



Monday, 14 January 2019

AUDIT COMMITTEE

A meeting of **Audit Committee** will be held on

Tuesday, 22 January 2019

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus,
Torquay, TQ1 3DR

Members of the Committee

Councillor Tyerman (Chairman)

Councillor Barnby

Councillor Long

Councillor Bent

Councillor Manning

Councillor O'Dwyer

Councillor Morey

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AUDIT COMMITTEE AGENDA

1. **Apologies**

To receive any apologies for absence, including notifications of any changes to the membership of the Committee.

2. **Minutes**

To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 25 September 2019.

(Pages 4 - 5)

3. **Declarations of interests**

- (a) To receive declarations of non pecuniary interests in respect of items on this agenda

For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

- (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda

For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(Please Note: If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)

4. **Urgent Items**

To consider any other items that the Chairman decides are urgent.

5. **Treasury Management Strategy 2019/20 (incorporating the Annual Investment Strategy 2019/20 and the Minimum Revenue Provision Policy 2019/20)**

(Pages 6 - 57)

To consider a report that seeks comments from the Audit Committee on the proposed Treasury Management Strategy for 2019/20, the Prudential Indicators 2019/20, Annual Minimum Revenue Provision Policy Statement for 2019/20 and the adoption of the CIPFA Code of Practice: Treasury Management in the Public Services.

- 6. Internal Audit Report - Follow Up Report on Areas Requiring Improvement** (Pages 58 - 73)
To note a report that details follow up reviews in order to provide updated assurance to Members.
- 7. Internal Audit - Half Year Audit Report** (Pages 74 - 108)
To consider a report that reviews work undertaken to date in 2018/19, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 8. Certification work for Torbay Council for year ended 31 March 2018** (Pages 109 - 111)
To note a report on the above.
- 9. Audit Progress Report and Sector Update** (Pages 112 - 121)
To note a report that provides an update on the progress Grant Thornton has made in delivering their responsibilities as the Council's external auditors.
- 10. Corporate Performance Report: Quarter 2 2018/19** (Pages 122 - 133)
To note the submitted report.



Minutes of the Audit Committee

25 September 2018

-: Present :-

Councillor Tyerman (Chairman)

Councillors Barnby, Bent and O'Dwyer

153. Apologies

Apologies for absence were received from Councillors Long and Morey

It was reported that, following Councillor King's resignation from the Liberal Democrat Group, there was a Liberal Democrat Group vacancy on the Audit Committee.

154. Minutes

The Minutes of the meeting of the Audit Committee held on 25 July 2018 were confirmed as a correct record and signed by the Chairman.

155. Treasury Management Mid-Year Review 2018/19

Members considered a report that provided a review of Treasury Management activities during the first part of 2018/19. The Principal Accountant informed Members that the Treasury function aims to support the provision of all Council services through management of the Council's cash flow, debt and investment operations.

The Principal Accountant referred to the following key points of the review:

- New borrowing of £10million taken in year to date (as at end August 2018);
- Re-profiling of capital expenditure to future years reducing the overall borrowing need in 2018/19;
- Total borrowing currently in line with the Capital Financing Requirement – under borrowing position anticipated by year end;
- Increase in Bank Rate by 0.25% to 0.75% in August 2018; and
- Forward renewal of core cash investments in one year duration deposits.

Members requested that the Investment Fund decisions be separated in the Treasury Management Prudential Indicators table in order to give a clearer picture of fluctuations in the 'percentage of financing costs to the net revenue stream'.

Members referred to exempt appendix 2 and requested the appendix contain an explanatory note regarding the criteria for classification as a non-treasury management investment and explanation as to what the table is telling us.

156. Annual Audit Letter

The Committee noted the Annual Audit Letter for Torbay Council which summarised the key findings arising from the work Grant Thornton had undertaken as the Council's external auditors for the year ended 31 March 2018.

Members questioned whether the findings of the Annual Audit Letter would be the same if it was written today in light of the Council's recent budget announcement. Alex Walling, Associate Director of Grant Thornton, informed Members that upon the budget announcement a discussion was held with the Section 151 Officer. The Annual Audit Letter is a reflection on the 2017/2018 financial year and as auditors, if there were severe concerns about the immediate financial viability of the Council Grant Thornton would not authorise the certificate of closure of the audit.

157. Audit Progress Report and Sector Update

The Committee noted a report that provided an overview of the planned scope and timing of the statutory audit of the Council and details of sector publications that may be of interest to Audit Committee Members.

158. Corporate Performance Report Q1 2018/19

Members noted the Corporate Performance Report for quarter 1. Member's attention was drawn to:

- Numbers in temporary accommodation;
- Admission episodes for alcohol-related conditions;
- Numbers of Children Looked After;
- Carers receiving needs assessment or review and a specific carer's service or advice and information; and
- Proportion of adults with a learning disability in paid employment.

Members of the Children's Monitoring Group and Adult Services and Public Health Monitoring Working Party advised the Committee that they would raise the performance data at their next meeting.

Chairman/woman



Meeting: Audit Committee

Date: 22nd January 2019

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2019/20 (incorporating the Annual Investment Strategy 2019/20 and the Minimum Revenue Provision Policy 2019/20)

Is the decision a key decision? Yes

Executive Lead Contact Details: Mayor Gordon Oliver, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Proposal and Introduction

- 1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2019/20 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2018.

2. Reason for Proposal

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management.

The Strategy has been fully updated for provisions in a new edition of the Code released in December 2017 and the recommended policy statement and practices are presented at Appendix 2 for adoption by the Council.

- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to

forward thinking, people orientated, adaptable - always with integrity.

ensure that the Council's capital investment plans are affordable, prudent and sustainable.

- 2.4 Under Ministry of Housing, Communities and Local Government regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

3. Recommendations

- 3.1 That the Audit Committee provide any comments and/or recommendations on the proposed:**

- **Treasury Management Strategy for 2019/20 (incorporating the Annual Investment Strategy 2019/20);**
- **the Prudential Indicators 2019/20; and**
- **the Annual Minimum Revenue Provision Policy Statement for 2019/20**
- **adoption of the CIPFA Code of Practice: Treasury Management in the Public Services**

as set out in the Appendices to this report.

4. Treasury Management Strategy

- 4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

- 4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 4.3 Currently the Council's approved capital plan has a future borrowing requirement of approx. £129 million which will have a significant impact on the Treasury Management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. It should be noted that this report is based on the Council's approved capital plan as at Quarter Three of 2018/19 (draft). The final version of this Treasury Management Strategy to Council in February will be updated to include the final position as at Quarter Three plus any significant capital activity by end of January 2019.

5. Prudential Indicators

- 5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital

expenditure plans. The proposed indicators for 2019/20 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

- 6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy has been updated in line with the new Prudential Code.
- 6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.
- 6.3 The recommended MRP Policy for 2019/20 is set out at Appendix 2 to the Treasury Management Strategy and will be applicable from date of approval.

7 Adoption of the CIPFA Code of Practice: Treasury Management in the Public Services

- 7.1 Following the updated CIPFA Code of Treasury Management Code of Practice (2017) and the updated CIPFA supporting Guidance Notes (2018) the Treasury Management Policy Statement and Practices (TMP's) have been updated and are presented for re approval by Council as set out in Annex 2.

Annexes

Annex1	Treasury Management Strategy 2019/20
Annex 2	Treasury Management Policy Statement and Practices



January 2019

Treasury Management Strategy 2019/20

incorporating the Annual Investment
Strategy and the Minimum Revenue
Provision Policy

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1 Introduction

The Council defines its treasury management activities as:

“The management of the authority’s borrowing, investments and cash flows, it’s banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Strategy for 2019/20 covers two main areas:

- Treasury management issues
 - the current treasury position;
 - treasury indicators which limit the treasury risk and activities of the Council;
 - prospects for interest rates;
 - the borrowing strategy;
 - the investment strategy;
 - policy on use of external service providers;
 - reporting arrangements and management evaluation
 - other matters

- Capital issues
 - the capital plans and the prudential indicators;
 - the minimum revenue provision (MRP) policy.

2 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

The table below includes the impact of the approved capital plan (as at draft quarter three 2018/19) which shows a future borrowing requirement of £129 million (£81m Investment Fund) by 2021/22, but makes no assumption at this stage on the timing or level of the borrowing required

	2018/19 estimate	2019/20 Estimate	2020/21 Estimate
Reserves	20	15	14
Capital Funding	5	5	5
Provisions	2	2	2
Other	1	0	0
Total "core" funds	28	22	21
Working capital*	10	10	10
Total (under)/over borrowing	(41)	(109)	(129)
Expected cash position	(3)	(77)	(98)

* Working capital balances shown are estimated year end; these may be higher mid-year

Memorandum: (Under)/Over Borrowing	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
-Investment Fund	(33)	(81)	(81)
- Other	(8)	(28)	(48)
Total	(41)	(109)	(129)

3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view (at December 2018).

Link Asset Services Interest Rate View														
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

PWLB rates are quoted at the discounted Certainty Rate which Torbay Council is eligible for.

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

This outlook continues to support a policy of restricting new borrowing and running down spare cash balances (Internal borrowing) to reduce net financing costs. However, this policy will need to be carefully monitored to avoid delaying borrowing to a point where rates are significantly higher than the current forecast affordable levels.

4 Borrowing

4.1 The current borrowing position

The Council's borrowing portfolio position with forward projections (excluding new borrowing) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2017/18 Actual	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	153	273	285	284
Change in Debt	120	12	(1)	(4)
Other long-term liabilities – School PFI	7	7	6	6
Other long-term liabilities – EFW PFI	12	12	12	12
Actual gross debt at 31 March	292	304	302	298
The Capital Financing Requirement	280	345	411	427
(Under) / over borrowing	12	(41)	(109)	(129)

The table above based on the draft quarter three 2018/19 capital monitoring report shows the Council's capital financing requirement (including PFI liabilities) rising to £427m (£200m Investment Fund) by the end of 2020/21 of which £129m is yet to be borrowed (£81m Investment Fund). This total could increase if Council approve any additional schemes to be funded from borrowing such as for additional regeneration schemes.

4.2 The Borrowing Strategy

The Council's Capital Investment Plan at quarter 3 2018/19 (draft) is detailed within the Prudential Indicators at Appendix 1. This plan and the impact on core cash, indicate the need to borrow £129 million of funds over the next three years to ensure that gross debt is in line with the CFR. If the profile of capital spend changes, the in-year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

It is proposed that the Council generally maintain an under borrowed position of around £10million, using existing cash resources to temporarily fund capital transactions thereby limiting the additional borrowing cost on the General Fund until income streams are realised. The timing of borrowing will be prompted by cash requirements but the Chief Finance Officer will look to take advantage of market volatility and secure funding at any point where rates fall below the forecast level.

The budget for payment of interest on debt for 2019/20 has been based on £285m of borrowing as at 20/12/18 with an overall borrowing rate of 3.34% (3.40% in 2018/19).

The Chief Finance Officer has recognised the value in aligning current low borrowing rates to the business cases of specific schemes generating new income streams and this policy is

currently being applied to Investment Fund related schemes. Decisions on other schemes will be made on a case by case basis and non-applicable schemes will continue to reflect the Council's average rate of borrowing.

The outlook for interest rates in section 2 recognises the risk of deferring borrowing and exposure to higher borrowing costs. In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer has delegated authority to vary the primary strategy outlined above and take a greater proportion of the borrowing requirement earlier to protect the affordability of capital schemes over the longer term.

The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance, linked to forecast interest rates, will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring.

Finance officers continue to monitor alternative funding sources to PWLB. These could include borrowing from financial institutions, LGA Bond Agency and private finance. While these currently offer no advantage over PWLB, groundwork has been prepared if the Council's circumstances change in the future.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

5 Annual Investment Strategy

Investment policy

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

Investment strategy

Investment rates are forecast to improve marginally during 2019/20.

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash available to be invested over a longer periods in higher risk/return instruments. £5 million of this core cash has been placed with the Local Authorities Property Fund (current yield around 4.26%). Investment of part of the remaining balance has been limited to one year deposits to track the forecast increase in rates. Further investment of residual core cash will depend on cash flow requirements and the effect of internal borrowing.

As such extensive use is expected to be made of the Council's money market funds to maintain sufficient liquidity, with fixed deposits of 3 or 6 month durations to add value to returns.

In the event that the primary strategy is varied by the CFO resulting in additional cash from new borrowing, opportunities will be sought for longer term deposits to enhance returns but likely limited to one year maximum to track forecast Bank Rate rises.

The Council's holding in the Funding Circle (peer-to-peer lending platform) is being wound down as previously approved and at 31/12/18 a balance of £56,000 remained.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 0.87%

Investment treasury indicator and limits are published within Appendix 1 to this report

The Head of Finance will monitor any implications of the introduction of IRFS9 on financial instruments and the impact of any MHCLG guidance issued on statutory overrides for Local Authorities.

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments.

The previous sections relate solely to treasury management "cash" investments and the appropriate risk management framework and strategy for non-financial investments is produced in full at Appendix 6.

A schedule of non-financial investments is maintained by the Chief Finance Officer and included at Appendix 7.

6 Treasury Management Consultants

Link Asset Services (formerly Capita Asset Services) was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process. The agreement has been extended for a further year and a new tender process will be carried out before February 2020.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will 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.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments are not covered by the expertise supplied by Link Asset Services and alternative specialist advice for these is obtained through the Torbay Economic Development Company.

7 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2019/20 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager-Budget & Technical, Executive Lead for Finance and Group Leaders
- Quarterly meeting of the Treasury Manager/ Finance Manager-Budget & Technical/ Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the LINK Investment Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and appropriate training will be arranged following the Council Elections in May 2019.

The training needs of treasury management officers are periodically reviewed.

8 Other Matters

8.1 Advancing cash

If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

8.2 Investing cash for Local Payment Scheme (LPS) Schools

If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

8.3 Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

8.4 Anti-Money Laundering

The Council will comply with all relevant regulations.

Appendix 1

Prudential & Treasury Management Indicators 2018/19 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 (draft) is summarised below for approval as the required prudential indicators for capital expenditure.

Capital expenditure at quarter 3 2018/19 (draft) £m	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Services	39	61	27
Commercial Activities/non-financial investments	55	26	0
Total	94	87	27

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

Financing of capital expenditure £m (quarter 3 18/19 draft)	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Capital receipts	2	1	0
Capital grants	20	11	3
Capital reserves	1	2	0
Capital Contributions	1	0	0
Revenue	0	1	0
Net financing (Borrowing) need for the year	70	72	24

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Expenditure	55	26	0
Financing costs	0.0	0.0	0.0
Net financing (Borrowing) need for the year	55	26	0
Percentage of total net financing need	79%	36%	0

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement			
Total CFR	345	411	427
Movement in CFR	65	66	16

Movement in CFR represented by			
Net financing need for the year (above)	70	72	23
Less MRP, VRP and other financing movements	(5)	(6)	(7)
Movement in CFR	65	66	16

External Debt

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	450	450	450	450
Long term liabilities	20	20	20	20
Total	470	470	470	470

The Authorised Limit for external borrowing and long-term liabilities.

This is a key prudential indicator represents a control on the maximum level of borrowing. It represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	500	500	500	500
Other long term liabilities	20	20	20	20
Total	520	520	520	520

A comparison of Gross Debt and the Capital Financing Requirement is also a key indicator of prudence. This indicator is to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	273	285	284
Change in Debt	12	(1)	(4)
Other long-term liabilities – School PFI	7	6	6
Other long-term liabilities – EFW PFI	12	12	12
Gross Debt at 31 March	304	302	298
Capital Financing Requirement	345	411	427
(Under) / over borrowing	(41)	(109)	(129)

Affordability

To assess the affordability of a council's capital programme, the following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream For Torbay investment income includes income from investment fund properties and the effect of this is also shown as an additional, local indicator.

£M	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Net Revenue Stream	£112m	£111m	£111m
Financing Costs			
Interest Paid & MRP as at 31/03/18	£14m	£15m	£16m
Interest Received	(£1m)	(£1m)	(£1m)
Sub Total	£13m	£14m	£15m
Percentage of Financing Costs to Net Revenue Stream	12%	13%	14%
<i>Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream.</i>	£(9)m	£(10)m	£(10)m
<i>Gross Rental Income (as at Sept 18)</i>			
<i>Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income</i>	4%	4%	5%

Each £1m of new debt costs £70,000 per annum. Therefore, borrowing £129m for the under borrowing by 2020/21, the borrowing cost of the £129m would be approx. £9m per annum in MRP and interest.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	50%
20 years to 30 years	0%	60%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
£m	2019/20	2020/21	2021/22
Principal sums invested for longer than 365 days	£m 20	£m 20	£m 20
Current investments (as at 31/12/18) in excess of 1 year	5	5	5

Appendix 2

Policy on Minimum Revenue Provision for 2019/20

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits”

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table below).

The MRP for each asset will be calculated on the asset life method using an annuity calculation. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset. The Head of Finance will be reviewing in 2019/20 the annuity rates used in the MRP calculation.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation (or a straight line basis if no MRP on the asset). Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (LINK Finance and Accounting) (England) Regulations 2008.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Asset Life Method linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value including acquisition costs. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five to ten years.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used. The guidance issued in March 2018 suggests a minimum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed by the Chief Finance Officer; however as a guide the following are typical asset lives that will be used.

