

Contract Standing Orders (CSOs): means this document and referenced Procedural Notes that form the overall rules around how the Council shall consider Public procurements.

Corporate Contracts: means contracts that have been set up with the expressed intention of supporting the delivery of Works, Service or Supplies across the whole of the Council.

Grants: For the purpose of this document Grants shall mean a payment to help the recipient (e.g. charity). In return, the grant funder (e.g. the Council) gets no services delivered directly. A grant is usually provided subject to conditions that state how the grant shall be used (for example to support the wider objectives of the public body in promoting the social, economic or environmental well-being of their area). Grant funding is usually preceded by a call for proposals. The grant offer letter will normally set out general instructions as to how this is to be achieved, for example, that children need to be kept entertained by taking them on excursions and have sporting activities.

Official Journal of the European Union (OJEU) Thresholds: meaning the defined thresholds as set out by the EU – see here for more details https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850566/PPN_for_New_Thresholds_2020_pdf.pdf (see "Other Contracting Authorities").

Procurement Service: Means the Council's own Procurement team within the Council.

Quotation: means for the purposes of this document price only submissions from Suppliers to provide Works, Services or Supplies.

Regulations: Means the Public Contracts Regulations 2015 (or Public Utilities Regulations where applicable to the subject matter) see http://www.legislation.gov.uk/uksi/2015/102/contents/made.

Responsible Officer: In general means the Officer within the Council who is the budget holder and who has direct responsibilities from an operational / client perspective for the supplies, works and services.

Sealed Contract: being a contract executed under seal by the parties (signed by the parties, witnessed and most importantly made clear that it is executed as a deed) with the intentions to secure limitation period of 12 years, for example specifically relevant in the case of Works contracts

Services: means the provision of Service from a Supplier(s) to the Council as a Contracting Authority. See also "Public Service Contract" as defined in the Regulations http://www.legislation.gov.uk/uksi/2015/102/regulation/2/made

Social and Other Specific Services (also referenced as **Light Touch Regime:** As defined within the Public Contracts Regulations - Social and Other Specific Services see http://www.legislation.gov.uk/uksi/2015/102/part/2/chapter/3/made.

Sourcing Strategy: means the approach to determining how to secure Works, Services or Supplies on behalf of the Council as detailed in section 2 of this document.

Supplier: means a third party who either is already contracted with the Council or used in general terms a potential third parties who provide contracted arrangements to others.

Supplies: means the provision of Supplies from a Supplier(s) to the Council as a Contracting Authority. See also "Public Supplies Contract" as defined in the Regulations http://www.legislation.gov.uk/uksi/2015/102/regulation/2/made

Teckal Company / Council Company: A company owned in whole or in part by the Council which benefits from contracts for works, services or supply from its controlling Contracting Authority (e.g. the Council) without having to go through a competitive tender process.

Teckal: The right to award contracts for Works, Services or Supplies from the controlling authority to the Council Owned company. See the Regulations regulation 12 for more details: http://www.legislation.gov.uk/uksi/2015/102/regulation/12/made

Tender: means for the purposes of this document Tenders sought or from Suppliers to provide Works, Services or Supplies that are evaluated on the basis of most economically advantages offer, considering Price, Quality and other considerations including consideration and compliance with the Council's Social Value Policy.

Works: means the provision of Works from a Supplier(s) to the Council as a Contracting Authority. See also "Public Work Contract" as defined in the Regulations: http://www.legislation.gov.uk/uksi/2015/102/regulation/2/made

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CSO Submission March 2020

The CSO document has been widely amended both in structure and minor rewording or editing to ensure that the content is compliant and up to date.

The structure has been amended with the addition of Procedural notes for specific points of interest that we feel need more guidance but not necessary to flood the main constitutional document. These procedural notes will provide support and be approved documents listed within the constitution.

The change in structure is to increase the compliance to the rules and make them more accessible to the service users. By utilising the Procedural Notes it will allow easier access to the specific information the service user is seeking.

The main two changes to the Contract Standing orders are as follows:

Quotation and Tendering Threshold (Table 1)

Currently the rules are unclear to service users and the requirement is for 5 quotations for:
£100,001 - £150,000 (Supplies/Services)
£200,001 - £2,000,000 (Works)

