

# TONBRIDGE & MALLING BOROUGH COUNCIL



## EXECUTIVE SERVICES

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### Chief Executive

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**NB - This agenda contains proposals, recommendations and options. These do not represent Council policy or decisions until they have received proper consideration through the full decision making process.**

Contact: Committee Services  
[committee.services@tmbc.gov.uk](mailto:committee.services@tmbc.gov.uk)

16 January 2015

To: MEMBERS OF THE AUDIT COMMITTEE  
(Copies to all Members of the Council)

Dear Sir/Madam

Your attendance is requested at a meeting of the Audit Committee to be held in the Civic Suite, Gibson Building, Kings Hill, West Malling on Monday, 26th January, 2015 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

## A G E N D A

### PART 1 - PUBLIC

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| 1. | Apologies for absence    | 5 - 6  |
| 2. | Declarations of interest | 7 - 8  |
| 3. | Minutes                  | 9 - 12 |

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 6 October 2014

**Matters for Recommendation to the Cabinet**

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| 4. | Annual Review of Anti-Fraud Policies                              | 13 - 56 |
| 5. | Treasury Management Update and Annual Investment Strategy 2015/16 | 57 - 92 |

**Decisions to be taken under Delegated Powers**

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| 6. | Accounting Policies for 2014/15 Financial Statements                  | 93 - 106  |
| 7. | Internal Audit Charter  | 107 - 112 |
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**Matters submitted for Information**

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| 9.  | Annual Audit Letter 2013/14   | 129 - 138 |
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| 11. | Grant Thornton Publication: Rising to the Challenge - the Evolution of Local Government | 153 - 154 |
| 12. | Grant Thornton - Audit Committee Update   | 155 - 168 |
| 13. | Grant Certification Work 2013/14  | 169 - 182 |
| 14. | Urgent Items  | 183 - 184 |

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

**Matters for consideration in Private**

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| 15. | Exclusion of Press and Public | 185 - 186 |
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The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

**PART 2 - PRIVATE**

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| 16. | Urgent Items | 187 - 188 |
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Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

## **MEMBERSHIP**

Cllr V M C Branson (Chairman)  
Cllr T Edmondston-Low (Vice-Chairman)

Cllr Mrs F A Kemp  
Cllr S M King  
Cllr Mrs A S Oakley

Cllr M Parry-Waller  
Cllr T J Robins

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Apologies for absence

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Declarations of interest

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## TONBRIDGE AND MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 6th October, 2014

**Present:** Cllr Ms V M C Branson (Chairman), Cllr Mrs F A Kemp, Cllr S M King, Cllr Mrs A S Oakley and Cllr M Parry-Waller

Grant Thornton, External Auditors: Mr T Greenlee (Audit Manager)

Councillors Mrs J A Anderson, O C Baldock, P F Bolt, M A Coffin, Mrs S Murray and M R Rhodes were also present pursuant to Council Procedure Rule No 15.21.

An apology for absence was received from Councillor T Edmondston-Low (Vice-Chairman)

### PART 1 - PUBLIC

#### **AU 14/40 DECLARATIONS OF INTEREST**

There were no declarations of interest made in accordance with the Code of Conduct.

#### **AU 14/41 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 16 June 2014 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE CABINET

#### **AU 14/42 TREASURY MANAGEMENT MID YEAR REVIEW 2014/15**

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during the period April to August 2014/15 and reviewed the risk parameters and management arrangements contained within the current Treasury Management Strategy Statement and Annual Investment Strategy. Members were invited to endorse the action taken by officers in respect of treasury management activity to date, to retain the current risk parameters and note the change in management responsibility for the Council's core fund investments.

Reference was made to regulatory changes affecting funds traded in the USA and reforms in progress in Europe but Members were advised that any impact on the Council's cash management operation would be unlikely before the next financial year.

**RECOMMENDED:** That the following be commended to the Council:

- (1) the action taken by officers in respect of treasury management activity for the period April to August 2014 be endorsed;
- (2) the transfer of responsibility for core fund investments to In-house management with effect from 1 August 2014 be noted; and
- (3) the existing parameters intended to limit the Council's exposure to investment risks be retained.

**DECISIONS TAKEN UNDER DELEGATED POWERS IN ACCORDANCE WITH PARAGRAPH 3, PART 3 OF THE CONSTITUTION**

**AU 14/43 LOCAL AUDIT AND ACCOUNTABILITY ACT 2014**

The report of the Director of Finance and Transformation provided an update on issues covered by the Local Audit and Accountability Act 2014 including the new decentralised audit regime associated with the abolition of the Audit Commission. Reference was made to provisions for opting in to sector-led collective procurement arrangements which would obviate the need for an authority to have an independent auditor panel. Concern was expressed about an amendment to the legislative framework for council tax referendums in which increases set by levying bodies were taken into account in determining whether a proposed council tax increase would be deemed "excessive".