Asset Type	Asset Life
Freehold Land (specified in DCLG statutory guidance)	50 years
Buildings	40 years
Investment Properties	50 years
Software	10 years
Vehicles & Equipment	7 years
Highway Network	40 years
Structural Enhancements	25 years
Infrastructure	50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 3

Economic Summary (Link Asset Services – January 2019)

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

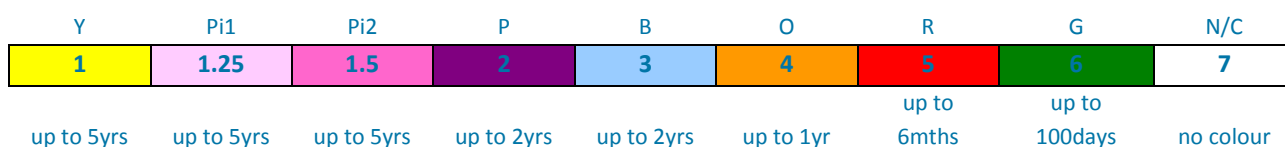
Appendix 4

Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.



The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the LINK Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by LINK Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on any external support for banks to help support its decision making process.

UK banks – ring fencing

In order to improve the resilience and resolvability of the banking sector, the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits) are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Sovereign ratings

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ and also have banks operating in sterling markets. The exception to this is the United Kingdom which has been exempted from the rating criteria to ensure cash services can continue to operate following a downgrade to AA.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	
Canada	Norway	Finland
Denmark	Singapore	U.S.A
Germany	Sweden	
Luxembourg	Switzerland	
Exempted from Sovereign Rating Criteria		
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories below .

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment Type	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
UK Government gilts	UK sovereign rating
UK Government Treasury Bills	UK sovereign rating
Term deposits – local authorities	LAs and other public bodies classified as colour band "Yellow"
Term deposits – banks and building societies	Creditworthiness system colour band "Green" and above
UK part nationalised banks	Creditworthiness system colour band blue
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+
Bonds issued by multilateral development banks	AA+
Money Market Funds (CNAV)	MMF rating AAA
Money Market Funds (LVNAV)	MMF rating AAA
Money Market Funds (VNAV)	MMF rating AAA
Ultra-Short Dated Bond Funds with a credit score of 1.25	*MMF/bond fund rating AAA
Ultra-Short Dated Bond Funds with a credit score of 1.5	*MMF/bond fund rating AAA
Bond Funds	* bond fund rating AAA
Gilt Funds	UK sovereign rating

Non-Specified Investments

Investment instruments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Investment Type	Minimum Credit Criteria	Max investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Creditworthiness system colour band "Blue"	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	LAs and other public bodies classified as colour band "Yellow"	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band "Purple"	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green" and above	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	50%	1 year
UK Government Gilts	UK sovereign rating	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits (Fixed term maturities with variable rate and variable maturities)	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	25%	2 years
Commercial paper	Creditworthiness system colour band "Red" and above	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: <i>the use of these investments would normally constitute capital expenditure</i>	--	£10million	5 years
Property Fund: <i>not classified as capital expenditure</i>	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1. Corporate Bond Funds 2. Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Multi Asset Funds	--	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000 Individual loan - £2,000	5 years

Appendix 6

Non Treasury Investments Strategy

Background

As clarification the following descriptions have been used

- “Investments – Yield” .These are property purchases where the objective is to increase rental income to the Council with an additional “multiple benefit” to the Council
- “Investments – Loans or Co Investment” .These are loans to business for capital expenditure where the objective is to increase rental income and/or interest returns to the Council. Co Investment is where Council with another investor provides finance or jointly purchases, with an additional ‘multiple benefit’ to the Council.
- “Regeneration” – these are property purchases, private sector or Council development projects within Torbay with the aim of increasing regeneration within Torbay.

This appendix sets out an outline for the management of the Investment and Regeneration Fund including purchases/investments and loans. The approach adopted should reflect a suitable balance between the risks inherent in the types of property/investments and loans to be acquired and the financial rewards obtainable whilst limiting risks appropriately. In addition, the portfolio of investments being acquired should be diversified in order to spread risks via a balanced portfolio, such diversification principally being across geographical location and the use type of properties held.

The risks of investing in property may be mitigated through the acquisition of assets with secure, long income streams. This needs to be balanced against the requirement for a given level of income yield on capital invested in a careful and controlled manner, with specific analysis of risk criteria carried out in the ‘due diligence’ stage prior to the completion of each purchase.

Achieving a spread of risk across a greater number of assets and by acquiring properties across the range of different property asset classes, namely retail, leisure, office and industrial, is to be desired, however it has to be recognised that opportunities to do this may not arise, and ultimately if individual business cases are robust groupings in any individual property class should not pose any increased risk to the Council.

The principle of being relatively risk-averse by limiting fresh investment to properties with good unexpired lease terms, and with tenants of strong financial standing, will be adopted.

All properties will be reviewed by nominated officers on a quarterly basis to review each property for potential disposal or investment depending on both current and future asset values and rental streams. Officers to include Monitoring Officer, Chief Finance Officer and lead Council officer for asset management. These officers to use external support as required.

Minimum and maximum yield

	Investment - Yield	Investment- loans & co investment	Regeneration
Yield	Rental	Loan repayments or rental	Rental
Target Yield Required	<p>1.25% above forecast borrowing costs and forecast relevant ongoing costs</p> <p>Yield to be an average of an appropriate initial five year period</p>	<p>If capital loan 2% above forecast borrowing rates and forecast relevant ongoing costs</p> <p>Yield to be an average of an appropriate initial five year period</p>	<p>0% above forecast borrowing costs and forecast relevant ongoing costs</p> <p>Yield to be an average of an appropriate initial five year period</p> <p>Forecast to be subject to sensitivity analysis of estimates to ensure a 0% return can be realistically achieved.</p>

Assets or loans producing initial yields in excess of 10.0% are likely to exhibit high risk characteristics, such as very short unexpired leases, or financially weak or insubstantial tenants, or obsolete buildings and are therefore to be the subject of very careful analysis before a decision is made.

Assessment of risks

	Investment - Yield	Investment- loans	Regeneration
Independent Valuation of asset	Yes	If applicable	If applicable
Condition Survey	Yes	If applicable	If applicable
Independent Assessment of Asset Life	Yes	If applicable	If applicable
Independent Assessment of Residual value	Yes	If applicable	If applicable
Independent Assessment of legal issues in relation to site	Yes	If applicable	Yes
Independent Assessment of future rental	Yes – future rent reviews and on lease break/expiry	If applicable	Yes – future rent reviews and on lease break/expiry
Security required	-	As appropriate to the identified risk	-
Financial Assessment of tenant or loanee	Yes	Yes	Yes
Pre commitment required	As appropriate to the identified risk	As appropriate to the identified risk	As appropriate to the identified risk t

	Investment - Yield	Investment- loans & co investment	Regeneration
Risk Appetite	Risk averse	Risk averse	Risk neutral
Consideration of State Aid	-	Yes	Yes
“Green Book” Financial profile over life of asset (IRR)	Yes	Yes	Yes
MRP	Yes – over asset life	No – of loan expected to be repaid – annual assessment required	Yes – over asset life
Assessment of impact on Council of any potentially abortive costs and how funded	Yes	Yes	Yes
Assessment of impact on Council of default or significant loss in value and how funded	Yes	Yes – Impairment (or contingency for) to be assessed on annual basis by CFO	Yes
Allowance for future costs, income shortfall and management of assets	An indicative amount of 0.25% - on total purchase costs per annum – but actual amount to be calculated on the specifics of the proposal	-	An indicative amount of 0.25% - on total costs per annum – but actual amount to be calculated on the specifics of the proposal
Lease	Tenants of good financial standing and a good remaining lease term	Loanee of strong financial standing	Tenants of good financial standing and a good remaining lease term
Loan	-	Interest rate to be linked to assessed financial risk Enforceable security required on all loans Interest required on a quarterly basis from start of loan Loan to be on a repayment basis as soon as possible	-
Reputational Issues	No “sin” assets or tenants	No “sin” assets or tenants	No “sin” assets or tenants

A rigorous assessment of all risks is required in each case of fresh investment in order firstly to value each property and then to check its suitability for inclusion in the portfolio. The risks fall into two categories, firstly economic and property market risks in specific property market sub-sectors and locations and secondly asset-specific risks (as set out below). These can be measured and an assessment made of the likely future performance of the investment carried out based on the ranges of likely future rental growth of the property and also the projected disposal price or capital value at the end of the period over which the cash flow analysis is being measured. Financial returns are modelled over a medium-term horizon of five years, based on proposed offer prices, to determine the acceptability of each investment, and can be compared against general market forecasts. Internal Rate of Return (IRR)

calculations will be carried out to model the expected cash flows from each investment. The anticipated returns can be modelled on different bases to reflect the range of risks applicable in each case, to ensure that forecast returns properly reflect the measured risks. In this way a Business Case is put together to support each recommended property acquisition.

Allowance for future costs, income shortfall and management of assets

For each purchase or development an allowance is to be made to cover the following issues:

- Future management costs of the asset – both ongoing costs such as liaison with tenants, asset inspections, insurance arrangements, service charge management, lease term enforcement and management of site but also cyclical costs such as rent reviews, marketing of vacant space, investment in assets and potential disposal.
- Future void or rent free periods on asset
- Future landlord repair and maintenance and investment costs in asset
- Abortive costs or set up/feasibility costs not chargeable as capital expenditure a purchase associated with the potential purchase or development of assets

The table above gives an indicative value based on a percentage of total purchase costs to be set aside each year. The Chief Finance Officer will vary this percentage depending on an assessment of future issues and costs relevant to each asset – e.g. the expectation of an extended rent free period.

Asset-specific risks

Income and capital returns for property will depend principally on the following five main characteristics;

- Location of property
- Building specification quality
- Length of lease unexpired
- Financial strength of tenant(s)
- Rental levels payable relative to current open market rental values

Location – this is the single most important factor in considering any property investment. In the retail sector prime or good secondary locations in major regional or sub-regional shopping centres are likely to provide good long-term prospects, or alternatively prime locations in sub-regional or market towns.

Industrial and warehouse property has a wider spectrum of acceptable locations with accessibility on good roads to the trunk road and motorway network being the key aspect.

Experienced knowledge will be required to ensure that good locations are selected where property will hold its value in the long term.

Building specification quality – In office property especially it is important to minimise the risk of obsolescence in building elements, notably mechanical and electrical plant. Modern, recently-built office and industrial property should be acquired to ensure longer-term income-production and awareness of the life-cycle of different building elements and costs of replacement is critical in assessing each property's merits. For town centre retail property trends have been towards larger standard retail units being in strongest demand from retailers.

Length of lease unexpired – At present capital values are highest for long-term leased property and values tend to reduce significantly when unexpired lease terms fall below five years, as owners expect significant capital expenditure to be necessary when leases expire and tenants may not renew leases and continue to occupy. Fresh investments should be made ensuring that diminishing lease terms will not either adversely affect capital value or that significant capital expenditure and voids are experienced.

Financial strength of tenant(s) – assessment will be required of each tenant of potential acquisitions through analysis of their published accounts and management accounts where necessary. Risk of tenant default in rent payment is the main issue but the relative strength of a tenant's financial standing also impacts upon capital value of property which is let to that tenant and careful analysis of financial strength is a key part of due diligence prior to purchase of investments.

Rental levels – care is required in all purchases to assess market rents local to each property to check whether rents payable under leases are above or below current levels, as this will impact on whether growth in rents in the future will be fully reflected in the specific property being analysed.

Environmental and regulatory risks - Risks such as flooding and energy performance are taken into account during the due diligence process on every property purchase.

Reputational risks – An assessment of any reputational risks will be undertaken in respect of all proposals, and this will be a relevant factor in decision making.

Document is Restricted

TREASURY MANAGEMENT POLICY STATEMENT

1. The Council defines its treasury management activities as:

“The management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that 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 comprehensive performance measurement techniques, within the context of effective risk management.”
4. Non Treasury Investments are other investments that are undertaken for reasons other than treasury management activities. These include Investment Properties, Loans and Guarantees.

TREASURY MANAGEMENT PRACTICES

TMP1 Risk Management

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Chief Finance 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 in the schedule to this document.

1.1 Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This 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 to this document. 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, or with whom it may enter into other financing or derivative arrangements.

1.2 Liquidity Risk Management

This 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 organisation's business/service objectives will be thereby compromised.

The Council will ensure it 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 finance future debt maturities.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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 financing and investment 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 the subject to the consideration and, if required, approval of any policy or budgetary implications.

It 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.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the Council has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Inflation Risk

Inflation risk, also known as 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

The Council will keep under review the sensitivity of its treasury and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposure.

1.6 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.

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 is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council 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 overreliance on any one source of funding if this might jeopardise achievement of the above.

1.7 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation 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 organisation suffers losses accordingly.

This organisation 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 organisation, 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.

1.8 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation 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 commonly referred to as operational risk.

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.

1.9 Price Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The 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.

TMP 2 Performance Measurement

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, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP 3 Decision Making and Analysis

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 all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP 4 Approved Instruments, Methods and Techniques

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 and parameters defined in TMP1 *Risk Management*

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

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 Chief Finance 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 Chief Finance 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 Chief Finance 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 to this document.

The Chief Finance 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 to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief finance Officer will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP 6 Reporting Requirements and Management Information Arrangements

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:

- Full Council 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 Council's treasury management policy statement and TMPs.
- The Audit Committee 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.
- Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP 7 Budgeting, Accounting and Audit Arrangements

The Chief Finance 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 Chief Finance 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.

TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance 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 Chief Finance 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 to this document.

TMP 9 Money Laundering

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 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 to this document.

TMP 10 Training and Qualifications

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 Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance 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 those 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 to this document.

TMP 11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 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 overreliance 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 Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

TMP 12 Corporate Governance

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 principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TMP 13 Non Treasury Investments

Risk Management:

Linked to principles in TMP1, the Council regards a key objective of its non-treasury investments to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all non-treasury investment including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of non-treasury investments, 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.

The risks, and proportionality of, associated with the level of borrowing, ongoing costs and ongoing income are reflected as part of the council's Capital Strategy. For Investment Properties the risks are identified in reporting to the Investment and Regeneration Committee.

Performance and Management

Linked to principles in TMP2, the strategic management and reporting of Investment Properties performance is the responsibility of the Director of Place with support from the Head of Finance. A Project Board for the Management of Investment properties will meet on a quarterly basis to review performance.

The operational management of these properties is sourced by the Council, primarily from the TDA.

The monitoring of the performance of loans and guarantees will be undertaken by the Head of Finance.

Decision Making, Governance and organisation

Linked to the principles in TMP5, for Investment Properties the approval to purchase are taken by the Investment and Regeneration Committee in line with the approved Investment and Regeneration Strategy. If decision outside the Strategy parameters this will be a Council approval.

Loans and Guarantees are approved by Council, subject to the officer scheme of delegation.

Reporting and Management Information

Linked to the principles in TMP6, for Investment Properties the risks are assessed in reporting to the Investment and Regeneration Committee and to Council in the Capital Strategy.

Loans and Guarantees are to be included in TM reporting to Audit Committee

Training and Qualifications (linked to the principles in TMP10)

The Council sources appropriate expertise from, primarily, the TDA and external advisors as required.

A list of the qualifications and relevant training by members of both the Audit Committee and Investment and Regeneration Committee will be maintained.



Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Torbay Council

December 2018

OFFICIAL



Devon Audit Partnership

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

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

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, 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

At the May 2018 Audit committee, members were provided with the Annual Internal Audit report for the Council. Appendix 4 of that report provided a summary of the audits undertaken during 2017/18, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvements required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members discussed and accepted the report; however, members have previously found it beneficial to receive a report on progress on the “improvement required” areas highlighted in Appendix 4 to the report.

As part of adding value, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix A.

Assurance Statement

Our assurance opinion remains as reported in our Annual Audit Report 2017/18. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should the lack of progress made against certain individual audit management action plans continue.

Progress Impact Assessment

The progress made in some areas means the previously identified risks are being minimised or mitigated where appropriate. However, the lack of progress made in the majority of action plans means a number of the risks previously identified and highlighted to management continue to remain.

Progress has been limited in certain areas such as TOR2 Commissioning and Torbay Safeguarding Children’s Board due to ongoing transitional arrangements.

As part of the Transformation Programme ICT is currently subject to a change in service delivery to the DELT model. The service area is engaged in ensuring that the Council is ‘DELT’ ready, which has impacted some progression against ICT audits.

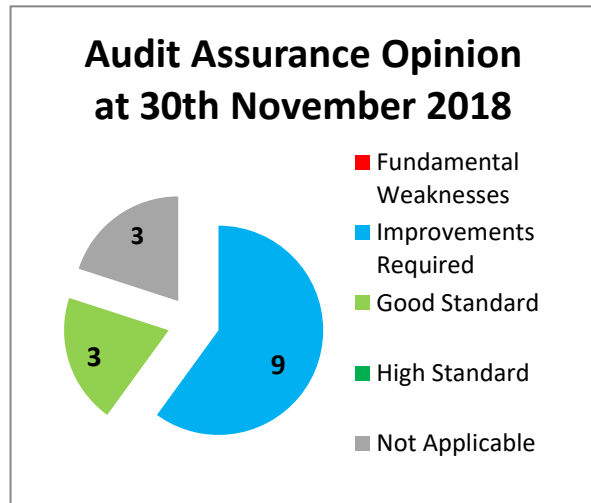
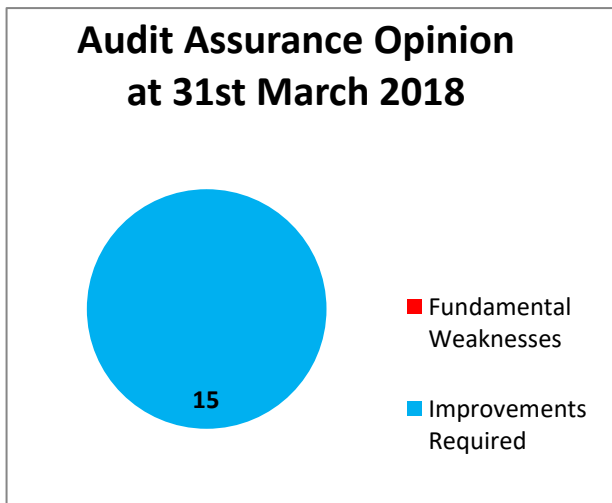
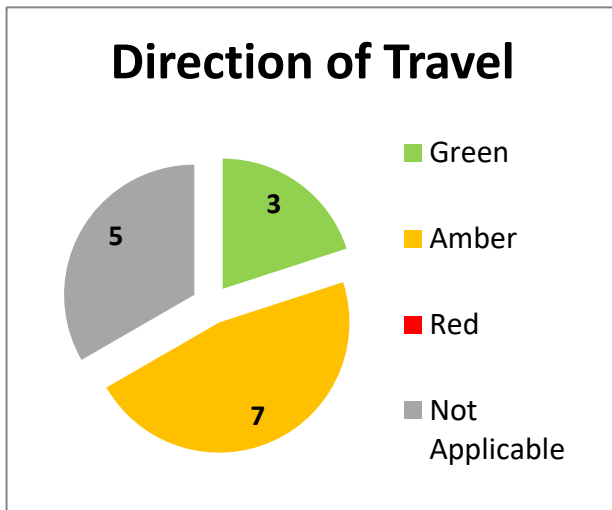
In addition, where agreed actions are set for future dates, and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate, review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management arrangements.