18. Summary Table of procurement routes dependent upon value

Type		Value range	Department	Activity
Low Value/Low Risk	Requisitioner standard RFQ	up to £5000	Self Service within Department	One written quotation
	Requisitioner standard RFQ	between £5,001 and £25,000	Self Service within Department	Three written quotations
Medium Value/Medium Risk	Procurement standard RFQ	£25,001 - £100,000 (goods / services) £25,001 - £200,000 (works)	Procurement Services Function	Three written quotations
	Procurement technical RFQ	£100,001 - £150,000 (goods/services) £200,001 - £2,000,000 (works)	Procurement Services Function	Five written quotations
High Value/High Risk	Below EU Threshold	£150,0001- EU Threshold (goods/services) £2,000,001 – EU Threshold (works)	Procurement Services Function	Tender advertised /Framework used
	Above EU Threshold	See OJEU	Procurement Services Function	Tender advertised /Framework used

The proposed updated CSO proposes changing this to the below:

Key Thresholds Table 1 – Quotation and Tendering Thresholds

ACTIVITY	Up to £5k	Over £5k to £25k	Over £25k - relevant OJEU Thresholds	Over Relevant OJEU Threshold
Tender process	**Minimum:** One Tender Quotations (non-verbal) Preferably: From PL Postcode	**Minimum:** Three Tender Quotations (non-verbal) Preferably: Two from PL Postcodes	**Minimum:** Three Tender Quotations (non-verbal) Preferably: Two from PL Postcodes	Formal Advertised Tender
Business Case Required?	No	No	Yes	Yes
Formal Advertisement of Opportunity?	Optional	Optional	Optional (If Advertised Contracts Finder utilised)	OJEU & Contracts Finder
Formal Publication of Award?	Optional	Optional	Contracts Finder	OJEU & Contracts Finder
Contract Published on Contract Register?	Not required	Yes	Yes	Yes
Use of Electronic Tendering System?	Optional	Yes	Yes	Yes
Procurement Service Responsible? [1]	Yes (except in case of Self-Serve: Please refer to Self Service Procedure)	Yes (except in case of Self-Serve: Please refer to Self Service Procedure)	Yes	Yes

[1] Procurement Service defined as both the core Procurement Service team and / or Strategic Commissioning

This creates a more streamlined and realistic approach to the thresholds.

Additionally we have added a preferable request that the quotations obtained are from the PL Postcode.

It is our aim that this will assist in increasing the value that is spent locally. Please note that this is not mandatory and only a preferable option to aide in commitment to the local spend.

Exemption Process

As a service we do not think the current Exemption process and statement within the CSO is fit for purpose or allows us to suitably challenge service users of the decisions they have made resulting in the exemption request.

Currently the Exemption point reads:

11.2 Exempt contracts: The following contracts are exempt from the requirements to obtain tenders provided that quotations are sought.

- contracts relating solely to disposal or acquisition of an interest in land, provided that the contract is not deemed to be a works contract in which case the contract shall be procured in accordance with these rules as a works contract;
- contracts for individual personal care services;
- transactions conducted by the Chief Finance Officer in respect of dealing in the money market or obtaining finance for the council;
- contracts offered by the Head of Legal Services for the appointment of counsel;
- contracts where a sole supplier has exclusive rights (e.g. alterations to statutory undertakers apparatus).

11.3 Where there is a written waiver: In cases where the EU regulations do not apply, the Head of the relevant service area, Head of Legal Services and the Procurement Services Manager can waive the requirements of any of the contract rules. All waivers and the reasons for them must be recorded using the designated form which can be found on the document library. The waiver form must be approved by the Head of the relevant service area, Head of Legal Services and the Procurement Services Manager.

We have suggested that this is suitably tightened up and made more robust and providing acceptable categories in which an exemption can be granted. In doing so this provides guidance to the service users as to what must be done in order to acquire an approved exemption.

Contract Standing Orders – Track Change

1. When do these standing orders apply?
   Included; this is now CSO.7
2. Other relevant guidance, rules and law
   Included; this is now CSO.4
3. Responsibility to follow these standing orders and relevant law
   Included; this is now CSO.4
4. Interests of councillors and officers in contracts
   Changed and reworded; now CSO.21 and PN.Breach of CSOs
5. Gifts and hospitality
   Changed and reworded; now CSO.48
6. Procurement advertisements
   Changed and reworded; now CSO.57/58 & 19 & Table 1
7. Before a contract is procured
   Changed and reworded; now Section2 and Table 1 & 2
8. Estimating the total contract value
   Included; now Section 3
9. Format of contracts
   Changed and reworded; now Table 1 & Table 2
10. Contract terms and conditions
    Included; now CSO.74
11. When is there no need to seek quotes or tenders?
    Changed and reworded; now CSO.9-14 and PN.Exemptions
12. Purchasing Card Procurement

Removed; this is covered by the financial regulations with Part H and a Purchasing Card Policy