Progress

Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

It should be noted that a small number of the audits were not followed up due to the timing being inappropriate, linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



Although the audits previously followed up in 2017/18 are not subject to further formal audit follow up, for continuity and the avoidance of doubt we have analysed the previous year's output to provide an indication of areas that may require further Management input. Please refer to table over page.

Total audits still at Improvements Required from 2017/18 annual follow up report

Areas subject to follow up activity within 18/19 planned audit work		Audit areas potentially requiring Management review of progress against previous audit recommendations
Material Systems (annual audits)	1819 audits	
4	11	<ul style="list-style-type: none"> • Discretionary Social Fund (Crisis Support) • Emergency Planning and Business Continuity • ICT Change Management • ICT Partnership working (TOR2) • ICT Cyber Essentials • Children's - Care Leavers Transition Plans

Internal Audit Coverage and Results

Overall, we can report that progress has been made in some areas, but for the majority of reviews the rate of progress is not as good as expected and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time and this, although not in all cases, reflects the lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however, in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits at the end of 2017/18 which were identified as 'improvements required' or 'fundamental weaknesses'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

Annual Governance Statement

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

These should be considered along with the conclusions from the Annual Audit Report 2017/18 presented to the Committee in May 2018.

Process

For each service area where an overall audit opinion of “improvements required” or “fundamental weaknesses” was provided at the end of 2017/18 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work.

Summary of Audit Follow and Findings 2017-18

Risk Assessment Key

LARR – Local Authority Risk Register Score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

Direction of Travel - Key

Green – action plan implemented or being implemented within agreed timescales;
Amber – implementation of action plan not complete in all areas or overdue for key risks;
Red – implementation of action plan not complete and we are aware progress on key risks is not being made.
 * report recently issued, opportunity for progress has been limited

Corporate Services and Place Directorates


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	

Material Systems

Material systems audits and as such any recommendations made and associated agreed actions are followed up as part of the annual audit process.

Debtors and Corporate Debt	Risk / ANA - High	Improvements Required	N/A	The audit for 2018-19 will be undertaken in Q4 and will be reported upon in our annual outturn report.	N/A
Council Tax and Non-Domestic Rates	Risk / ANA - Medium	Improvements Required	N/A	The audit for 2018-19 is currently ongoing and will be reported in our annual outturn report.	N/A

Other

TOR2 Commissioning	Risk / ANA - Critical	Improvements Required	Improvements Required	Progress was limited due to issues with engagement between all parties, but we have been advised that this has improved. Where progress has been made, these remain ongoing and are not yet embedded into operational practices. There is now a Transformation Project in place to take forward TOR2 post contract end and will provide opportunity for improvement going forward.	
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Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	



TOR2 Commissioning - SLT Response/Action Plan – Kevin Mowat

Engagement with TOR2 and Kier has improved at all levels, from operational service clients, the setting up of a Joint Management Team which has been in place for a number of months, through to observer attendance at the TOR2 Board. The Transformation Project is ongoing, and the Council now has a much better understanding of the operation of the TOR2 business following the Due Diligence work undertaken in 2018 as part of a potential share acquisition exercise. Key decisions regarding ongoing service delivery both during the contract and post contract, will be made by the Council on 31st January 2019.

Page 8 of 16	Safer Communities	Risk / ANA – Medium	Improvements Required	Good Standard	It is pleasing to note that there has been significant progress against the recommendations made, with a large proportion completed and the remainder ongoing. The progress in relation to prevention of radicalism has seen an improvement in the level of assurance; and the governance arrangements, whilst also demonstrating improvement still require further work in crucial areas such compliance with all of the GDPR requirements.	
	Procurement and Contracting Arrangements	Risk / ANA - High	Improvements Required	Improvements Required	The assurance opinion has remained as Improvements Required; consistent procurement compliance is reliant on service areas appropriately engaging and communicating with the Procurement Team, however this is inconsistent, hence the risk remains, albeit the framework and the level of training and communication provides a good level of mitigation. It was pleasing to note that progress has been made in several areas, notably addressing some of the non-compliance issues related to specific contracts; obtaining contracts established by other parties to allow ongoing management; completion of a contract review, and a new contract register in place and populated; and a spend analysis being progressed for review and monitoring.	


SLT Response/Action Plan – Anne-Marie Bond

This audit report is in respect of activity across the entirety of the Council, and is not in respect of the actions of the Procurement Team. Proposals for a wider corporate Commissioning, Procurement and Contracts team are well under way which will assist in delivering a Council wide approach.

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
Commissioning by the Council of the TDA (trading name of the Torbay Economic Development Company Ltd) – SLA	Risk / ANA - High	Improvements Required	Improvements Required	Audit deferred to 19/20 as requested by the Service Area, to allow for the new SLA (service level agreement) to become fully operational and embedded.	N/A
Human Resources (HR) - Exit Packages	Risk / ANA - Medium	Improvements Required	Improvements Required	It is pleasing to note that the protocol has been developed and is in place to provide a framework for management of settlement agreements and operational requirements related to manual calculations and authorisation of payment vouchers. The supporting pay policy is currently being reviewed and updated to ensure it aligns with the protocol. Further development of the protocol is planned in relation to GDPR requirements. Although the protocol and policy framework has moved forward it is too early to establish whether this is formally embedded into HR and Payroll practices and as such the assurance opinion remains at Improvements Required.	
Coroner Service <i>(joint audit between Torbay Council and Plymouth City Council)</i>	Risk / ANA - Low	Improvements Required	Improvements Required	Limited progress has been made and therefore our assurance remains at Improvements Required; there are limitations on the Council's ability to take further action. The potential for a new system to record expenditure incurred and paid in order that expenditure can be monitored on a case by case basis, along with enhanced reporting functionality is currently being investigated, but in the interim, current practice continues. In terms of a Service Level Agreement, we understand that one has been drafted but has yet to be formalised and agreed.	

SLT Response/Action Plan – Anne-Marie Bond

The SLA service specification has now been finalised although there are recharge negotiations currently which is preventing the SLA being completed. In respect of the system, this is not within the gift of Torbay Council. The Coronial area is now administered by PCC, and they have absolute jurisdiction in respect of how they deliver the service. That said, we are aware that they are proposing to move to Civica in Spring 2019.


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
Food Safety, Safety and Licensing	Risk / ANA - High	Improvements Required	Improvements Required	<p>Some progress has been made against agreed recommendations, in particular the cost recovery method applied to fees and charges, and improvements to the Licensing invoice process.</p> <p>It is pleasing to note that the Food Standards Agency (FSA) have now signed off against their February 2017 audit, confirming that all actions had been addressed, and we also note the recent successful prosecution against a food premises that has been published in the local press. However, it remains that there are potential resource issues within the Food Safety service area, which are compounded by the nature of the service, being both planned and reactive. The reactive nature of the service makes it problematic to effectively 'plan' resource, an example being 100 new premises registrations in the first quarter of this year. An additional regulatory support officer post has been approved and it is understood that this will be in place by 1st April 2019. However, until the new post is in place and the LEAMS submission for this financial year is submitted, the actual Food inspection figures can only be estimated, and we understand that at this stage C and D rated premises may be a little down on previous years.</p>	


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SLT Response/Action Plan – Tara Harris

Additional resource has been allocated to improve inspection levels. A BPR exercise has also just been completed in the Food team to provide efficiencies to increase inspections, which will be implemented in April 19. A re-evaluation of how food safety interventions are undertaken has also taken place, focusing on D premises. This has been assessed favourably by the FSA and other LA's are now using this as best practice, therefore increasing the level of recorded performance in the more efficient way. Inspection levels are at 100% A-C premises and 80% for D. Although the additional resource is important to the performance of the team, other interventions have been and are being put in place to improve and maintain performance.

Also, as noted above by Internal Audit, the regulatory body the FSA conducted an audit in Feb 2017 and the Food Standards team have since satisfied the criteria of the auditors action plan.

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
IT Audit					
Website Content Management	Risk / ANA - Medium	Improvements Required	Good Standard	<p>It is pleasing to note that progress has been made on the Content Management System (CMS) versions. The ICT Service delivery will be transferring to DELT in 2019-20, therefore the Digitalisation strategy and CMS support resourcing will require consideration within this project.</p> <p>Progress has also made in relation to maintaining web content and a test of the BCP. Service area reviews remain ongoing and it is intended that reports will be sent via SLT.</p> <p>Full web application testing annually to maximise security and reduce associated risks to the Council's network still requires progressing, but again, may link to the DELT service provision.</p> <p>Some progress in relation to cost recovery charging has been made, with resource review to establish delivery of existing and new works is still to be undertaken. Service expansion and marketing strategy still to be considered but may be impacted by the pending DELT delivery. Assurance to remain at IR due to DELT.</p>	
<p>SLT Response/Action Plan – Bob Clark <i>This is a fair and accurate assessment</i></p>					
ICT Material Systems Processes	Risk / ANA - Critical	Improvements Required	N/A	The audit for 2018-19 will be undertaken in Q4 and will be reported upon in our annual outturn report.	N/A

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
Torbay Safeguarding Children Board (TSCB)	Risk / ANA - Critical	Improvements Required	Improvements Required	<p>Board Governance arrangements are in place although these should be strengthened. However, we recognise the transition away from the Board structure to local safeguarding partners. Statutory requirements are generally being met, although we still have concern in relation to the lack of Data Baring Services (DBS) checks. Although HR have advised this is not a requirement, given the nature of the Board's remit, our concern is that risks regarding access to vulnerable children's and young people's data remain. Child Death Overview Panels are now attended by a TSCB board member to specifically represent and report back to the TSCB. We understand that Information Sharing arrangements and supporting protocols are being pursued with the Council's Data Protection Officer (DPO). Take up of training should increase due to a new system being in place. Partner's agreement to contributions and the calculation of their contributions is currently being reviewed due to Working Together to Safeguard Children 2018. Currently Torbay Children's Services contributes 65% of the £132k and the intention is for this to become equally apportioned.</p>	



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SLT Response/Action Plan – Alison Botham / Anne Osborne

Review by the Chair and Business lead of Torbay Safeguarding Children's' Board information sharing arrangements and access to confidential information relating to partner information shared with Board.

Business lead to review directions for all information to be appropriately anonymised when presented to board.

Training programme is being reviewed for 19/20.

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
Looked After Children - Referrals	Risk / ANA - Medium	Improvements Required	Improvements Required	Although steps have been taken to formalise a framework of required practice, particularly in relation to care plan information, placement assessment, monitoring and Independent Reviewing Officer reviews, the ongoing transitions within the service, changes in local practice, changes in areas of responsibility, and turnover of staff make it difficult for a defined methodology to be adopted and consistently operated. We are therefore unable to establish that practices are effectively embedded into daily operations.	
<p>SLT Response/Action Plan – Alison Botham / Anne Osborne <i>In 2019, with support from funding from DofE, there will be a roll out of re-training for signs of safety including “train the trainers”. At the same time additional capacity for 6 months to embed the model of practice operationally to improve assessments and planning. There will also be a review of Safeguarding and Reviewing Service and the use of Signs of Safety.</i></p>					
Schools' Forum / use of DSG	Risk / ANA - Medium	Improvements Required	Good Standard	<p>It was pleasing to note that review, progression and monitoring of the actions had been formally managed and recorded through the Forum. Progress has been made in a number of areas, notably consultation on the High Needs recovery plan which is being progressed.</p> <p>Also noted was the improvement to the quality of minute taking; update of the terms of reference; the use of voting to minimise risk of subsequent challenge to decisions; and the financial reviews at each forum meeting. A process to notify the Chair of unexpected events has been established but as yet a need to invoke this process has not yet arisen.</p> <p>Although financial monitoring is in place, we are not yet aware of any 3 year financial plan, however the risk is minimised with the financial monitoring currently in place.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2018	Updated Audit Assurance Opinion as at 30 November 2018	Commentary and residual risk	
PARIS - Case Recording / Data Quality / Business Use	Risk / ANA – Critical	Improvements Required	Improvements Required	No formal follow-up has been undertaken. The assurance opinion has remained as Improvements Required as the PARIS system was being reviewed within Transformation and a decision now made to replace it with a new system aligned with Plymouth City Council. We understand that the intention is for the project implementation period to be in the region of 12 to 18 months.	N/A

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

Internal Audit

Half Year Audit Report 2018-19

Torbay Council
Audit Committee

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December 2018

Robert Hutchins
Head of Audit Partnership

Auditing for achievement

Agenda Item 7

Introduction

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

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

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

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

Expectations of the Audit Committee from this annual report

Audit Committee members are requested to consider:

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

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see appendix 1) and satisfy themselves from this assurance for signing the Annual Governance Statement.

Robert Hutchins
Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed to date during 2018/19 and our experience from previous years, the Head of Internal Audit's Opinion is one of "Limited Assurance" on the adequacy and effectiveness of much of the Authority's internal control framework. The exception to this is the Corporate Directorate where we were able to provide 'Significant Assurance'. In the case of certain Directorates our assurance is limited by the level of audit coverage, for example the audit coverage for Adults is mainly provided externally. Our audit planning process is based on a risk approach and as such our report will inevitably focus upon higher risk areas.

This opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 1. Assurance over arrangement for adult social care is mainly provided by colleagues at Audit South West, the Internal Audit provider for Health Services, who provides a separate letter of assurance.

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment.

These reviews have informed the Head of Internal Audit's Opinion on the details of Internal Audit's opinion on each audit review carried out in 2018/19 to date. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement later in the year when preparing the Statement of Accounts for 2018/19.

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

This statement of opinion is underpinned by:

Internal Control Framework

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

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

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

Risk Management

Risk Management process at Strategic level remains in place, however despite performance monitoring against these strategic risks, there remain concerns in relation to the lack of integration and monitoring against operational risks. In addition, the project to incorporate inclusion of ICT Continuity and Disaster Recovery, Corporate Business Continuity and Emergency Planning is making progress. Work to integrate all of this at operational level continues.

Governance Arrangements

Governance arrangements have been reviewed in the areas of Transformation, System Implementation Projects, and the strategic management of the Tor Bay Harbour Authority. The Information Security Group continues to provide governance in relation to management of information. Linked to Governance arrangements, we have examined compliance with GDPR, and Children's Services Medium Term Financial Plan (MTFP).

Performance Management

Transformation Portfolio is monitored by the Board. Going forward performance of ICT will be established through an arrangement with DELT services Ltd. Children's Services MTFP monitoring is to be defined. Audit Committee monitors the Council's Performance and Risk, and irregularity and whistleblowing complaints. Elements of performance management have been subject to review within Printing Services; Covert Surveillance; Port Marine Safety Code and Use of Agency.

Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.	Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.	No Assurance	Risks are not mitigated and weaknesses in control, and / or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Value Added

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

We believe internal audit activity can add value to the organisation and its stakeholders by:

- providing objective and relevant assurance;
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Senior Management has found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

Adult Services & Housing

- inclusion again of the 'Care Act – Better Care Fund / Section 256 Monies' audit in the planned work to provide management with the required assurance;
- liaison support in relation to the working relationship between the Council and Audit South West;
- provision of IT audit resource to Audit South West to support this element of their plan.

Children's Services

- reviewing compliance against expected procedures when hiring agency staff;
- examining the concern raised regarding the education spend level against comparator data;
- assistance in maintaining the impetus in management action plans to address previously identified risks through an annual and robust follow up exercise;
- assistance in maintaining appropriate engagement with the internal function through regular management liaison meetings;
- development of the current year's and future year's audit plans to incorporate flexibility to meet changing and developing business demands and to cover existing and new or emerging risks.

Public Health

- undertaking an additional piece of independent consultancy work on the Torbay Community Development Trust at the request of the client;
- the development of future year's audit plans to cover new and emerging risk.

Corporate

- ongoing support to the transformation portfolio, including horizon scanning and benchmarking against other Local Authorities in relation to Contract Processes; Community Engagement to support service delivery; and Concessionary Fare schemes. Supporting delivery of projects, such as the ICT Service delivery project; Children's Service ICT; S106 and CIL; TOR2; Spatial Planning.
- additional support in relation to the external audit requirement for benefit subsidy;
- support to the ongoing GDPR project, including development of the Council's Information Asset Register (IAR);
- ongoing support to projects, including HR Self Service, Asset and FM; Housing system; Customer feedback monitoring; Purchase cards and FIMS;
- continued advice, guidance and challenge to the Information Security Group;
- advice and support to the development of risk management and its wider integration with business continuity and Transformation.