13. Table of purchase card limits
    Removed; this is covered by the financial regulations with Part H and a Purchasing Card Policy
14. Lodge Cards
    Removed; this is covered by the financial regulations with Part H and a Purchasing Card Policy
15. Fuel Cards
    Removed; this is covered by the financial regulations with Part H and a Purchasing Card Policy
16. Contract Procurement - existing and corporate contracts
    Changed and reworded; now Section 3 and 4
17. General Principles of Procurement
    Changed and reworded; now Section 3 and 4
18. Summary table of Procurement Routes Dependent upon value
    Changed and reworded; now Table 1 & 2
19. Procurements below £25,000
    Included; now Section 4
20. Procurements £25,000 and above
    Changed and reworded; now section 3 & 4 and Table 1 & 2
21. Who can authorise contracts?
    Changed and reworded; now Table 1 & 2
22. High Value/High Risk Procurement process
    Included; now Section 2
23. Application of the Regulations
    Removed; we state that we comply with the regulations. All processes are based on this but not a requirement to list within this document
24. Restricted Procedure
    Removed; definition. Stated method in Section 2
25. Open Procedure
    Removed; definition. Stated method in Section 2
26. Competitive Procedure with Negotiation
    Removed; definition. Stated method in Section 2
27. Competitive Dialogue
    Removed; definition. Stated method in Section 2
28. Innovation Partnership
    Removed; definition. Stated method in Section 2
29. Negotiated procedure without prior publication
    Removed; definition. Stated method in Section 2
30. Predetermined Framework Agreements
    Included; now CSO.37
31. Concession Contracts
    Included; now CSO.43 and PN.Concessions
32. Pre-selection
    Removed: This is within the Terms and Conditions
33. The Invitation to Tender
    Removed: This is a process based upon the regulations and the CSO

34. Submission and Opening of Tenders
    Changed and reworded; now CSO.63 and PN.Late Submissions and PN.Missing or Omitted information
35. Electronic Tendering
    Included; now CSO.56
36. Tender Evaluation
    Included; now CSO.61 & 62
37. Evaluation Team
    Included; now CSO.61 & 62
38. Bonds, Guarantees and Insurance
    Included; now CSO.61 & 62
39. Award of Contract
    Included; now CSO.67
40. Debriefing
41. Contract Award Notice
    Included; now CSO.67
42. Contract Management
    Included; now CSO.83 &84 and Table1 & 2 also within the Contract Management Procedure
43. Copies of tenders and contracts and register of contracts
    Included; now CSO.82 and the overarching Regulations
44. Keeping a register of contracts
    Included; now CSO.82 and the overarching Regulations
45. What will the register record?
    Included; now CSO.82 and the overarching Regulations
46. Joint Procurement
    Covered by Table 1 & Table 2
47. Consultants
    Removed
48. Statistical Returns
    Removed; regulations bound to perform this action
49. Contract Extension and Variation
    Removed; contradicts update to the exemption process
50. Termination of Contracts
    Removed; covered by Table 1 and Table 2
51. Review and Amendment of Contract Standing Orders
    Removed
52. Interpreting Contract Standing Orders
    Removed

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Procedural Note: Breach of Contract Standing Orders.

NOTE: This Procedural Note provides support to the Contract Standing Orders and shall be read in conjunction with the Contract Standing Orders and any associated Procedural Notes.

Background

1) This Procedural Note outlines the steps to be taken where a perceived breach of the Contract Standing Orders (the Rules and associated Procedure Notes) has taken place.
2) Steps to be taken to investigate in the event of a suspected breach will be proportionate to value, risk and taking into relevance to significance and seriousness of the issue.
3) Where an Officer (or Officers) does not act in accordance with the Contract Standing Orders (either wilfully or unintentionally) this may result in a formal Disciplinary and Capability Procedure.
4) An awareness of any failure to comply with the Contract Standing Orders is essential for the Council to appropriately manage and mitigate any resultant risks.
5) A breach of the rules can occur at any stage in the commercial cycle.

General

6) Where a suspected breach of the Contract Standing Orders has taken place, that may represent a significant and serious failure to comply with the Contract Standing Orders, or an individual has become aware that they themselves have breached the Contract Standing Orders, initial referral is made to the Head of Procurement as soon as practically possible.
7) In raising a suspected breach of the Contract Standing Orders sufficient information shall be provided to enable the allegations to be suitably investigated, an opinion formed around the seriousness of the breach, and a decision taken as to the actions which shall be taken.
8) Suspected breaches of the Contract Standing Orders can be raised by anyone, either internal or external to the Council.
9) When notified of a suspected breach the Head of Procurement shall be required to instigate an initial investigation into the matter. The intent, the individual circumstances and the impact of the alleged breach shall be considered.
10) The Head of Procurement shall endeavour to reach a formal decision around the investigation within 20 working days from initially being bought to their attention.

11) The Head of Procurement shall record the matter and the overall findings from any investigation for auditing and accounting purposes, and report the number of breaches raised (along with those upheld or not) to the CMT on a monthly basis and to the S151 Officer and Monitoring Officer on a quarterly basis.

Findings of Initial Investigations

12) Where the Head of Procurement considers the matter to be a significant and serious failure to comply with the Contract Standing Orders, then the matter shall be referred to the Line Manager of the Officer responsible for the breach for further consideration. This may involve conducting the Council's Disciplinary and Capability Procedure as applicable. This will also be the case for persistent non-compliance.

13) Where it is suspected that fraud, corruption and / or financial irregularity have taken place, Internal Audit shall be notified immediately.

14) The Line Manager of the Officer who was responsible for the breach shall be required to inform the Head of Procurement as to any and all actions taken to rectify the breach.

Procedural Note: Concession arrangements

NOTE: This Procedural Note provides support to the Contract Standing Orders and shall be read in conjunction with the Contract Standing Orders and any associated Procedural Notes.

Background

1) This Procedural Note shall apply in all situations where Concession arrangements are to be considered.

2) The purpose of the concession rules are set to provide clear rules so the concession market is open to competition, particularly to small and medium sized enterprises (SMEs).

3) In the consideration of Concessions the Council will be the "grantor" granting a person or supplier (the concessionaire) the right to operate - usually as the sole seller of certain goods or services – as a business within a premises or other asset belonging to the grantor in return for an appropriate fee. The concessionaire pays the grantor.

Definition of a Concessions Contract

4) Concessions are broadly similar to "normal" contracts between contracting authorities/entities and suppliers, but with one key difference: the consideration in a concession contract consists in the right to exploit the work, or services, that are the subject of the contract, or that right to exploit together with a payment. Examples of concessions might include car parks built on local authority-owned land, or toll roads and toll bridges.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/528062/20160607_Handbook_for_the_Concession_Contracts_Regulations_2016_final.pdf

What could be deemed a Concession Arrangement

5) The below are what could be considered as a Concession arrangement:

    i. A concession contract is a mutually binding contract for buying works or services by the Grantor entrust the delivering of outcomes to one or more concessionaire.

    ii. Consideration in a Concession arrangement consists in the right to exploit the work, or services, that are the subject of the contract, or that right to exploit together with a payment.

    iii. The transfer to the concessionaire of the right to exploit the works or services shall always imply an operating risk of economic nature involving the possibility that it will not recoup the investments made and the costs incurred in operating those works or services. This means that under the contract, the concessionaire should not enjoy a guarantee of breaking even on investments and costs incurred.

iv. The concessionaire must be exposed to a potential loss on its investments and costs, and it should not be merely nominal or negligible risk.

v. Concession arrangement may involve a transfer of ownership to the Council.

vi. The Council will always obtain the benefits of the works or services in question rather than the concessionaire

What would not be deemed a Concession Arrangement

6) Below are not a concession arrangements:

i. Activities covered by other legislation for example the Public Contracts Regulations or Utilities Regulations;

ii. An outsourcing contract or privatisation;

iii. A land lease contract;

iv. The financing for works or services i.e. a grant;

v. If customers have a choice between providers that are delivering the same service;

vi. Licenses where Government or public authorities (not contracting authorities) establish conditions and an economic operator can withdraw from provision of that service, are not concessions but would fall under Directive 2006/123/EC Service Directive.

vii. When an economic operator has a right to exploit public domains such as maritime, inland ports or the airport sector. These involve general conditions for their use without the procurement of specific works and services.

viii. An agreement that grants the right of way covering the utilisation of public immovable property, fixed lines or networks.

ix. Where no payments are made but the contract is remunerated on the basis of regulated tariffs calculated to cover all costs and investments borne by the concessionaire for providing the service.

x. A contract is not a concession if the contracting authority or utility relieves the concessionaire of any loss by guaranteeing minimal revenue equal or higher to the investment made and the costs the economic operator has to incur.

General

7) There are several commercial drivers behind concessions considerations:

i. To seek or generate future commercial income or revenue for the Council.

ii. To derive community benefit or contribute to the quality of life for the people living in, or visitors.

iii. To sustain business and employment.

iv. To improve well-being by enabling people to use public open space.

v. To improve security of assets through public presence.

8) Examples of Concession arrangements are but not limited to catering (cafés, kiosks, restaurants, mobile catering) sports (water sports, tennis coaching, fitness classes, cycle speedway) play (miniature railway, crazy-golf,) and clubs (bowling, surf lifesaving, rowing, etc).