Place

- additional request for review of Tor Bay Harbour Authority Port Marine Safety Code Compliance;
- additional request for review of Neighbourhood Forums and the Brixham Ferry;
- advice in relation to the then proposed collaborative arrangement for Spatial Planning (now ceased).

Schools

Continued assurance through the routine internal audit visits that systems and controls are in place to ensure compliance with Department for Education and Council requirements are being met.

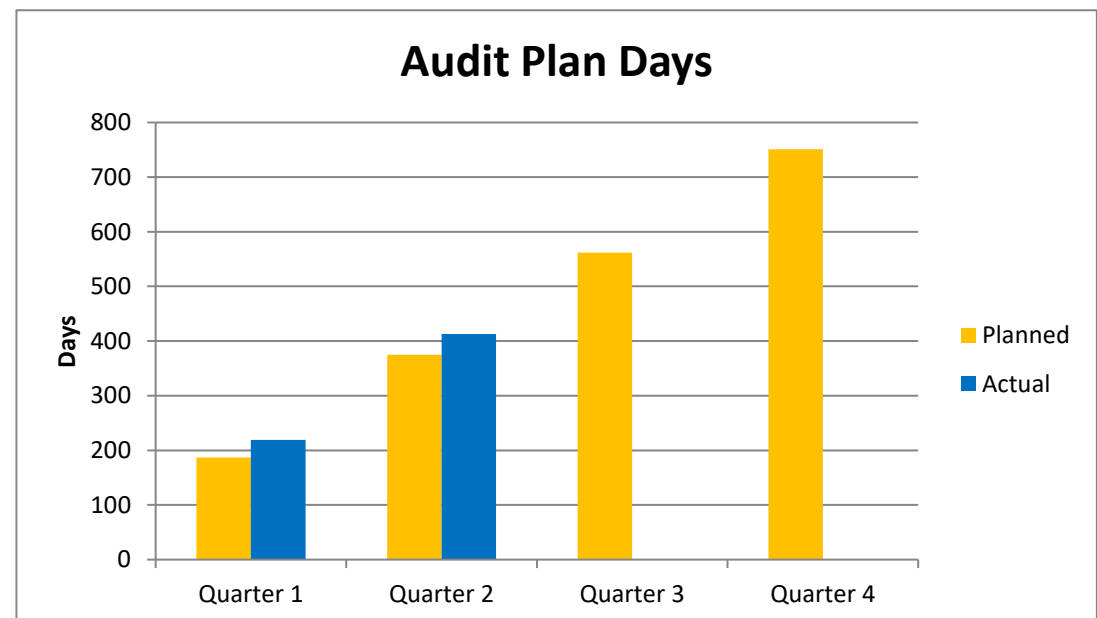
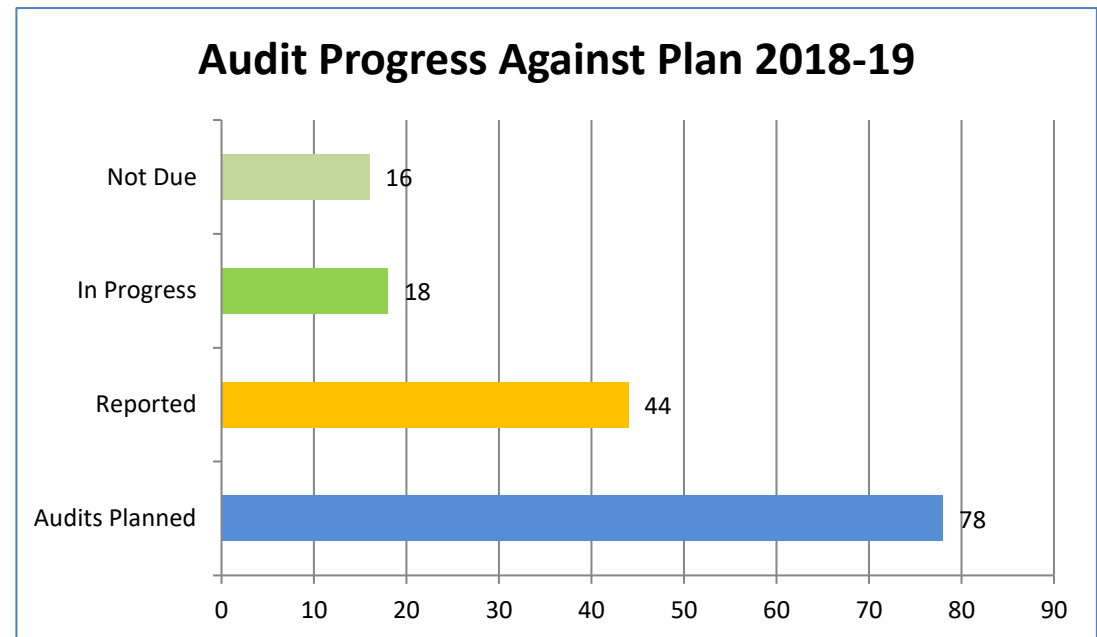
Progress Against Plan

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

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

The extent to which our work has been affected by changes to audit plans has not been notable during the first six months of the year. Some of our work supports projects and hence completion will be in accordance with project timescales. The significant level of irregularities has been greater than anticipated and the need for investigation work has had an adverse impact on the overall completion of the plan.

The bar charts right show the status of audit progress against plan and audit the days delivered against target planned. The charts demonstrate that progress is largely in line with expectations and that the number of audit days delivered is approximately as that planned.



Summary audit results

Place

Our opinion is one of 'Limited Assurance' for this service area. This is because the assurance opinion provided for the majority of individual audit reviews in 2017/18 and 2018/19 to date, excluding grant certification, has been one of 'Improvements Required', and two were 'Fundamental Weaknesses'. However, it is pleasing to note that the results of our annual follow up exercise found two areas demonstrating a positive direction of travel. We note that the positions of Interim Director of Place and Assistant Director of Planning and Transport have now been appointed.

Opportunities exist for improvements in the control and governance framework for Concessionary Fares and Sports Pitch Leases, and we have identified some significant safety risks which Tor Bay Harbour Authority must address in order for it to comply with the Port Marine Safety Code. We note that, although two 'Fundamental Weaknesses' opinions were given in relation to:

the management and monitoring of the contract with Brixham Express Ltd for the provision of a fast ferry service from Brixham to Torquay; the use of funding to facilitate neighbourhood planning objectives for the three local neighbourhood forums;

these were primarily due to there being insufficient documentary evidence retained to enable related assurances to be provided, rather than there being evidence of actual mis-management or improper use of funds. Management responses have been positive in terms of retaining such documentation going forwards.

Public Health

We are unable to provide an overall opinion due to the limited work undertaken within this directorate area.

Our audit work in relation to the Torbay Community Development Trust (TCDT) report has been discussed by the Senior Leadership Team and the Mayors Executive Group. TCDT faces financial challenges and whilst an action plan is in place there is a risk of slippage that could impact the year-end financial position. Survey results indicate that the reach of TCDT is limited, little evidence of actively seeking and developing new entities to support, and Council staff expressed some dissatisfaction with TCDT's role as gateway to the sector.

Corporate

In our opinion, and based upon our audit work completed so far during the 2018/19 year, 'trusted partner' and direct advice provided for on-going projects, we are able to report that, in the main, internal controls continue to operate effectively enabling us to once again give an opinion of 'Significant Assurance' for this service area; and where recommendations for improvements have been made, action plans have been agreed with management.

Based on audits completed and on indications from previous and on-going work, we are able to report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them.

The requirement for 40+Testing by the External Auditors in relation to Benefits Subsidy for 2017/18 indicates that quality control processes require strengthening as detailed in our findings.

The Transformation Portfolio is critical to the organisation; it is pleasing to note that the Team resource has increased, and the scope of the portfolio has been re-evaluated. Although not specific to Transformation, we feel there is opportunity for the Council to review its position in terms of a broader Portfolio Management perspective across the Council.

The Council has now appointed a Data Protection Officer and developed an Information Asset Register to support GDPR compliance.

Improvements should be made in the control and governance framework within Corporate Debt which deals with recovery of Council Tax (CTAX), Non-Domestic Rates (NDR) and Benefit Overpayments; in relation to CTAX and NDR discount/exemption reviews; in Printing Services; in relation to the use of covert surveillance of networking sites, and cross-Council use of legal advice.

Children's Services

Based upon audit work completed in 2018/19 and that undertaken in previous years we are still only able to provide 'Limited Assurance' for this service area. Whilst the number of audit reviews undertaken within Children's Services continues to increase compared to earlier years, the assurance opinion provided for most individual audit reviews in 2017/18 and 2018/19 to date, excluding grant certification, has been one of 'Improvements Required'. However, our annual follow up exercise has identified areas that have seen improvement in some elements of the overall control environment.

The current financial situation within Children's Services is well known, with a significant overspend likely to occur this financial year. This is caused mainly by an increase in demand for such services, the provision of which is statutory; and has resulted in significant reliance being placed on the use of agency workers, both to cover a current shortfall in permanent officers in post, and to support the Service in managing the increased demand. Accordingly, we have recommended that the Medium-Term Financial Strategy (MTFS) be reviewed and specific measures monitored, and that the cost of agency staff is considered within budget setting and that the long-term retention of agency staff is approved.

Audit reviews that are due to be completed later in the year will enable us to report on how other areas of Children's Services are managing in the light of these predicted overspends.

Adult Services & Housing

We are unable to provide an overall opinion due to our limited work undertaken within this directorate area. We can, however, comment that in terms of our audit work completed during 2018/19, action plans have been agreed with management.

The Adult Services & Housing Directorate incorporates both the Joint Commissioning Team functions and those functions provided and audited by the NHS Trust Provider. Assurance over arrangements for adult social care is mainly provided by colleagues at Audit South West, the internal audit provider for Health services. Audit South West provides a separate letter of assurance to the Director of Adult Services & Housing and the Council's S151 Officer. Devon Audit Partnership provides support and internal audit input on key areas as agreed with the Director of Adult Services & Housing.

Schools

The overall opinion for the routine school audit visits has been maintained as 'Good Standard'. In general, the systems and controls in schools mitigate the risks identified in many areas.

The key matters arising from the audits are that:

- Completion or recommended skills matrices to support the evidence for the Schools Financial Value Standard;
- The standard and content of minutes for a school's Governing Body.

Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.

The Schools Financial Value Standard is now an established tool for maintained schools as a self-assessment of their local financial management and schools are required to annually submit their self-assessment to their local authority by 31st March.

Irregularities Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Devon Audit Partnership (DAP) have a liaison role with the corporate fraud officer; the key outcomes of this role are the identification and investigation of external frauds.

The Cabinet Office now run the national data matching exercise (National Fraud Initiative – NFI) every two years. The majority of data matching for this involves the investigation of potential external fraud committed against the Authority, i.e. individuals or bodies external to the Council. This area of NFI is now shared with the corporate fraud officer, with DAP undertaking the internal matching investigations i.e. Payroll and Creditors.

DAP has continued to undertake an annual monitoring of staff internet use and to date found no significant concerns. This provides assurance that action has been effective and such use remains within policy. The Council's Whistleblowing Inbox is also monitored daily. Periodic fraud bulletins are also produced and published on DAP's website.

Irregularities – During the first six months of 18/19, Internal Audit have carried out, or assisted in twelve new irregularity investigations, the majority of which occurred in the Place Directorate. Analysis of the types of investigation and the number undertaken and as compared with the total investigations for previous years shows the following:

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Issue	18/19 Number Half Year	17/18 Number Whole Year	16/17 Number Whole Year
Poor Procedures	4	8	5
Employee / Member Conduct	6	4	6
Financial Irregularities	2	1	0
Misappropriation of Income	0	1	3
IT Misuse	0	0	1
Tenders and Contracts	0	0	1
Total	12 *	14	16

** It should be noted that as at January 2019 (i.e. three quarters of the year) that the number of irregularities has risen to 13 in total, and that for comparison purposes the number of irregularities as at January 2018 was 12 in total.*

Summary details as follows:-

The irregularities have included investigating allegations received because of whistle blows and concerns raised including in relation to alleged inappropriate officer and member behaviour, review of internet and email of officers following concerns raised and to support Human Resources disciplinary processes and investigating the misuse of a mobile phone.

Freedom of Information and Subject Access Requests:-

We were asked to assist with one request under Freedom of Information and Data Protection requirements.

Professional Standards and Customer Service

Conformance with Public Sector Internal Audit Standards (PSIAS)

Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2018. This is supported through DAP self-assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note.

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

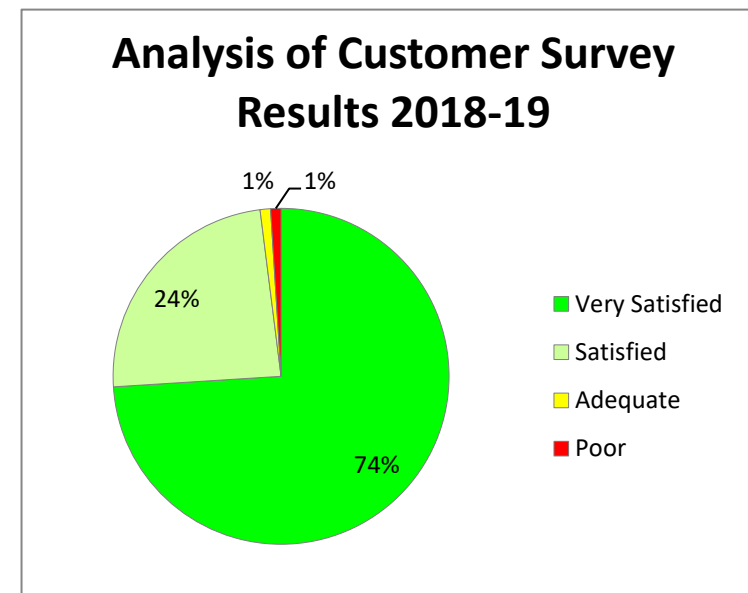
Improvement Programme – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and a status report was reported to the Management Board in October 2018.

Performance Indicators

Overall, performance against the indicators has been very good with improvements made on the previous year (see Appendix 5). To note that certain areas of the audit plan relate to project work and will not be complete until the end of the year. Although performance in relation to issuing reports is improving overall, we are aware that some of our draft reports were not issued to the customer within the agreed timeframes (15 working days). We continue to review where performance in this area can be improved.

Customer Service Excellence

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



Appendix 1 - Annual Governance Framework Assurance

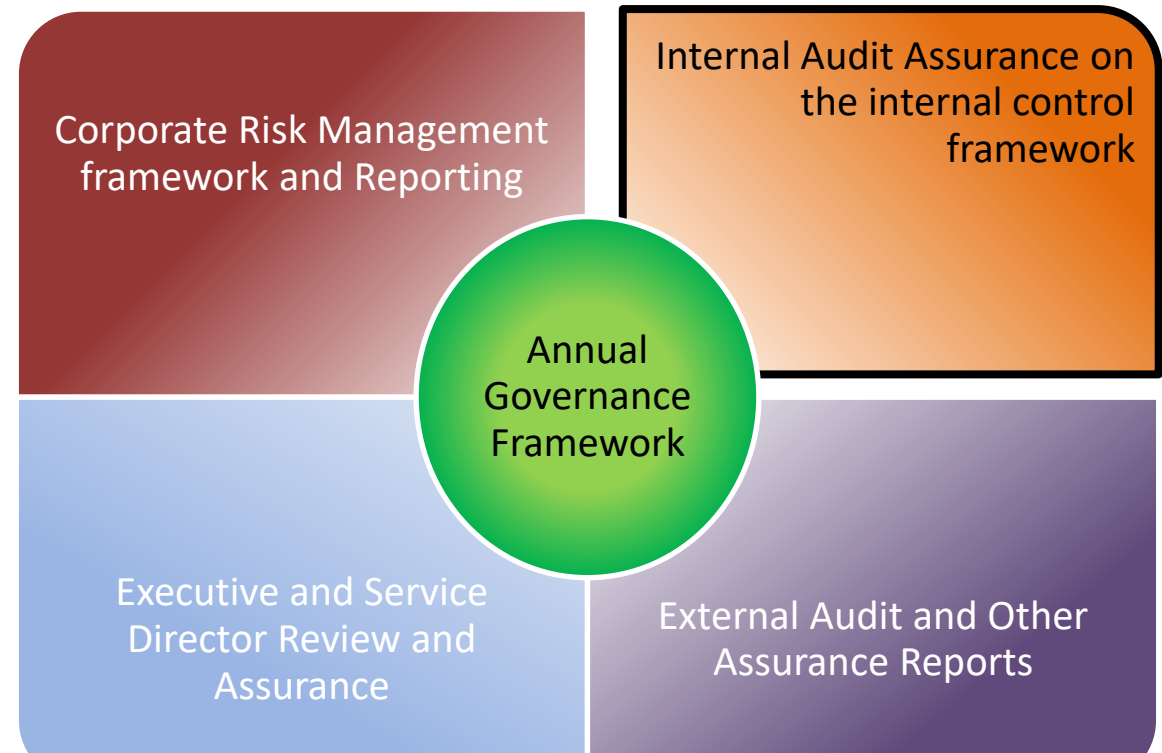
The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

The Annual Governance Statement provides assurance that

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

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

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



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

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

Appendix 2 - Basis for Opinion

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

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

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

The extent to which our work has been affected by changes to audit plans has not been notable this year to date and we anticipate meeting the majority of the original audit plan for Children's Services, Public Health and Adult Services this year.

In previous years, other service priorities have impacted audit delivery in Children's Services and Public Health, and this continues to impact our Assurance Opinion for these areas.

The overall audit assurance will have to be considered in light of this position.

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

all audits completed during 2018/19, including those audits carried forward from 2017/18;

any follow up action taken in respect of audits from previous periods;

any significant recommendations not accepted by management and the consequent risks;

the quality of internal audit's performance;

the proportion of the Council's audit need that has been covered to date;

the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;

any limitations that may have been placed on the scope of internal audit.