9) In consideration around whether to pursue a Concession arrangement relevant due diligence shall be undertaken to establish the scale of any opportunity and value of any possible concession, and as such this should include any relevant market research.

10) In pursuing a Concession arrangement, the Council shall:

i. Apply the principles of equal treatment, non-discrimination and transparency in its approach to consideration of concession arrangements, and in doing so assessing and managing any conflicts of interests.

ii. Maintain confidentiality in respect of consideration of potential concessionaire proposals and any resulting concession awarded, but in doing so not to prejudice wider requirements of disclosure of information, for example in provision of Notice of award in the case of the case of above threshold concessions, Transparency Agenda requirement to publish contract details and wider Freedom of Information (FOI) requirements.

iii. Seek to openly and proportionally advertise any proposed concession arrangement – and allow suitable time for potential concessionaires to submit any proposals considering complexities and risks.

iv. Whilst no duty on the Council to advertise outcomes of below threshold awards the Council shall seek to apply an approach where details are advertised and captured onto the Contract Register.

v. Undertake all necessary due diligence that it has the authority and jurisdiction to enter a concession – seeking to ensure that all relevant subject matter experts are engaged in the overall process.

11) At the time of advertising a Concession arrangement all required information is provided to enable due consideration by potential concessionaries to undertake related to any proposed submission, to include:

i. Clearly set out the subject matter of any proposed concession.

ii. Setting out any proposed conditions and caveats on potential concessionaires – including setting out any mandatory exclusion grounds related to entities looking to make a submission.

iii. Timeframes around any award, including options to extend.

iv. Details on the process to be followed and how concession submissions are to be considered and evaluated. The award criteria shall be proportional to the subject matter of the Concession arrangement.

v. Setting out risks and liabilities related to any resulting concession and where and how these are to be aligned in the granting of any concession.

12) Ensure that where a concession is granted that it is supported by a formal contract. The contract shall include:

i. Capture details set out in the concession pack and the submission (and any resulting clarifications) from the concessionaire.

ii. Details on term of the concession and termination including any grounds for early termination.

iii. Grounds and procedure to be followed in consideration of any moderation or variation under the contract – noting that any variation beyond 10% of the commercial value shall be deemed as a material change and not permitted under the current contract.

iv. Consideration of risks and liabilities seeking to reduce risk exposure for both parties.

v. Contract management arrangements need to be proportional.

13) If a concession opportunity does not require investment from the concessionaire then the recommended maximum duration of the concession contract shall be no longer than 5 years.

14) For concession contracts lasting more than 5 years, the maximum duration of the concession contract shall not exceed the time that a concessionaire could reasonably be expected to take to recoup the investments made in operating the service together with a return on invested capital taking into account the investments required to achieve the specific contractual objectives.

15) The investments taken into account for the purposes of the calculation of the time period include both initial investments and investments during the life of the concession contract.

Calculating the Value of a Concession Contract (Regulation 9)

16) The value of a concession is to be calculated on the basis of the total turnover of the concessionaire generated over the duration of the contract, net of VAT, as estimated

by the contracting authority or the utility, in consideration for the works and services that are the object of the concession as well as for the supplies required for such works and services. An example of the latter is if a concessionaire gains an economic benefit from providing the resources used in delivering the concession.

17) On occasions the estimated value of the concession contract pre-procurement may be different than the value established at the moment of the award. Typically, several parameters of the concession (fee to be expected from the users, duration, lump sum payments stipulated by the concessionaire) may be subject to competition of the bidders. Consequently a second calculation of the value of the concession contract is required before award. If the value of concession at the time of the award (i.e. post tender) is **more than 20% higher** than the estimated value pre competition, then the value to be taken into account is the value of concession at the time of the award.

18) If the original estimated value was below the threshold (e.g. £3m) and had not been advertised in OJEU, and the actual value of the modified concession amounts to more than 20% more than the original estimate (e.g. £4.5m) and takes the estimate over the threshold, the contracting authority/utility will need to cancel the award and re-compete it following the provisions of the CCR16. It is, therefore, worthwhile considering advertising concessions close to the threshold in OJEU.

19) The estimated value of the concession must be calculated using an objective method. The choice of the method used to calculate the estimated value of a concession cannot be made with any intention of excluding it from the scope of the CCR16.

20) The CCR16 helpfully lists several costs and payments to take into account when calculating the estimated value. The list not only includes costs associated with the delivery of the concession contract, but also costs associated with the actual procurement and financing of the concession such as any prizes or payments to candidates/tenderers. Assessing the operating risk requires the net present value of all the investments, costs and revenues associated with the concession contract to be taken into account in a consistent and uniform manner.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/528062/20160607_Handbook_for_the_Concession_Contracts_Regulations_2016_final.pdf

Value of Concession at or above threshold

21) The Council shall observe and apply the Concessions Contract Regulations 2016 (CCR16) where the values applies to concession contracts with a value greater than

the threshold of as set out and calculated in line with Regulation 9 of CCR16– regardless of categorisation (works or services), see http://www.legislation.gov.uk/uksi/2016/273/pdfs/uksi_20160273_en.pdf

22) Concession thresholds for Services and Works can be found at the below: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850566/PPN_for_New_Thresholds_2020_pdf.pdf

Below Threshold Concessions

23) The principles set out in this Procedural Note shall apply for Concession arrangements not covered by CCR16, with proportional consideration of CCR16 requirements considered.

Other Points of Consideration

24) In the context of business premises, the key issue is whether or not the business occupation might attract the protection of the Landlord and Tenant Act 1954 ("LTA 1954"), either utilizing a protected or unprotected lease.

25) Matters related to occupancy, leases and any implications on Tenancy and considerations on any Licencing matters shall be referred to Property Services.

26) For more guidance please refer to the following documents in conjunction with this Procedural note:

i. The Public Contracts Regulations 2015

ii. The Concession Contracts Regulations 2016

iii. Handbook for the Concession Contracts Regulations 2016

27) To minimise risks and benefits for the Council, the Responsible Officer is responsible for consulting and seeking specialist support, the following service areas as a minimum are required to be consulted at the outset of any work in relation to Concession arrangements:

i. Procurement Service

ii. Property Team

iii. Legal Services

Procedural Note: Exemptions

NOTE: This Procedural Note provides support to the Contract Standing Orders and shall be read in conjunction with the Contract Standing Orders and any associated Procedural Notes.

Background

1) This Procedural Note outlines the steps to be undertaken where the Contract Standing Orders (CSOs) are not able to be followed for a specific reason. In accordance with Section 10 of the CSO's.

2) Where this is the case, this Procedural Note is intended as a means of providing formal authorisation for "exemption" from specific elements of the CSOs.

3) The approval of an Exemption does not remove the requirement to follow the Council's formal decision making processes or any related formalisation of contractual matters.

Overview of the process

General

4) This Procedural Note shall:
    i. Help to mitigate risks of challenge from third parties in how the Council procures Works, Service and Supplies;
    ii. Improve transparency and probity in how decisions are made;
    iii. Help to manage, control and mitigate other risks.

5) Having relevant contract management arrangements and / or forward plans in place identifying future needs will help to minimise the need for Exemptions.

6) In the majority of cases, Exemptions shall only be considered for periods of 12 months or less. If arrangements are required beyond 12 months this shall be justified in the Exemption Form for consideration and will be subject to an annual review should the Exemption be approved.

7) In all cases Exemptions shall be completed in advance of committing spend.

8) Every effort shall be taken to ensure that the details included and signed off within the Exemption are accurate and sufficient for the intended purposes. If during the Exemption period there is any change, this should be updated as part of the recording process.

9) Exemptions shall be completed using the most recent template which is available on the Plymouth City Council Intranet page.

10) Exemptions should not be used to overcome poor planning of activities leading to the procurement.

11) Exemptions shall only be granted on the following grounds:

   i. **Breach or Conflict of Statutory Duties** if CSOs were applied resulting in **Increased cost / loss of income:** The Council will incur unforeseen, significant and avoidable costs or lose significant income that cannot be mitigated in compliance with the Procedures.
   ii. **Limited market:** The market is a monopoly or no competition is likely to be stimulated through a formal procurement process. There is a requirement to demonstrate that the market is limited and not able to be suitably stimulated to create competition within the Regulations. Justification may include market intelligence including soft market consultation. Further guidance is available in the Pre-Procurement Market Consultation Guidance.
   iii. **Unavoidable / Time Critical** leading to **Reputational damage:** Failure to act promptly would have a serious, damaging and long term impact on the reputation of the Council, which from a time perspective the Council cannot afford to be mitigated through a formal tendering process.
   iv. **Personal Welfare of Service users:** There is a likelihood that vulnerable services user(s) would be placed in unnecessary or inappropriate risks if the proposed actions within the Exemption application are not undertaken.

Procedure and Approval

12) The Responsible Officer within the Service shall be required to explore the suitability of the use of an Exemption, giving due consideration to:

   i. Options and alternatives;
   ii. Risks, and associated mitigating actions;
   iii. The rationale for the Exemption and what will happen to avoid the need to seek further Exemptions upon expiry.

13) The Responsible Officer shall look to engage early with the Procurement Service and Legal Services.

14) In completing the Exemption Form, the Responsible Officer shall be responsible for providing the relevant factual and supporting information.