Appendix 3 - Audit Authority

Service Provision

The Internal Audit (IA) Service for Devon County Council is delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

Regulatory Role

There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Page 85
- **Section 5 of the Accounts and Audit Regulations (England) Regulations 2015** which states that ".....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....."
 - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

Professional Guidelines

We work to professional guidelines which govern the scope, standards and conduct of Internal Audit as set down in the Public Sector Internal Audit Standards.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

Our Internal Audit Manual provides the method of work and Internal Audit works to and with the policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.



Appendix 4 – Summary of audit reports and findings for 2018/19

Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available


Direction of Travel Assurance Key

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





CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Transformation			
Transformation Programme - project 'trusted advisor' role (ANA – Critical) Risk / ANA - Critical Page 86	Added Value Status: Ongoing	<p>We continue to provide support in both Audit assurance and operational delivery roles in line with project timescales.</p> <p>As our Audit role provides us with a unique organisational position, we continue to provide reports resulting from our audit work where there's a direct link to Transformation Programmes and projects; Contract and Procurement, Concessionary Fares, Section 106 and CIL, Council Tax and NNDR, TOR2 and Children's MTFP. These provide our opinion on specific areas along with any recommendations where we feel controls could be strengthened, for example recurring issues where recommendations have not been actioned, related to Council Tax and NNDR discount reviews; corporate debt recovery issues, and weaknesses in controls around S106 monies;</p> <p>In relation to specific Transformation Programmes and Projects, we have provided the following:</p> <ul style="list-style-type: none"> • Children's Services ICT –initial support and advice including review of project documentation We had concerns around the business case/PID document initially drawn up and provided our feedback, however understand that this is currently subject to review. We will continue to provide support as this project progresses; • Commercialism Programme – attendance at and participation in Commercialism Board in an active Project QA role; • Contract Review – Commenced benchmarking against other Local Authorities on certain aspects of Contract processes; • Transport and concessionary fares – provision of benchmarking information against a range of other Local Authorities in relation to concessionary schemes in operation and associated savings achieved where provided to us. Following a recent request, we are also in the process of undertaking further benchmarking in relation to School Transport; • Spatial Planning – evaluation of the proposed collaborative arrangement with PCC as detailed in the Place half year report; 	N/A

CORPORATE SERVICES



Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Digitalisation, ICT Service delivery model Risk / ANA - Critical		<ul style="list-style-type: none"> Community Engagement – benchmarking of community groups operated within other Local Authorities supporting delivery of Council services; TOR2 – initial advice and support to ICT and Finance in relation to the potential early withdrawal from the TOR2 contract. Going forward we have been asked to provide support in relation to resolving issues leading into the 2020 transition. Investment Committee – we continue to review Governance and supporting process arrangements. <p>Our provision of relevant Local Government Publications to the Transformation team continues, which provides a view of projects and associated activities at other Local Authorities.</p> <p>It is pleasing to note that the Transformation Team has broadened since last year, however we would recommend that the Council reviews its position in terms of a broader Portfolio Management perspective. This would provide the organisation with greater clarity on all projects and identify interdependencies, priorities and a method for identifying peaks in resource requirement. This will be critical going forward given the forthcoming DELT arrangement for delivery of ICT.</p>	
	Added Value Status: Ongoing	<p>We have undertaken this within the Transformation Programme. To date we have provided direct support to the review process and options appraisal reporting for alternative ICT Service delivery models. Following this we are engaged in the 'DELT' project and continue to provide support in relation to the Council being 'DELT Ready'. This will encompass Digitalisation elements building upon our associated 'Channel Shift' audit.</p>	N/A
Material Systems 2018-19			
Income Collection Risk / ANA - Medium	High Standard Status: Final	<p>Testing this year confirmed that processes continue to be operating as designed resulting in accurate receipting, recording and reconciliation of income received.</p> <p>Income data is accurately posted and reconciled to the General Ledger, although as in previous years, there remains further opportunity to streamline practices for potential efficiencies.</p> <p>Controls have been put in place to mitigate the lack of segregation of duty between the system administrator and general operational / transactional roles.</p> <p>The majority of all previously agreed recommendations have been addressed with only one still in progress. This year we have made just one new recommendation in relation to suspense account reconciliations.</p>	

CORPORATE SERVICES




Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Asset Register Risk / ANA -Medium	High Standard Status: Final	Since last year's audit, we are pleased to report that the majority of the recommendations made have been implemented, and the audit opinion remains 'high standard'.	
FIMS System Administration Risk / ANA - Critical	Good Standard Status: Final	With the exception of the lack of segregation of duty, we have no concerns in relation to the operation of controls within the system administration of the FIMS System. There continues to be consistent adherence to the processes that form the established and robust control environment in place which ensures the integrity of the system and data.	
IBS* System Administration Risk / ANA – High *International Business Systems	Good Standard Status: Final	Processes continue to be operating adequately, however events this year have highlighted the risk to maintaining continuity and as such we reiterate the importance of finalising and testing the business continuity plan and consideration of the capacity to cover processes in the event of long term absence. The acknowledged lack of segregation of duty remains, as do a number of other issues including the ongoing lack of audit trail retention in relation to parameter changes, and potential efficiency gains in relation to reconciliation practices.	
Benefit Subsidy Claim – additional 40+ testing. Risk / ANA: N/A	Added Value Status: Complete	A number of issues, relating to the 2017-18 subsidy year, were identified. These mainly relate to weekly earned income being incorrect due to errors made when either undertaking manual calculations or inputting amounts; however, a small number of cases were also identified where supporting documentation for the rental amounts used for non-HRA rent rebate entitlement calculations could not be located.	N/A
Treasury Management Risk / ANA - Low	Good Standard Status: Draft	A properly approved Treasury Management Strategy is in place; however, this is likely to require updating for the new year due to the new CIPFA Code that has been recently published. We note that the Council's Treasury Management Practices (TMPs) have already been updated in this regard. As in previous years, high operational standards continue to be maintained, with only minor issues being identified, and it is pleasing to note that a number of issues from previous years are no longer outstanding. Recommendations have been made, mainly to further strengthen existing controls, including: ensuring the recently drafted Business Continuity Plan is approved and tested; that training records are kept up to date, and that the reasoning behind any borrowing undertaken by the Council is formally recorded.	

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Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Benefits Risk / ANA - Medium	Good Standard Status: Draft	<p>The walkthrough undertaken this year did not identify any new issues in terms of system design, and the controls in place are generally deemed to be sufficiently robust to prevent inappropriate or inaccurate amendments being made to the benefits system, and inaccurate payments being made.</p> <p>Progress is now being made in terms of improving the QC process and there are additional checks in place in relation to self-employed earnings claims. A small number of recommendations relating to both the QC process, and SE earnings remain outstanding.</p> <p>An additional issue was identified this year in that the required processes and checks relating to a payment in excess of £2k had not been undertaken, resulting in errors not being identified and a significant overpayment being made. Management will need to consider how, going forward, they can ensure that these important controls are operated.</p> <p>Our added value additional limited sample testing on earned income calculations in the 2018-19 year did not identify any errors.</p>	
Page 89	The following audits are currently in progress:		
	<ul style="list-style-type: none"> Payroll (ANA – Critical) Council Tax and National Non-Domestic Rates (ANA – Medium) 	The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> General Ledger and Bank Reconciliation (ANA – Medium) Creditors and POP (ANA – High) Debtors and Corporate Debt (ANA – High) 	
Material Systems 2017-18 - not reported in the annual outturn report but included here in summary for completeness			
<ul style="list-style-type: none"> General Ledger and Bank Reconciliation (ANA – Medium) Creditors and Purchase Order Processing (ANA – High) Payroll (ANA – Critical) 	Good Standard Status: Final	<p>Whilst the control environment for the general ledger and bank reconciliation is generally sound, there remain several long standing outstanding recommendations in relation to the general ledger and it would be good to see them implemented soon.</p> <p>The control environment relating to ordering and payment of creditors is generally robust; however, our main concern is in relation to the authorisation process for manual payment. This could be resolved through automation. We urge the Council to introduce this control.</p> <p>Although the design of the Payroll systems and related processes are generally robust and previous years recommendations are being addressed, we identified that payroll amendments not processed through MyView are not now checked for appropriate authorisation; we understand this to be approximately 15% of all transactions. We encourage management to consider other ways of ensuring that these amendments are properly authorised until all amendments can be processed through MyView.</p>	



CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
<ul style="list-style-type: none"> Council Tax & Non-Domestic Rates (ANA – Medium) Sundry Debtors and Corporate Debt (ANA – High) 	Improvements Required Status: Final	<p>The Council Tax & Non-Domestic Rates system design is sufficient to ensure accuracy of property valuations and related billing, however long-standing issues in relation to regular review of exemptions and discounts, bill reduction and refund / credit processing, quality control and performance indicators have been reported again. The intended changes to processes to drive efficiency and increase take up of direct debits are yet to be implemented due to the need to prioritise other transformational targets.</p> <p>For Sundry Debt, additional progress has been made against previous recommendations made and we note for others that management continue to accept the associated risks. These aside, we have no significant concerns in terms of either amendments being made to FIMS, or subsequent recovery of related amounts.</p> <p>We have concerns in relation to Corporate Debt, due to several issues which continue to be identified year on year, including in relation to non-adherence to the recovery timetable, and recovery suppression and adherence to special arrangements not being effectively monitored. Had we undertaken a separate Corporate Debt audit, rather than combining this with Sundry Debtors, the opinion is likely to have been one of 'Fundamental Weaknesses'.</p> <p>Our previous review of debt recovery across the whole Council found this to be relatively disjointed, as there are other areas that are managed at a local level. Although some progress has been made in this area, much of the work remains ongoing. Given the issues found within Corporate Debt, we have reiterated our recommendation that management consider amalgamating the two recovery teams, and expanding their remit to cover all debt recovery across the Council.</p>	
<p>SLT Response/Action Plan – Leads: Bob Clark / Martin Phillips <i>Work is underway to address the issues raised, and we anticipate an improved direction of travel for the next audits of these areas in Quarter 4.</i></p>			
IT Audit			
Website Content Management Risk / ANA – Medium	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details. In addition, please refer to our annual Follow up of Areas requiring Improvement Report, presented at the same time as this report showing a positive direction of travel and an uplift in our assurance opinion.	
ICT Material Systems Processes Risk / ANA – Critical	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details	

CORPORATE SERVICES



Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Major ICT systems projects ('trusted advisor role') Risk / ANA - High	Added Value Status: Ongoing	We continue to be engaged in a number of ICT projects where we provide a project assurance role, including attendance at project meetings as required, and provision of advice and guidance within the role in line with project timescales. The projects we are engaged in are: Children's Services – ICT (details within Transformation); Customer Feedback Monitoring System Implementation; Housing System (Homelessness); Purchase Cards;	N/A
GDPR (General Data Protection Regulations) Project Risk / ANA - High	Added Value Status: Ongoing	We continue to provide support to the GDPR project. We are active members of the GDPR project team.	N/A
GDPR – Information Asset Register Risk / ANA – Client Request	Added Value Status: Ongoing	We have been engaged by the Council in supporting the development and completion of the Council's Information Asset Register.	N/A
<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> ICT Continuity and Disaster Recovery (ANA – High) 		<p>The following audits have been deferred or cancelled at the request of the client:</p> <ul style="list-style-type: none"> Client side function (IT) following outcome for service (ANA – High) 	
Other			
Human Resources (HR) - Exit Packages Risk / ANA - Medium	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details. In addition, please refer to our annual Follow up of Areas requiring Improvement Report, presented at the same time as this report.	
Coroner Service Risk / ANA - Low	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details. In addition, please refer to our annual Follow up of Areas requiring Improvement Report, presented at the same time as this report.	
FIMS Upgrade Risk / ANA - Medium	Added Value Status: Final	Assurance was reported in last year's annual report; please refer to that report for details	N/A
Legal Services – cross council use of legal advice Risk / ANA - Medium	Improvements Required Status: Final	Expenditure on external legal services during the last financial year totalled nearly £800k. There is a reasonable understanding of what is driving these costs, with the explanations being given supported by our analytical review. Generally, there is a lack of capacity in house regarding specialist expertise; however, there are genuine reasons as to why expanding this in house capacity may not be the sole way forwards, and management will need to consider a number of different solutions in order to reduce costs.	

CORPORATE SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		In terms of adherence to Financial Regulations relating to procurement, we are not able to provide assurance in this area, hence the overall opinion given; and we have recommended that the Council's relationship with a number of significant suppliers is reviewed.	
<p>SLT Response/Action Plan – Lead: Anne-Marie Bond <i>A signfication proportion of external expenditure last financial year was in respect of the acquisitions of investment properties, for which urgent and specialist advice was needed.</i> <i>A Procurement review is underway in respect of all such expenditure with a view to arrangement being put in place.</i></p>			
Covert Surveillance of Social Networking Sites Risk / ANA – Client Request Page 92	Improvements Required Status: Final	<p>Although there are clear policies and guidance in place in terms of the use of social networking sites (SNS's) for investigations, there is a lack of awareness and understanding at a departmental and operational officer level that the use of the internet and SNS's may potentially fall within the definition of covert directed surveillance, and of the expected process where this is the case.</p> <p>The complex legislative provisions relating to this area and the risk that officers may act unlawfully re-enforces the need to constantly review the extent to which formal training of awareness of the provisions is required within Torbay Council to cover members, current staff, new recruits, contractors, temporary workers, and the value of a defined user guide for officers to follow.</p> <p>The lack of a framework for the requirements of central reporting and recording prevents corporate oversight of compliance within the Council. In addition, where services are delivered externally, the Council has no compliance assurance from these agents.</p>	
<p>SLT Response/Action Plan – Lead: Anne-Marie Bond <i>Government guidance has now been updated as this is a continually evolving area. This is to be used to update Council policies, and will be rolled out within training sessions. However the increasingly accepted view is that information on SNS's is not classed as covert directed surveillance. Therefore we are reviewing and testing with other authorities whether it is proportionate to have a central reporting and recording system. However given the diminishing risk associated with this, whilst the work is being undertaken, it is lower down the priority list.</i></p>			
Printing Services and Post Room Risk / ANA - Medium	Improvements Required Status: Final	<p>There is little in the way of procedural guidance in place for the Printing Service, and with the exception of general budget monitoring, no performance monitoring undertaken.</p> <p>Access controls relating to the Tharstern system are not particularly robust; however given the low risk nature of the system, this is not concerning.</p> <p>With regard to control of stock, there are few controls to ensure that stock movements throughout the year are accurately recorded, and the year-end stock take is not used to identify discrepancies. In terms of security, there is swipe access to the Print and Post Room, however there are a number of high value / high risk stock items and we have recommended that these items are held more securely.</p>	



CORPORATE SERVICES



Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>The mechanism for calculating the price of each job currently does not ensure full cost recovery and the methodology in this area needs revisiting.</p> <p>Independent quality monitoring is undertaken to ensure that completed jobs are of a high standard. Related debtor invoices are then created, however there is no guidance as to when this should be done, and our review found that they are not always being raised promptly.</p> <p>With regard to the Post Service, we have no significant concerns, and only a small number of related recommendations have been made.</p>	
<p>SLT Response/Action Plan – Lead: Bob Clark <i>We are undertaking a detailed Print/post service review which will totally change the way print services are delivered back to the Council. This is a Transformation project which will be worked up over the coming months with a view to start implementation June/July 2019.</i></p>			
Torbay Online Asset Database (TOAD) Replacement and FM System Implementation Risk / ANA - Medium	Added Value Status: Ongoing	We are engaged with the Project Leads in both the service area and ICT. We are currently evaluating the implementation and note that there is no formal project management structure. We will be reviewing the system in early 2019 when relevant modules have been implemented but will continue to provide ongoing advice and support as required.	N/A
Information Security Group Risks / ANA - N/A	Added Value Status: Ongoing	We maintain membership of, and attendance at, the Council's Information Security Group. Our role continues to provide advice, guidance and challenge in terms of active participation within the group. Of concern is the level and nature of data breaches and subject access requests (SAR). The resource requirement to investigate and respond to these is significant and currently impacts upon the other operational duties of the team.	N/A
HR / Payroll System (MyView) - new modules implementation project Risk / ANA - High	Added Value Status: Ongoing	We continue to provide support to the project as requested by the client and have provision to attend any project meetings as required.	N/A
Risk Management, Emergency Planning and Business Continuity Project Risks / ANA – Medium	Added Value Status: Ongoing	We supported the then project team in developing the risk management strategy, and business continuity framework. The project team itself is no longer meeting, however we are progressing these elements with specific officers to now integrate these practices into the organisation.	N/A
The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> • Housing Services – follow up (ANA – Medium) • Health & Safety (ANA – Medium) • Contract Monitoring - Public Toilets, and Library Service (ANA – Medium) 			



PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Food Safety, Safety and Licensing Risk / ANA - High	Improvements Required Status: Final	Assurance was reported in last year's annual report; please refer to that report for details. In addition, please refer to our annual Follow up of Areas requiring Improvement Report, presented at the same time as this report showing a positive direction of travel as is also reflected here.	
Spatial Planning - Development and Planning Risk / ANA - High	Added Value Status: Final	Assurance was reported in last year's annual report; please refer to that report for details As at June 2018, and since completion of our work and provision of this advice note, we have been advised that the Council has decided to cease progression of the proposed collaborative arrangement with PCC.	N/A
Concessionary Fares - follow up Risk / ANA – Medium Page 94	Improvements Required Status: Final	Since the previous audit, the resource to undertake the function of negotiating and setting reimbursements with operators has been enhanced through an external consultant provision. We understand that this arrangement has been reviewed to address procurement regulations, and a new provider has now been contracted from the Councils Supplier Framework. We have recommended that this provision should take into account the net benefits of using such a provision. It has resulted in a reduction in payments made to certain operators; although arrangements with others are yet to be resolved. However, the changes made did result in the cancellation and / or reduction in routes. We noted the considerable changes in estimated and actual costs for budget purposes during course of the year and found that this was as a result of the cessation of an operator, the loss of routes and forecast calculation errors; this requires correction of the accrual made in the general ledger. However, other actions including those relating to the checking of information from operators and concessionary passes for disabled applicants remain outstanding. We understand that there had been issues with the new On-Line Applications Software, which have delayed the benefits to resourcing this process.	

SLT Response/Action Plan – Lead: Kevin Mowat/Andrew England

The audit observations are noted and further advice from procurement is being obtained. The lack of a significant budget for bus subsidies presents a real challenge and services are reliant on cooperation with bus companies, and indeed their financial sustainability for the routes operated. Having very late agreements with operators regarding their concessionary fare settlements has caused problems and as such the project timetable for concessionary fares will be reviewed as far as is practical for future years. On the 7th January 2019 there will be the ability for those permanent residents of Torbay who are eligible on grounds of being of state pensionable age or disability, to apply for their concessionary bus passes on line using the council website (link below), residents will also be able to manage and keep their details up to date. www.torbay.gov.uk/buspass Older persons bus pass renewals will continue to be carried out automatically, with a new bus pass being dispatched approximately 6 weeks in advance (providing the current pass has been used within the past 12 months). The Disabled Person's bus pass are manually renewed and, as some medical conditions change over time, applicants will need to provide current evidence of their continuing eligibility.

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Section 106 - follow up, including Infrastructure Levy Risk / ANA - Medium	Improvements Required Status: Final	<p>Since the original audit undertaken in 2014-15, we are pleased to report that recommendations relating to the calculation of s106 contributions have all been implemented.</p> <p>In regard to the collection and spend of s106 contributions, there has been little progress; this is due to the planned joint working partnership with Plymouth no longer going ahead.</p> <p>We understand that a new system for both s106 and the Community Infrastructure Levy (CIL) has recently been given the go ahead, which is expected to address most of the significant risks which remain outstanding at this time, with its implementation and establishment of procedures being part of a specific Transformation project.</p> <p>We were unable to examine CIL now due to processes not being established, and levies not being required to be raised. We will, however, be providing support and challenge to the related Transformation project.</p>	
<p>STJ Response/Action Plan – Lead: Kevin Mowat/Andrew England <i>Re-establishment of the Section 106 Management Group will occur led by Andrew England with a view to ensuring spend, monitoring spend and delivery of associated projects; Review existing Section 106 requirements and monitoring fees; and identification of new projects to ensure ownership and deliverability. The Section 106 Management Group to run as a programme board.</i> <i>Recruitment of an in house CIL / S106 officer as a dedicated resource to ensure robust calculation of CIL payments and securing S106 payments. Handover of CIL / S106 role from Plymouth CC to Council officer and implement the new dedicated software.</i></p>			
Sports Pitch Leases - follow up Risk / ANA - Medium	Improvements Required Status: Final	<p>The Corporate Asset Management Plan 2015-19 including the appendix 4 ‘Granting of Sports Leases’ provides a strategic statement and direction for the management of sports pitch leases to sports clubs. However, in relation to establishing new agreements the take up and progress has been slow, and as at the time of the audit no new agreements were in place, and as such we are unable to provide assurance regarding the effective implementation of the policy.</p> <p>Additionally, we understand that the Council is unable to change existing agreements some of which will continue for many years and as such the benefits of the policy are unlikely to be realised in the short term. We have made further recommendations that would support peripheral realisation of benefits in relation to valuations, condition surveys, rent reviews, sub-let arrangements and payment plans, and in relation to hire charges covering costs.</p> <p>We found that appropriate processes, including a thorough application process, authorisation and appeal, are now in place for granting financial assistance, and these formed part of the consultation with clubs and have since been published. As there have been no new applications for assistance, we are unable to provide assurance that this process is operating effectively. Again, we understand that the Council is unable to change existing financial assistance arrangements as these are tied to existing leases.</p>	


PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
SLT Response/Action Plan – Lead: Kevin Mowat <i>Progress has been made with a number of sports clubs to deliver new leases in line with Appendix 4 of the Corporate Asset Management Plan. Examples include clubs at Cricketfield Road, Windmill Hill, Torre Valley North and Armada Park. Unfortunately, none of these leases have been completed yet and some may not continue. The nature of these clubs are that they often have limited resources and are therefore run by hard working volunteers who are nervous about landlord and tenant matters. This means that professional advisors are not always appointed, and progress is slow. It is also the case that many of the sports pitches are used by multiple clubs and this then requires a coalition of understanding and/or active collaboration to form an umbrella body to act as the tenant with the Council as the landlord. These arrangements are often fragile and can also involve local community groups, which adds further uncertainty and delay. In any event the existing policy does provide sports clubs with an opportunity to secure long leases and thereby access external grant funding. However, the opportunity for the Council to make significant savings and/or improved rental income is somewhat limited and may have been previously overstated. The benefits of the policy can be realised by all clubs, with existing leases, if they wish to proceed under the new arrangements but more often than not they are comfortable with the status quo.</i>			
Brixham Ferry Risk / ANA – Client Request	Fundamental Weaknesses Status: Final	Due to a lack of documentary evidence available, we are unable to provide assurance that the all year round ferry project and the related contract with Brixham Express Ltd for the provision of a fast ferry service from Brixham to Torquay were managed and monitored effectively. Management have agreed to address this issue for future projects.	
SLT Response/Action Plan – Lead: Kevin Mowat/Andrew England <i>This is now a lessons learnt case. A brief review has been undertaken identifying issues including continuity of staff handling the project and staff resources/capacity. Critically there needs to be a greater understanding of contract management which might be a corporate training matter to reduce the risk for future projects. Future projects need to be reported to a suitable strategic level board tasked with monitoring key projects. For example the new Growth/Capital Projects Board.</i>			
Neighbourhood Forums Risk / ANA – Client Request <i>(considered low risk by Management)</i>	Fundamental Weaknesses Status: Final	The three neighbourhood forums and their associated areas have been set up in line with relevant legislation and related plans have been properly prepared. These have not yet been approved by an independent examiner, though we understand that the examinations have now commenced. Legislation requires a referendum to adopt the plans and bring them into force. Government funding has been received by Torbay Council via a number of different grants; however, we have been unable to confirm which are for use by the Council and which should be passed over to the forums. We have also not been able to establish how this has been spent, as the majority of it has simply been passed over to the forums “on trust”, with, in our opinion, insufficient supporting evidence being requested or retained. Funding has also been received by Brixham Town Council; however as they have their own separate internal audit function, we have not been granted access to their records. Consequently, we are unable to provide assurance that funding has been used to facilitate neighbourhood planning objectives for any of the three forums.	
SLT Response/Action Plan – Lead: Kevin Mowat/Andrew England <i>Subject to successful referendums there will soon be complete Neighbourhood Plan coverage (May 2019) and as such there are no imminent projects of this nature. On completion of the referendum a review of the expenditure will be completed as part of the project closure. This should provide clarity as far as possible as to how the Neighbourhood Plan grant was allotted. An element of staff training is required to reduce the risk for future projects. Staff need to understand that the Council, as ‘gatekeeper’, is responsible for ensuring that grant funding, issued by the authority is appropriately spent and a full audit trail is required.</i>			

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Tor Bay Harbour Authority – Strategic Management Risk / ANA – Medium	Good Standard Status: Final	<p>We found the Tor Bay Harbour Authority Governance framework maintained through the Tor Bay Harbour Committee to be well established, clearly defined and effectively operated and monitored. This is supported by industry guidance, protocols, legislation and local policies and procedure, including those required by the Local Authority. There are some opportunities for improvement for which we have made appropriate recommendations either here or within the separate Port Marine Safety Code Report. We would draw your attention to areas such as Emergency Planning, ongoing training provision in key areas, and completeness and coverage of risk assessments.</p> <p>We found Harbour Strategic Management including long-term plans to be reasonably robust, albeit that improvements in costing out funding requirements would benefit from greater clarity. Of concern is the long-term viability of the current operating model and development of the Tor Bay Harbour Authority due to the ongoing draw on income and reserves by the Local Authority.</p> <p>To note that to avoid duplication of work we have placed reliance on audit coverage in certain aspects within the Port Marine Safety Code (PMSC), but only where these are deemed to impact the level of assurance in relation to this Harbour Strategic Management Audit.</p> <p>Although related but not impacting the Audit Opinion, of key concern to note is that following our Audit of the PMSC this year, our opinion was one of non-compliance. Our conclusion arose based on little progress having been made against the previous year's recommendations, and the identification of some significant safety risks which Tor Bay Harbour Authority must address in order for us to re-evaluate our compliance opinion.</p>	 *
Port Marine Safety Code Risk / ANA – Client Request	N/A Status: Final	<p>We have examined a restricted sample of records relating to the Tor Bay Harbour Authority and its compliance with the requirements of the Port Marine Safety Code and obtained such explanations and carried out such tests as we consider necessary.</p> <p>To the best of our knowledge and belief, and having carried out appropriate checks, in our opinion the Tor Bay Harbour Authority is not currently compliant with the Port Marine Safety Code. Little progress has been made against the previous year's recommendations and as such have been re-reported. We have also identified some significant safety risks which Tor Bay Harbour Authority must address for us to re-evaluate our compliance opinion.</p>	 *

SLT Response/Action Plan – Lead: Kevin Mowat

An Improvement Plan has been produced with associated actions that have already commenced. Of the six High Priority issues, four have been completed and the remainder may require changes to the staffing structure. Duty Holder training is being organised for the Harbour Committee Councillors/Advisors at the end of January, unfortunately nobody was able to attend the previous training organised for November 2018. Of the ten Medium Priority issues, six have been completed with the remainder scheduled for completion in Q1 of 2019. Of the fourteen Low Priority issues, six have been completed and a schedule has been established for the remaining items. However, some have consciously been deferred until post-May elections as they pertain to the post-election governance regime.

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Grants x 5 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Bus Subsidy, Local Transport Capital Block Funding, Pothole Funding, National Productivity Investment Fund and Local Growth Fund. A number of minor issues were identified and reported to the relevant funding body.	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> Local Transport Plan / Strategic Transport (ANA – Medium) Parking Services (ANA – High) Museum Services – Tor Abbey (follow up) (ANA – Medium) 		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> Contract Monitoring - Public Toilets, and Library Service (ANA – Medium) Spatial Planning - Development and Planning (ANA – High) 	
The following audits have been deferred at the request of the client: <ul style="list-style-type: none"> Commissioning and Performance Monitoring of the TDA (ANA – High) 			

ADULT SERVICES & HOUSING			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Care Act – Better Care Fund / Section 256 monies Risk / ANA – Critical	N/A Status: Final	<p>National conditions pertaining to the development and production of the 2017-19 BCF Plan for Torbay were found to have been appropriately met, including agreement to the Plan by the Health and Wellbeing Board and formal approval by NHS England; and the associated section 75 agreement, relating to use of pooled funds under the NHS Act 2006, is in place.</p> <p>We are however unable to provide assurance as to whether BCF monies have been spent appropriately in line with approved plans due to a lack of financial information relating either to overall expenditure against the £16.6m identified within the BCF Plan for 2017-18, or a breakdown of expenditure for each individual project approved within the Plan.</p> <p>We have been asked to undertake a follow-up review later in 2018/19 and provide an updated opinion, and have therefore recommended not only that the required information is obtained, but that it is monitored in-year, with a view to early identification of any over or under spend, relating to 2018/19 expenditure.</p> <p>We note that the Council and its partners have been recognised at a national level for good practice in relation to work in Health and Social Care, and the development of the Integrated Care Organisation (ICO).</p>	

ADULT SERVICES & HOUSING

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	

The following audits are not due to commence until the second half of the year:

- Housing (ANA – Critical)
- Care Act – Better Care Fund / Section 256 monies follow up (ANA – Critical)
- Commissioning and Performance Management (non-Integrated Care Organisation - follow up) (ANA – High)



PUBLIC HEALTH

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<p>Torbay Community Development Trust (TCDT) - Independent Review</p> <p>Risk / ANA – additional client request</p>	<p>N/A</p> <p>Status: Final</p>	<p><u>Financial Sustainability</u> TCDT is faced with significant financial challenges but there is good evidence that these are being addressed. There is currently a £15k “funding gap” in respect of overhead costs for 2018/19. TCDT staff are implementing several changes and considering a number of options that are expected to address this. If the changes made and proposed realise the expected savings, then we consider that this gap to be bridgeable. However, as with all actions, the changes made will take time to fully imbed and realise the expected savings. It should be recognised that there may be some time slippage; such slippage could impact on the 2018/19-year end position. The Council should request an updated Business Plan from TCDT which clearly sets out future financial projections, and the assumptions that are underpinning it. Cash balances appear healthy but are largely held in Restricted Funds and there is a challenge to make sure that they are maximised. The debtors figure of £207k (as at March 2017) is reasonable but TCDT management should look at reducing this for future years were possible. TCDT holds very little assets and this could be a hinderance in terms of “borrowing to develop”.</p> <p><u>Perceived Value</u> Based on the survey results received the reach of TCDT is considered to be limited. There is interaction, but this is seen to be both positive and negative by the service users. There was little evidence that TCDT had actively sought new and developing entities to support. Awareness has been driven by existing users rather than TCDT, and Council Staff expressed some dissatisfaction with TCDT’s role as gateway to the sector. TCDT’s value is less in question from engaged organisations. The prevailing view of respondents was that when TCDT engaged fully they were able to provide support. However, this engagement was inconsistent and several voluntary sector entities made comments regarding a lack of commitment and willingness to listen. There should be no doubt that TCDT has clearly benefited the local area. However, the overall value of this benefit in comparison to what could have been does not give a wholly positive view of TCDT. Based on respondent comments, there are several areas where TCDT must improve, both with its service users and via its interactions with Torbay Council.</p>	<p>N/A</p>



PUBLIC HEALTH

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audit is currently ongoing:		The following audit is not due to commence until the second half of the year:	
<ul style="list-style-type: none"> Health Protection and Infection Control (ANA – Medium, client request) 	<ul style="list-style-type: none"> Commissioned Services – Contracts Management and Monitoring (Sexual Medicines Service) (ANA – High, client request) 		

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Placement Activity Risk / ANA: Medium, Ofsted	Good Standard Status: Final	Assurance was reported in last year's annual report; please refer to that report for details.	
Contracted Services (Information, Advice, Guidance) Risk / ANA: Medium	Improvements Required Status: Final	<p>The contract with CSW Group Ltd is detailed, robust and covers the elements required by the DfE's statutory guidance. The contract also provides detailed contract management and monitoring elements to ensure that service delivery by CSW can be effectively monitored.</p> <p>The contract structure provides opportunity for contract review, however for this to be effective in terms of incorporating changing needs it is important that processes exist to feed information back from the service level teams to the contract representative.</p> <p>The contract management arrangements in place within Children's Services for this contract are, in our opinion, inadequate. There was no evidence to support attendance at contract review meetings nor appropriate minutes of the discussions and performance review. Management information reports provided by CSW did not address the majority of targets and reporting required by the contract. Where performance was reported, it was not evident that this was being measured against prescribed targets.</p> <p>The CCIS system and resultant management information reports did appear to provide for effective and accurate young people tracking data. Performance information on interventions for the vulnerable was not similarly tracked, although there was some evidence that service level teams maintained their own liaison and oversight for their vulnerable clients, however there was no evidence of this being routinely fed back for contract management purposes.</p> <p>The annual contract payments do not agree to contract documentation; some explanation for this was provided but was not backed up by evidence. Additionally, variation documentation to support a reduction in annual payments was not provided.</p>	

CHILDREN'S SERVICES

Risk Area / Audit Entity		Audit Report		Direction of Travel Assurance
		Assurance opinion	Residual Risk / Audit Comment	
<p>SLT Response/Action Plan – Lead: Alison Botham / Anne Osborne <i>The Placements and Contracts Team is now in place and will be working to ensure value for money via both Peninsula arrangements and contractual reviews. The recording of/reporting of placement is now being reviewed and tracking of children will be in a focussed format with senior Business Support providing minutes.</i></p>				
Section 17 Payments Risk / ANA: Medium	Improvements Required Status: Final	<p>There is currently minimal local guidance in place for making section 17 (s17) payments. Related information within the Council's childcare procedures directs the applicant towards the Crisis Support Scheme; however in practice this is not applied to s17 requests.</p> <p>Where Crisis Support is not applicable, officers are simply advised to make a decision as to whether it would be appropriate to make a payment out of the Children's Services budget. There is no information as to what the criteria for a s17 payment would be, how requests should be determined and processed, etc.</p> <p>Although there are various sources of financial assistance potentially available to families in need, we found that related Council departments do not liaise effectively with one another. Families could, therefore, make applications to different departments and receive multiple financial awards for assistance.</p> <p>A review of payments found that some were not s17 'payments' per se, but related departmental expenditure that would fall under s17. Other issues identified include a lack of financial assessment, and insufficient information being recorded as to the reasoning behind the type and amount of payment awarded.</p> <p>These issues emphasise the need for clear guidance in this area.</p>		
		<p>SLT Response/Action Plan – Lead: Alison Botham / Anne Osborne <i>Guidance is being created and will be in place by 31st January 2019.</i></p>		
Children's Services Medium Term Financial Strategy (MTFS) / Improvement Plan Risk / ANA: High	Improvements Required Status: Draft	<p>At an overall level, expenditure on Children's Services has not reduced in line with the expectations of the MTFS, it has in fact risen. Large increases in the Children Looked After (CLA) population during the latter half of 2017-18 and into 2018-19 have meant that additional placements have had to be found, and staffing, including higher cost agency workers, has not been able to be reduced.</p> <p>That said, this may be masking progress in terms of managing those who were already CLA at the beginning of 2017-18; however, it is difficult to ascertain actual progress on many of the specific measures set out within the MTFS Action Plan, as this is not being monitored. Performance data currently provided has been developed as a result of specific OFSTED monitoring requirements, and there are no links to the Action Plan.</p>		


CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
		<p>Although there is very detailed data available in terms of the CLA population, there is little in the way of summary or analysis enabling conclusions to be drawn or potential action to be identified.</p> <p>Due the recent increase in new CLA, it would be prudent to consider a review of the MTFs to determine whether it remains fit for purpose, whether the measures set out within the Action Plan can deliver the savings required, increase the number of residential placements available, and to establish effective monitoring.</p>	

SLT Response/Action Plan – Lead: Alison Botham / Anne Osborne

Review of MTFs has taken place.