15) On completion of the Exemption Form, the Responsible Officer seeks the appropriate authorisation sign off dependent on the value of the Exemption as explained in the table below, in the following order:
   i. Departmental
   ii. Head of Legal
   iii. Procurement Service

Exemption value	Required Service approval signed in this order;
£5k and under	- No formal Exemption Form required.
Over £5k up to £25k	- Head of Service for the Service Area - Head of Legal - Head of Procurement or Product Portfolio Manager in the case of Commissioning / Social Care
Over £25k up to OJEU Threshold	- Service Director for the Service Area - Head of Legal - Head of Procurement or Product Portfolio Manager in the case of Commissioning / Social Care

16) If the Procurement Service / Product Portfolio Holder considers the grounds for the Exemption not suitable then they shall seek to resolve this directly with the Responsible Officer, clearly stating what steps they consider necessary to either make the sign off appropriate or what alternative actions would need to be undertaken. Where this cannot be resolved the matter to be referred onwards to the Head of Procurement.

17) When approval cannot be obtained by all appropriate parties, the matter shall be referred to the monitoring officer for a ruling.

18) When an exemption has been approved it shall be given a unique reference number and recorded in a corporate Exemption register by the Procurement Service for retention and registration.

19) Following approval of the Exemption by all required parties the Responsible Officer shall ensure that the Procurement Gateway & Contract Procedure is followed.

Reporting

20) Exemptions are reported to Corporate Management Team, Section 151 and Monitoring Officer on a quarterly basis.

Appendix I Roles and responsibilities

Table I below highlights the respective roles and responsibilities of the signatories to the Exemption Approval Form.

SIGNATORIES	ROLES AND RESPONSIBILITIES
Category Lead – (or Product Portfolio Manager in the case of Strategic Co-operative Commissioning)	• Providing relevant and proportional scrutiny and due diligence around the procedural matters. • Providing relevant, proportional and constructive challenge with respect to commercial matters related to the Exemption. • Providing wider commercial advice to either aide or suitably scrutinize the exception submission. Consider wider commercial activity and co-op partners in ongoing procurement service provision. • Providing relevant support and advice to the Responsible Officer to ensure the process and recommendation is appropriate and that risks are highlighted as part of the overall considerations. • Considering whether the Exemption is appropriate and whether suitable due diligence has taken place in the development of the Exemption (and any supporting information). Where relevant this may also include challenging the position as outlined. • Ensuring that the Exemption is in line with this Procedural Note and if not, highlighting this to the Head of Procurement including the reasons, value, and why this is the case.
Head of Procurement – Procurement Services / Appointed Legal Services representative	• Providing relevant and proportional scrutiny and due diligence around the procedural matters. • Providing relevant, proportional and constructive challenge with respect to commercial matters related to the Exemption. • Providing relevant support and advice to the Responsible Officer to ensure the process and recommendation is appropriate and that risks are highlighted as part of the overall considerations. • Signing off the Exemption Form alongside other identified parties so enabling the recommended course of action to be implemented. • Considering whether the Exemption is appropriate and whether suitable due diligence has taken place in the development of the Exemption (and any supporting information). Where relevant this may also include challenging the position as outlined. • Ensuring that the Exemption is in line with this Procedural Note and if not, highlighting this to the Section 151 Officer and Monitoring Officer including the reasons, value, and why this is the case.
Monitoring Officer	• Reviewing any matters referred to them by the Head of Procurement with regards to Exemptions considered outside of the recognised procedures and taking what actions they consider necessary within their role as Monitoring Officer. • On occasions acting as arbiter when exemptions are referred to

SIGNATORIES	ROLES AND RESPONSIBILITIES
	them by Head of Procurement.
Procurement Service	• Scanning and storing the signed Exemption Approval Forms electronically in a central file and sending a link to that file for the relevant Responsible Officer to attach any supporting information. • Recording the Exemption and relevant details on the central register. • Issuing 6 month reminders prior to expiry of signed off Exemptions to the Responsible officer(s) around ensuring any necessary plans are in place (or being progressed) in time for the expiry (so as not to risk service failure or continuity of service). • Compiling and distributing of the Quarterly reports under the direction of the Head of Procurement.

SIGNATORIES	ROLES AND RESPONSIBILITIES
Responsible Officer	• Ensuring the Exemption process is complied with and adhered to. • Obtaining and completing the latest version of the Exemption form and providing any necessary supporting evidence and information at start and during the approval process. • Clearly and concisely outlining the "what, why, when, who" in completing the Exemption form. • Taking ownership that at the time of submission the details put forward are relevant, accurate and factual. • Ensuring that if any changes to the details put forward upon submission of the Exception Form are communicated to the procurement service whilst approval is being undertaken. In this instance; resubmission of the exception form may be required. • Ensuring risks are identified, considered and any necessary mitigation measures put in place. • Openly considering and documenting the advantages / disadvantages of all relevant options and confirming that the recommendation put forward is the most appropriate way forward (considering all relevant information and advice sought). • Ensuring timely due diligence discussions have taken place and relevant advice has been sought with key stakeholders (e.g. the Procurement Team, Finance, Legal, Health and Safety, etc.) prior to seeking signatures of other key parties. • For over £25k exemptions ensuring that the Procurement Service is involved prior to obtaining signatories. • Ensuring plans are in place both to implement and adhere to the intended outcomes of the recommendation (this will include ensuring suitable plans are in place to formalise contractual matters arising from the Exemption sign off, plus plans outlined for the period following the Exemption expiry) at the point when any Exemption forms are 'Signed Off' • Ensuring that all signed off Exemptions are provided to Procurement Service for formal registration.
Service / Strategic Director	• Acknowledgement and acceptance of the existence and details as set out in the Exemption Approval Form. • Understanding the position as set out within the Exemption form and being satisfied that the recommendation is appropriate, and that suitable due diligence has taken place in the development of the Exemption (and any supporting information). Where relevant this may also include challenging the position as outlined.

Procedural Note: Late Quotation / Tender Submissions

NOTE: This Procedural Note provides support to the Contract Standing Orders and shall be read in conjunction with the Contract Standing Orders and any associated Procedural Notes.

Background

1) This Procedural Note outlines the steps to be taken where a quotation or tender is submitted late (i.e. beyond the published specified time or date for submission).

General

2) Where a Quotation or Tender is received late, the default position will be for the tender not to be evaluated or taken further in the procurement process.

3) In such cases it will be necessary to carry out the following actions to establish the reasons why. This may be to ensure as far as possible from the information to hand that the cause of the Quotation or Tender being late was not as an error on the part of the Council:

    i. Establish when it was claimed that the documentation was sent by the tenderer to the Council (including whether submitted or attempted submission via e-tendering, or email)

    ii. If appropriate, obtain further information from the tenderer who submitted the quotation / tender to confirm when they submitted, how submission was made and to whom.

    iii. The evaluation process shall be put on hold until it is possible to make a determination on whether or not the Quotation / Tender is deemed to have been submitted late.

4) In the event of issues arising from electronic submissions, an understanding of the reasons will be critical around this. For example, late submissions due to technical issues reasonably expected to be beyond the control of the supplier such as issues with the electronic system or wider network issues by service providers, as opposed to matters which could otherwise have been avoided (e.g. supplier attempting to upload large volumes of data near to or their bid submission on or near to the closing time of the Quotation / Tender submission.

5) Considerations around Late Submissions shall be carried out in the most expedient manner possible and seek to consider a resolution as efficiently as possible within five working days.

6) Where, following investigation, it is deemed that the Quotation / Tender was not received by the required submission deadline and is confirmed as having been submitted late, the following procedures apply:

   i. The Responsible Officer / Procurement Service lead shall inform the supplier as soon as practically possible as to the decision (and justification) to exclude their Quotation / Tender from further consideration in the process.

   ii. In any such communication the supplier shall be informed of their right to appeal the decision using the Appeals Process detailed in Sections 7 & 8 of this Procedural Note.

Appeals Process around Late Submission

7) Where a Quotation / Tender is deemed as received late then it shall not be accepted or considered for evaluation, however the supplier who's quotation / tender is deemed to have been late shall have the right to appeal the initial decision, and the following process shall be followed in relation to the Appeals Process:

   i. Where a supplier considers that their quotation / tender was not late (or there are reasonable and justifiable grounds for it to be considered not late, they shall notify the Responsible Officer leading on the procurement process as to the wish to exercise the Appeals Process and provide all necessary supporting information in writing within three working days of being notified of the decision.

   ii. Where an appeal is sought this shall be notified to the Head of Procurement who shall seek to determine the circumstances behind the late receipt.

   iii. Where the Head of Procurement is satisfied that the grounds are exceptional, that could not reasonably have been otherwise avoided, and there is no chance of the information within the response being unfairly disclosed or made available, then the response may be taken forward for evaluation where following all considerations it is appropriate to do so.

   iv. Where the Head of Procurement upholds the decision to exclude the tender then the response shall not be considered further and the supplier concerned shall be informed of the Council's decision not to further consider their response.

   v. The justification for the decision shall be recorded and available for disclosure on request.

8) Any further appeal from the supplier should be considered a formal complaint and conducted using the Council's Complaint process.