Business plans regarding options to address placement pressures are being developed by Children Services and Transformation – 1st March 2019.

Education Services ROI CIPFA Return Risk / ANA: Client Request Page 103	Improvements Required Status: Draft	<p>Although some queries relating to the accuracy of the current RO1 Form structure on FIMS have been raised with relevant officers, the audit did not identify significant inaccuracies within the Education Services expenditure recorded on the financial system, or the related budget, and these areas were considered to be subject to robust accounting mechanisms. We have therefore been able to confirm the accuracy of the Council data returned within its RA or RO forms. However, we found that the benchmarking data does not take into account the significantly high proportion of schools that are no longer Local Authority Maintained, and for which budget and actual spend data is not included in the total budget/ spend data provided to CIPFA, and is therefore additional public spend to the £351 per head reported.</p> <p>To note that Primary and Secondary Schools together account for 56% of Education Services Budget Return, and also represents a significant proportion of the '£ per head' difference (£197.51 per head for Torbay compared to £363.85 for the Comparator Group (not national average). This is funded by the Dedicated Schools Grant formula determined by the DfE and supports the lack of non-maintained schools as being the predominant reason for the difference.</p> <p>Whilst accepting the disparity in the benchmarking data comparative figures, we noted that the report to the Senior Leadership Team quoted the national average, however the CIPFA Benchmarking Group average could be considered a better comparator and is significantly lower than the national average.</p> <p>Our concern is the lack of understanding of the data provided by the CIPFA Local Authority Comparator Report and its associated use for decision making purposes. Accordingly, we have recommended that in future, when using externally sourced data to support Council reports, that significant financial variances should be reviewed with Finance and properly understood prior to it being used in reporting.</p>	
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SLT Response/Action Plan – Lead: Rachael Williams/Martin Phillips

All future analysis of financial data such as benchmarking will be conducted jointly between finance and the relevant service area.

CHILDREN'S SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Use of Agency staff and control of Safeguarding employee costs Risk / ANA: High	Improvements Required Status: Draft	<p>The current financial situation within Children's Services is well known, with a significant overspend likely to occur this financial year. A review of the budget setting or monitoring process did not find any evidence of a lack of planning or discussion, however records of such discussions were not made, so it is difficult to provide assurance as to the robustness of the process.</p> <p>We note that, currently, the additional costs associated with the use of agency staff are not taken into account when setting the budget, and we have recommended that, given the extensive use of such workers, the likely costs are clearly identified at the start of the year.</p> <p>Given the known situation, remedial action to reduce both the demand for agency workers, and the cost of such workers where their use is unavoidable has either been taken or is well underway, and we have no concerns in this regard.</p> <p>Arrangements in place for ensuring that the appointment of an agency worker is properly authorised, are robust. However, testing found a number of issues in relation to how the process is being followed in practice which is currently resulting in the unapproved, continued use of such workers beyond the authorisation period</p>	
<p>ST Response/Action Plan – Lead: Alison Botham / Anne Osborne NO Budget for 1st April 2019.</p>			
Grants x 2 Risk / ANA: N/A	Certified Status: Complete	Grants certified comprise; Troubled Families first and second claims.	N/A
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • Special Guardianship Orders (ANA – High) • Disability Services (ANA – Medium) • Legal Care Proceedings (Review of operation of new process) (ANA – Medium) 		<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> • Permanency Planning (ANA – High) • Transition from Children's to Adults (ANA – Medium) • Early Help Strategy (ANA – Medium) 	
<p>The following audits have been deferred or cancelled at the request of the client:</p> <ul style="list-style-type: none"> • Children in Need Services / Child Protection (ANA – High) • Single Assessment (Casework) / MASH (ANA – High) 			
Schools Financial Value Standards (SFVS)	Good Standard	SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2017/18 submitted to the Department for Education.	
Maintained Schools audit programme	Good Standard	The overall opinion for the routine school audit visits has been maintained as 'good standard' (refer to summary data below). The provision of internal audit's performance data provides a greater focus on schools causing concern in the wider control environment.	

CHILDREN'S SERVICES

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Maintained Schools Summary Data			Assurance Opinion
The key matters arising from the audits are: <ul style="list-style-type: none"> • Completion of the recommended skills matrices for governors and staff (Schools Financial Value Standard)'; • The standard and content of minutes for a school's Governing Body. 			Good Standard

Appendix 5 – Performance Indicators

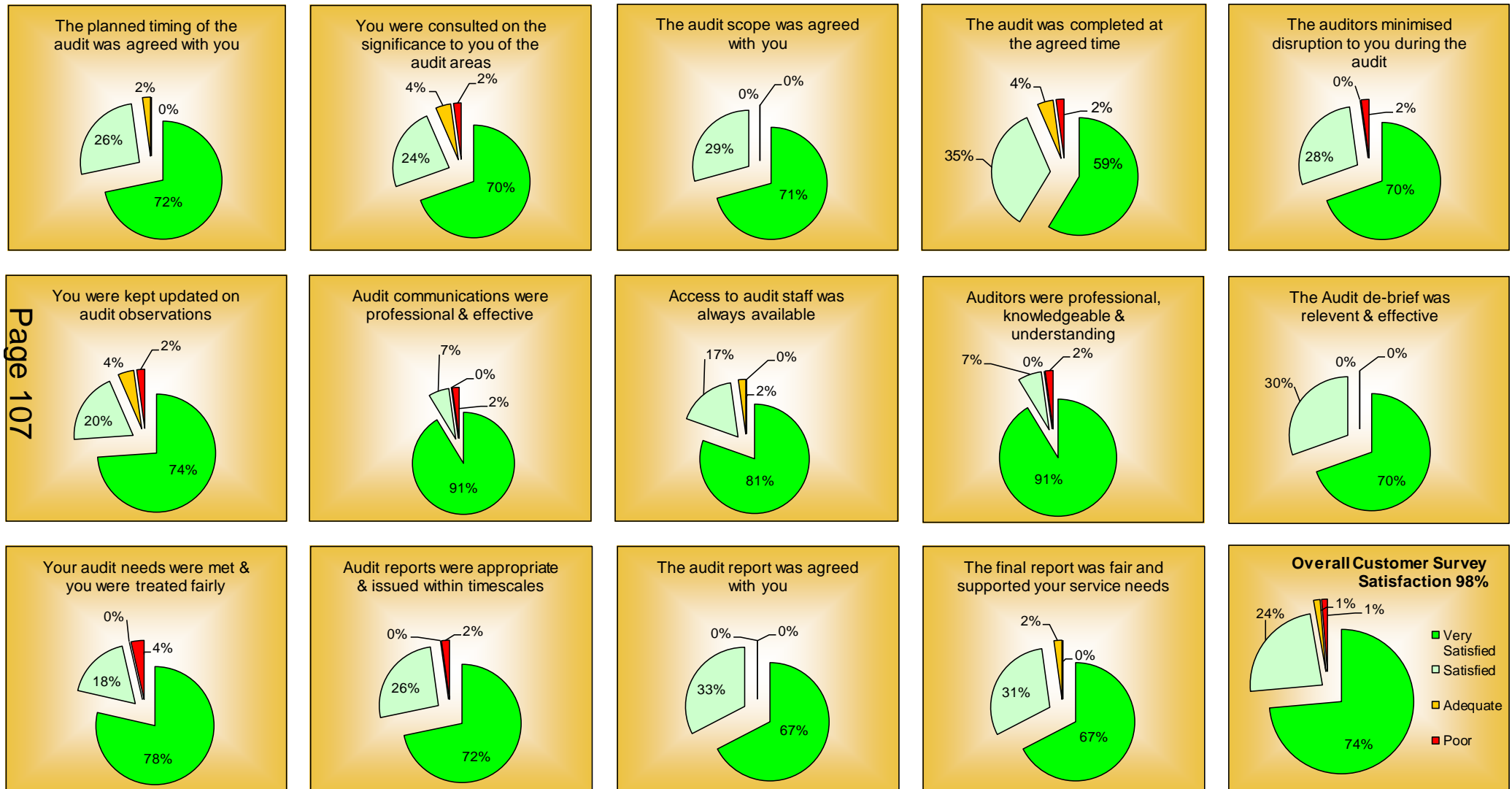
There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

Local Performance Indicator (LPI)	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19
	Target	Actual	Target	Actual	Full Year Target	Six Month Actual
Percentage of Audit plan Commenced (Inc. Schools)	100%	99%	100%	100%	100%	63%
Percentage of Audit plan Completed (Inc. Schools)	93%	96%	93%	87%	93%	31%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	113%	95%	96%	95%	54%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	On target
Percentage of chargeable time	65%	70%	65%	71%	65%	70%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	90%	98%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	85%	90%	91%	90%	93%
Final reports produced within target number of days (currently 10 days)	90%	100%	90%	97%	90%	100%
Average level of sickness absence (DAP as a whole)	2%	3.2%	2%	4%	2%	1.4%
Percentage of staff turnover (DAP as a whole)	5%	21%	5%	11%	5%	3.3%
Out-turn within budget	Yes	Yes	Yes	Yes	Yes	Yes

Overall, performance against the indicators has been maintained; certain areas of the audit plan relate to project work and will not be complete until the end of the year in line with project timescales. It should also be noted that the significant level of irregularities has been greater than anticipated and the need for investigation work has had an adverse impact on the overall completion of the plan. Analysis demonstrates that the issuing of draft reports again exceeds performance targets.

Appendix 6 - Customer Service Excellence

Customer Survey Results April – September 2018



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



Grant Thornton

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7 January 2019

Dear Martin

Certification work for Torbay Council for year ended 31 March 2018

We are required to certify the Housing Benefit subsidy claim submitted by Torbay Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £61.1 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work, which we wish to highlight for your attention. These are set out in Appendix A.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP on 26 November 2018. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £8,125. Due to the additional work required to address the issues we identified, we have agreed with you an additional fee of £2,699, subject to confirmation from PSAA. This is set out in more detail in Appendix B.

Yours sincerely

A handwritten signature in blue ink that reads "Alex Wang".

For Grant Thornton UK LLP

Chartered Accountants

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Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£61,134,160	Yes	+£84	Yes	

Findings from certification of housing benefits subsidy claim

The claim was qualified due to the following issues:

Claimant income

We identified 1 error out of 20 cases tested where assessors had incorrectly calculated claimants' earned income from evidence provided in respect of claims in receipt of rent allowances. We tested a further 40 cases and identified a further 9 cases where benefit had been incorrectly paid due to errors in calculating claimants' average weekly wage, leading to an extrapolated error of £265,307. As a result, we will undertake specific testing in this area in 2018/19.

Rental amount

We identified 1 error out of 20 Non-HRA cases tested where the rental amount entered by assessors did not agree to the rent agreement due to a transposition error. We tested a further 40 cases and identified a further 2 cases where the incorrect rent figure had been applied, leading to an extrapolated error of £6,400. As a result, we will undertake specific testing in this area in 2018/19.

The claim was amended due to the following issue:

CIVICA system issue

We identified 1 error out of 20 cases where an adjustment being processed in April for a Non-HRA claim, prior to the previous year being closed, resulted in reinstated benefit being incorrectly classified in the claim. This was due to a bug within the CIVICA system. Officers were able to review the whole of the population in 2017/18 and we agreed the amendment required to the claim as a result. The audit team reviewed and re-performed a sample of the work of the Council with no issues arising.

Recommended actions for officers

We recommend that the Council as part of its internal quality assurance process, should increase its focus on all areas of testing in respect of the areas where we identified errors from our testing.

Appendix B: Fees for 2017/18 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	8,125	8,125	10,824	2,699	Additional work was necessary to certify the claim due to errors identified in the initial testing. Additional testing was carried out in three areas with 100% checks carried out in four areas. We reviewed the additional work and re-performed a sample in line with PSAA guidance.
Total	8,125	8,125	10,824	2,699	

Audit Progress Report and Sector Update

Torbay Council
Year ending 31 March 2019
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22 January 2019



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Introduction



Barrie Morris

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This paper provides the Audit 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 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. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.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.

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Mark Bartlett

Engagement Manager

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Progress at 9 January 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and are due to commence our interim audit in February 2019. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of your financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

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

We began our initial risk assessment to determine our approach in December 2018.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim was concluded on 26 November 2018.

The results of the certification work are reported to you in our certification letter, which is a separate item on the agenda.

Meetings

We met with finance officers in November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also met with your Chief Executive, Head of Finance and Monitoring Officer in October to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our latest events are our local government accounts workshops which take place in February 2019. The Council's finance staff are attending the workshop in Plymouth.

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

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	January 2018	Complete
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

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

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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 NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: www.grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety



In good company: Latest trends in local authority trading companies

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

Outsourcing versus local authority trading companies

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

Advantages of local authority trading companies

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

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

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

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

Getting it right through effective governance

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

LATC's need to adapt for the future

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

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



[Download the report here](#)

Links

Grant Thornton website links

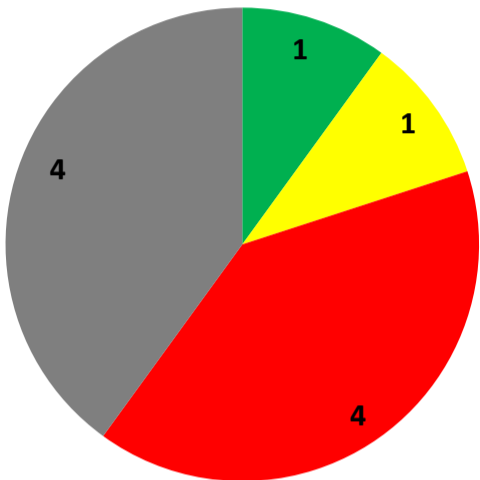
<https://www.grantthornton.co.uk/>

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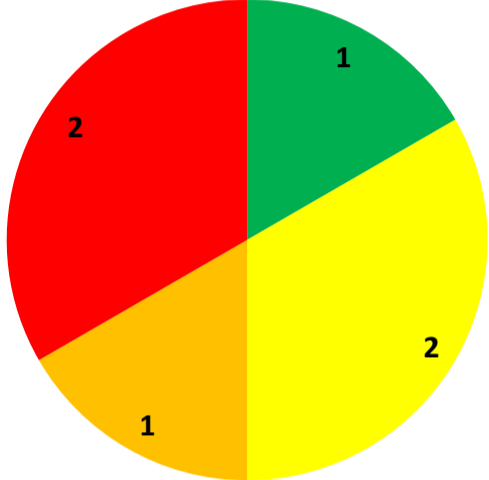
<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

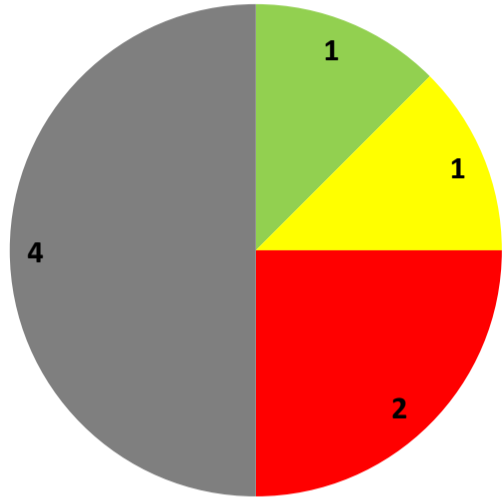
Corporate Performance Report: Quarter 2 2018/19



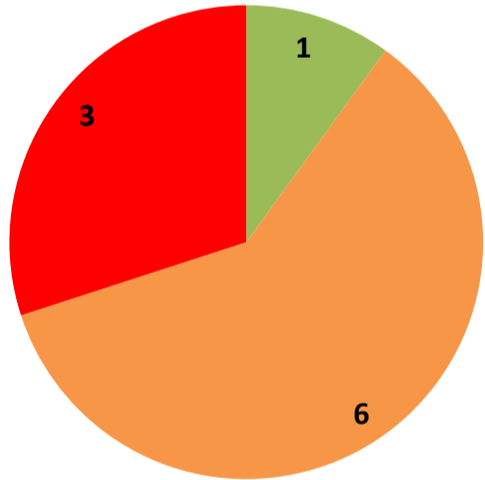
Attractive and Safe PIs (10)



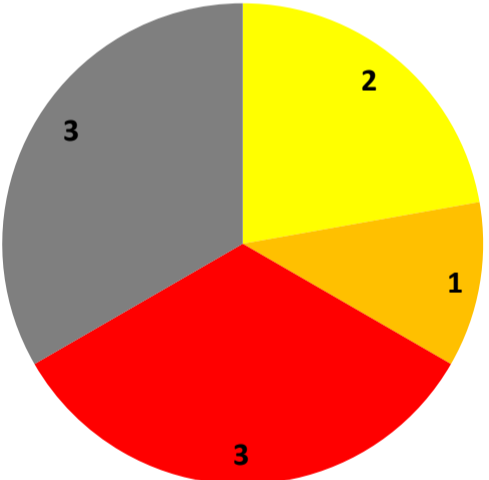
Promoting Healthy Lifestyles PIs (6)



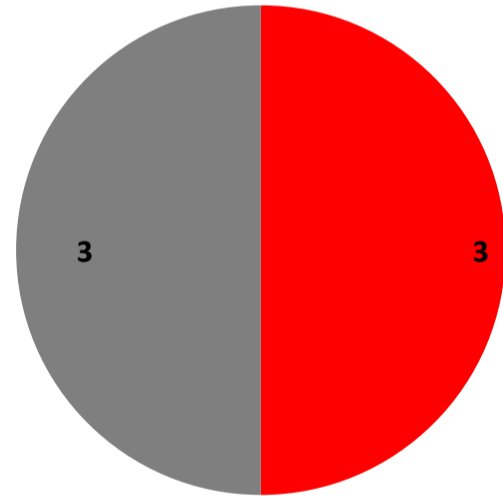
Prosperous Torbay PIs (8)



Protecting all children and giving them the best start in life PIs (10)



Protecting Vulnerable Adults PIs (8)



Running an Efficient Council PIs (6)

Key to Performance Status:



Corporate Plan Priority: Ensuring Torbay remains an attractive and safe place to live and visit

Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value
NI191	Residual household waste per household	It's better to be low	Well Above Target	124	120kg	124	124	133	Reported 1 quarter in arrears	133
NI192	Percentage of household waste sent for reuse, recycling and composting (LAA)	It's better to be high	Well Below Target	42.44%	50.00%	43.26%	44.19%	42.44%	Reported 1 quarter in arrears	42.44%
Priorities for last quarter				Achieved?	Priorities for next quarter					
					Progress investment in vehicles and plant					
					Continue review of the Council's Waste Strategy with the anticipated outcome of increasing recycling and reducing disposal.					

Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value
ASPI00 a	Numbers on the housing waiting list by Band A	It's better to be low	Well Above Target	Band A 3	Band A 2	5	3	5	7	7
ASPI00 b	Numbers on the housing waiting list by Band B	It's better to be low	Well Below Target	Band B 242	Band B 300	223	242	240	219	219
ASPI01	Average number sleeping rough (Local Data)	It's better to be low	On Target	37	20	32	37	21	21	21
ASPI08	Number of Events by Torbay Council or on Council Land	N/A	(monitoring only)	8	N/A	16	8	61	117	117
	BID PIs in development					BID are developing their dashboard of PIs				
	BID PIs in development					BID are developing their dashboard of PIs				

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Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Cumulative to date
ASPI02	Numbers in Temporary accommodation	It's better to be low	Well Above Target	537	210	132	123	158	126	290
ASPI05	Domestic violence incidents	N/A	(monitoring only)	3,541	N/A	818	852	824	983	1,807
Priorities for last quarter				Achieved?	Priorities for next quarter					
					To continue to maintain low average numbers of people sleeping rough.					
					To continue to reduce the numbers in temporary accommodation.					

Corporate Plan Priority: Promoting healthy lifestyles across Torbay

The Corporate Support Team is working with Public Health to Develop PIs, and provide more up to date, more frequent data.

Code	Title	Polarity	Status	Prev Year End	England Value		Last period value
PHOF2.0 6iHI	Excess weight in 4-5 and 10-11 year olds – 4-5 year olds (Per 100,000)	It's better to be low	Above Target	24.2%	22.6%	2016/17	24.3%
PHOF2.1 5iHI	Successful completion of drug treatment – opiate users	It's better to be high	Well Above Target	5.9%	6.7%	2016	8.4%
PHOF2.1 3iHI	Percentage of physically active adults	It's better to be high	On Target	55.5%	66.0%	2016/17	67.1%
PHOF2.1 2HI	Excess weight in adults - Percentage of adults classified as overweight or obese	It's better to be low	On Target	61.2%	61.3%	2016/17	62.0%
PHOF2.0 5HI	Smoking status at the time of delivery	It's better to be low	Well Above Target	15.0%	10.7%	2016/17	15.2%
PHAP10. 0i1	Admission episodes for alcohol-related conditions (persons; narrow definition)	It's better to be low	Well Above Target	886	636	2016/17	841

Priorities for last quarter	Achieved?	Priorities for next quarter
Excess weight in primary school age children: 1. Kickstart the five priority areas of the Child Obesity Workshop: peer mentoring, food poverty, active travel, Doorstep Safari and sports premium promotion	Y	Futher embed the four priority areas through project delivery
Excess weight in primary school age children: 2. Launch Torbay Healthy Learning (WAVE 1 website - including nutrition, physical activity, emotional health and wellbeing and PSHE content)	Y	1. Embed THL web content through social media content and school feedback mechanisms. 2. Develop Wave 2 options including an award process
Excess weight in primary school age children: 3. Delivery of a Torbay Healthy Learning Conference with a PE and School Sport theme.	N	Re schedule and promote the conference
Excess weight in adults (16+): 1. Establish National Diabetes Prevention Programme in Torbay (12 week programme accessible via primary care referral)	Y	Support ongoing delivery, evaluation and sustainability options for Diabetes prevention
Excess weight in adults (16+): 2. Complete review of Torbay Healthy Weight Partnership priority areas, action plan and membership	Y	1. Align Healthy Weight Action Plan, outcomes and partnership around agreed priority areas - cooking skills, healthy food access, food awareness in young people, families and people living in areas of inequality. 2. Align delivery and aspirations with other related areas of public health such as oral health and mental well-being
Percentage of physically active adults: 1. Launch of the new Torbay physical activity strategy 'Torbay on the Move'	N	Launch 'Torbay on the Move' with supporting communications plan
Percentage of physically active adults: 2. Complete 'Run for your Life' and 'Beat the Street' high profile key physical activity projects	Y	Capture and promote outcomes and develop sustainability plans
Percentage of physically active adults: 3. Collate projects for Torbay CAN (connecting Actively with Nature Project (55+, Sport England funded)	Y	Agree project portfolio and delivery plans
Smoking status at time of delivery. commencement of a Tobacco Alliance to continue to drive the reduction in smoking across the population	Y	Develop smokefree policy on acute site. Undertake maternity deep dive alongside NHS partners.
Successful completion of drug treatment - opiate users. Maintenance of successful completion rates for opiate users exiting the treatment system	N	Monitoring of rates to clarify if this is an aberation or a trend - implement action plan with provider service if trend continues
Admission episodes for alcohol-related conditions (persons; narrow definition - development of volunteer-led lifestyles screening within Torbay Hospital; increasing self-assessment activity	Y	Monitoring of activity to ensure actions are improving activity rates

Corporate Plan Priority: Working towards a more prosperous Torbay

Code	Title	Polarity	Status	Prev Year End	Great Britain / Quarter Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value	
PTPI07	Housing Benefit Caseload Count	N/A	(monitoring only)	12,124	N/A	12,164	12,124	11,967	11,696	11,696	
Priorities for last quarter						Achieved?	Priorities for next quarter				
Housing Benefit Claim processing - changes in circumstances are as up to date as possible. This ensures the two week run on period, announced in the 2017 Autumn Budget, will not require any further amendment once paid as this would cause additional work.						Yes	To maintain current levels of claim processing.				
Council Tax Support - the monthly re-assessments of Universal Credit will increase workload. Contingencies are in place, where a scheme change was introduced in April and DWP data sharing/automation processes will be gradually introduced to limit the impact on staff time						Yes	Automation processes currently being tested and quantified. This will become more important as natural migration to Universal Credit increases.				
Council Tax recovery – weekly, fortnightly and monthly payment plans have been introduced to alleviate financial pressure on household budgets. We also signpost to CAB and to seek debt advice.						Yes	The current debt recovery policy is being reviewed to take into account the impact of Universal Credit in Torbay district.				

Code	Title	Polarity	Status	Prev Year End	Quarter Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value
PTPI02	Gross rateable value of Business Rates (NNDR)	It's better to be high	On Target	£92,989,205	£93,817,187	£92,880,115	£92,989,205	£93,390,510	£93,444,510	£93,444,510
	Employment PI in development									
	Economic PI in development									
	Local Procurement PI in development									

Code	Title	Polarity	Status	Prev Year End	Great Britain / Month Target	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Last period value
PTPI03	Out of Work Benefits Claimant Count	It's better to be low	Well Below Target	2.4%	2.2%	1.9%	2.0%	2.1%	2.3%	2.4%	2.4%	2.3%	2.2%	2.0%	1.9%	1.9%	1.8%	1.8%

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Code	Title	Polarity	Status	Prev Year End	Great Britain Value		Last period value
PTPI05	Earnings by Residence (weekly full time)	It's better to be high	Well Below Target	£442.40	£552.70	2017	£477.10
PTPI06	Earnings by Workplace (weekly full time)	It's better to be high	Well Below Target	£422.40	£552.30	2017	£467.10
Priorities for last quarter						Achieved?	Priorities for next quarter

Corporate Plan Priority: Protecting all children and giving them the best start in life

(Data is derived from a live database that is continually updated. Previously reported numbers are subject to change)

Code	Title	Polarity	Status	Average Monthly for 17/18 Year	Anticipated Performance Level	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Average per month for year to date
	Number of Social Care Referrals	In line with benchmarks	Above expected levels	153	160	112	161	105	161	144	198	200	177	181	198	131	140	171
Code	Title	Polarity	Status	Average Monthly for 17/18 Year	Anticipated Performance Level	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Last period value
	Number of Children Looked After	In line with benchmarks	Well above expected levels	327	250	277	287	291	301	309	324	325	333	354	357	353	350	350
	Number of Early help referrals received in month	In line with our service expectations	Below expected levels	61	80	68	84	36	53	51	48	74	80	63	42	77	47	47
	Number of CP plans at month end by Category	In line with benchmarks	In line with benchmarks	205	172	220	198	174	159	144	146	145	153	142	165	170	170	170
	% of children with an Initial Child Protection Conference held within 15 days from strategy meetings	Its better to be high	Below expected levels	66%	100%	73%	53%	68%	82%	68%	42%	31%	74%	64%	73%	50%	55%	55%
	Timeliness of Single Assessments - completed in month	Its better to be high	Below expected levels	67%	82%	63.8%	51.6%	78.0%	79.5%	59.2%	79.1%	55.2%	64.4%	53.9%	57.1%	68.6%	71.6%	71.6%

Code	Title	Polarity	Status	As at 2017/18 Year End	Anticipated Performance Level	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Last period value
	% CLA cases reviewed within timescales during the month	Its better to be high	Below expected levels	96.1%	100%	95.9%	96.6%	97.1%	96.1%	96.2%	95.6%	94.8%	94.5%	95.9%	96.7%	97.4%	97.9%	97.9%
	Children on CIN plans visited within 30 working days	Its better to be high	Below expected levels	71.1%	90%	85.6%	77.3%	73.3%	79.5%	80.4%	83.4%	81.7%	77.0%	75.0%	81.3%	77.8%	76.4%	76.4%
	Timeliness of adoptions (Average nos of days between entering care and moving in with adopted family)	Its better to be low	Above expected levels	411	418	517	477	477	450	444	411	0	0	308	347	441	441	441
Code	Title	Polarity	Status	As at 2017/18 Year End	Quarter Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value								
	Social Work Staffing levels - vacancies	Its better to be low	Above expected levels	22.4%	18%	19.7%	22.4%	25.5%	21.7%	21.7%								
Priorities for last quarter							Achieved?	Priorities for next quarter										

Corporate Plan Priority: Protecting and supporting vulnerable adults

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Year to end of month
LI404	No. of permanent care home placements	It's better to be low	On Target	604	600	632	637	634	629	608	604	602	605	616	625	625	619	619
SC-007b	Number of out of area placement reviews overdue by more than 3 months (snap shot)	It's better to be low	On Target	0	0	1	1	0	0	0	0	1	0	0	1	1	1	1
ASC 2C p2	Delayed transfers of care from hospital. Part 2 - attributable to social care	It's better to be low	No Target Set	1.9	N/A	1.7	1.8	2.0	2.0	2.0	1.9	2.6	2.5	2.6	2.8	2.4	N/A	2.4 (Reported 1 month in arrears)
SC-008 (LI-451)	% of social care service users receiving 5 hours or less of dom care per week only	It's better to be low	Below Target	10.8%	9.1%	9.9%	10.1%	10.1%	10.2%	10.3%	10.4%	10.8%	10.3%	10.0%	9.7%	9.8%	9.9%	9.9%
W1135	Carers receiving needs assessment or review & a specific carer's service, or advice & information (LAA)	It's better to be high	Well Below Target	42.0%	18.0%	34%	34%	36%	38%	41%	42%	1%	3%	5%	7%	10%	13%	13%
	Number of Safeguarding referrals	N/A	No Target Set	267	N/A	159	175	194	217	243	267	18	42	66	89	111	121	121
TCT14b	Safeguarding Adults - % repeat SG referrals in last 12 months	It's better to be low	Well Below Target	7.1%	8.0%	7.6%	6.9%	6.6%	5.9%	6.0%	7.1%	8.4%	9.1%	9.9%	9.7%	7.9%	6.8%	6.8%
ASC 1E	Proportion of adults with a learning disability in paid employment	It's better to be high	Well Below Target	3.8%	3.5%	3.5%	3.5%	3.5%	3.5%	3.7%	3.3%	1.0%	1.0%	1.0%	1.0%	1.2%	2.8%	2.8%
ASC 1H	Proportion of adults in contact with secondary mental health services who live independently, with or without support (commissioned outside ICO)	It's better to be high	Well Below Target	55.0%	68.0%	53.8%	52.5%	54.8%	54.0%	52.7%	55.0%	51.5%	55.1%	55.4%	54.2%	51.4%	48.1%	48.1%
SC-011	Number of people discharged from hospital into permanent residential care (social care funded)	It's better to be low	No Target Set	7	N/A	4	5	5	6	6	7	0	2	3	3	4	5	5

Priorities for last quarter	Achieved?	Priorities for next quarter
(N135)Care Staff are receiving training on Paris to improve their recording when offering or providing a Carers needs assessment or review. This includes giving details of the service or information & advice offered.	Yes	Better recording on the system should start to show an improvement in this indicator. Carers Lead Officer is monitoring.
(ASC 1E) Proportion of adults with a learning disability in paid employment. Devonwide employment campaign commenced to encourage employers to recruit Learning Disabled people. Campaign links to DWP to help employers become disability confident. SPOT Opportunities commissioned to undertake reviews of Learning Disability clients package of care. Within this commissioned service there is now an emphasis on supporting clients to gain meaningful employment	Yes	Will need time to embed before improvements start to show on this indicator. Ongoing monitoring by lead commissioner. As above. Ongoing monitoring by lead commissioner. Project plan is in situ and reviews commenced. Will have numbers /outcomes during next quarter. Also need to ensure accuracy of recording.
(ASC 1H)Proportion of adults in contact with secondary mental health services who live independently with or without support (commissioned outside ICO). Supported Living Framework now in place ensures all clients residing in framework supported living properties achieve “settled accommodation” status. Review of data collection for this KPI to be undertaken to ensure compliance and that all clients achieving this status are accurately recorded.	Yes Yes	Review taking place results will be evident during next quarter. Ongoing monitoring by lead commissioner.

Corporate Plan Priority: Running an Efficient Council

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Cumulative to date
RECPI01	Agency Staff Cost (excluding schools)	It's better to be low	Well Above Target	£2,483,714	£70,600	£240,142	£200,427	£158,149	£266,134	£171,432	£516,907	£112,107	£305,328	£354,800	£462,949	£445,770	£272,665	£1,953,619
Adults £0k, Children's £210.6k, Public Health £0k, Corporate Services & Operations £54.5k and Commercial Services & Transformation £7.5k																		

Code	Title	Polarity	Status	Prev Year End	Annual Target	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Last period value
RECPI02	Variance Against Revenue Budget (projected)	It's better to be low	Well Above Target	£1,876,000	£0	£1,900,000	£2,600,000	£2,548,000	£2,516,000	£2,870,000	£1,876,000	£-	£-	£2,844,000	£2,850,000	£3,098,000	N/A	£3,098,000

Priorities for last quarter	Achieved?	Priorities for next quarter
Identifying savings for 2019/20	Ongoing	Continue moratorium on spend
Developing The Efficiency Plan for 2021 onwards	Ongoing	Identification of in year savings
		Continues budget development for 19/20

Code	Title	Polarity	Status	Prev Year End	Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Last period value
RECPI05	Stage 1 complaints dealt with on time	It's better to be high	Well Below Target	54%	90%	63%	54%	44%	45%	45%

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Quarter 3 2017/18	Quarter 4 2017/18	Quarter 1 2018/19	Quarter 2 2018/19	Cumulative to Date
RECPI06	Number of stage 1 complaints logged	N/A	(monitoring only)	395	N/A	42	105	229	221	450
RECPI08	Number of stage 1 complaints logged per 1,000 population	N/A	(monitoring only)	3.0	N/A	0.3	0.8	1.7	1.7	3.4

Code	Title	Polarity	Status	Prev Year End	Monthly Target	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Cumulative to Date	
RECP107	Number of Data breaches	N/A	(monitoring only)	25	N/A	24	31	36	41	42	44	4	6	13	10	5	13	13	
Priorities for last quarter																			
Priorities for last quarter						Achieved?	Priorities for next quarter												
Staff awareness of the need to report security breaches which have not lead to a loss / disclosure of data - leading to improvements in secure data management						Yes	Further dedicated training sessions with staff on Data Protection.												
Greater awareness amongst staff and managers of the consequences of personal data breaches ensuring this is written into policies						Ongoing													
DPIA template and guidance on the intranet						No	DIPA template and guidance on intranet.												
Fundamental review of complaints and member casework policy and procedure to look at how timeliness and quality can be improved						Ongoing	Fundamental review of complaints and member casework policy and procedure to look at how timeliness and quality can be improved.												