Details were also given of a recent Department for Communities and Local Government consultation paper about secondary legislation needed to give effect to the new local audit arrangements. Particular reference was made to the provisions regarding collective procurement and proposed changes to the Accounts and Audit Regulations that would reduce the timescale for preparation and publication of the Statement of Accounts. A response to the consultation had been submitted in liaison with the Chairmen of the Audit and General Purposes Committees, the Leader and the Cabinet Member for Finance, Innovation and Property in order to meet the deadline of 18 July 2014.

**RESOLVED:** That the response to the consultation previously agreed with the Chairmen of the Audit and General Purposes Committees, together with the Leader of the Council and the Cabinet Member for Finance, Innovation and Property, as set out at Annex 1 to the report, be endorsed.

**MATTERS SUBMITTED FOR INFORMATION**

**AU 14/44 HALF YEAR INTERNAL AUDIT REPORT 2014/15**

The report of the Chief Internal Auditor summarised the Internal Audit work completed for the period April to September 2014. An update was

given on the current staffing situation with the team focusing on assurance work. A revision of the agreed Annual Internal Audit Plan would be required and it was noted that a revised plan would be presented to the January 2015 meeting of the Committee.

In response to comments by Members in relation to the presentation of audit reviews, it was agreed that future reports would provide more information on the results of the recommendation follow up process.

**RESOLVED:** That the report be received and noted.

**AU 14/45 EXTERNAL AUDITORS REPORT ON OUTCOME OF AUDIT OF STATEMENT OF ACCOUNTS 2013/14**

The report of the Director of Finance and Transformation gave details of the outcome of the audit of the Council's Accounts for the year ended 31 March 2014. It was noted that under the Council's constitutional arrangements the External Auditor's report had been presented to and approved by the General Purposes Committee on 1 September 2014 and there had been no material issues needing to be brought to the attention of the Committee following the audit. Members were advised that an unqualified opinion had subsequently been issued by the External Auditor on 23 September 2014.

Mr T Greenlee presented Grant Thornton's report which was provided as an annex and drew attention to an action plan in connection with the valuation of assets. He expressed appreciation of the standard of work at Tonbridge and Malling and thanked the Financial Services team for their support during the audit.

**RESOLVED:** That the report be received and noted.

**AU 14/46 NATIONAL FRAUD INITIATIVE UPDATE**

The report of the Chief Internal Auditor provided an update on the performance of the corporate fraud prevention section in relation to the National Fraud Initiative (NFI) exercises. It also gave a summary of a recent report issued by the Audit Commission entitled 'Outcomes and Information for Elected Members and Decision Makers – 2012/13' including a check-list to help Members assess their authority's performance in relation to NFI. A copy of the questions and suggested answers were set out at Annex 2 to the report.

**RESOLVED:** That the report be received and noted.

**AU 14/47 EXCLUSION OF PRESS AND PUBLIC**

The Chairman moved, it was seconded and

**RESOLVED:** That as public discussion would disclose exempt information, the following matters be considered in private.

**PART 2 - PRIVATE**

**MATTERS SUBMITTED FOR INFORMATION**

**AU 14/48 INSURANCE CLAIMS HISTORY: APRIL - JUNE 2014**

**(LGA 1972 Sch 12A Paragraph 3 – Financial or business affairs of any particular person)**

The Director of Finance and Transformation reported on the nature and volume of liability and property damage insurance claims submitted during the period April to June 2014.

**RESOLVED:** That the report be received and noted.

The meeting ended at 8.24 pm

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance & Transformation

#### Part 1- Public

#### Matters for Recommendation to Council

### 1 ANNUAL REVIEW OF ANTI-FRAUD POLICIES

#### Summary

This report informs Members of the outcome of a review of the Anti-Fraud Policies of the Council. The review has identified that some minor changes are required to the Anti-Fraud & Corruption Policy and the Housing & Council Tax Benefit Anti-Fraud Policy and recommends that these changes are adopted.

#### 1.1 Introduction

1.1.1 The Anti-Fraud and Corruption Policy is used to provide structure to the combating of fraud and corruption, which the Council may be subject to. Due to their specific investigation requirements, separate policies have been developed specifically for Housing & Council Tax Benefit Fraud and for Council Tax Fraud including council tax reduction, discounts and exemptions.

1.1.2 It is a requirement that these policies are reviewed annually and the updates to these following the annual review are summarised in this report. The Policy documents are also attached as annexes with proposed deletions scored through and additions shown in red italics for ease of reference.

#### 1.2 Anti-Fraud & Corruption Policy

1.2.1 This policy was last reviewed and approved by Council in February 2014. The recent review has identified some minor changes are required to the policy, which are detailed in the following paragraphs. A copy of the revised policy is also attached. **[Annex 1]**

1.2.2 References to the Audit Commission at paragraphs 4.20, 5.2 and 7.2 have been deleted due to their pending abolition and at paragraphs 5.2 and 7.2 have been replaced with Grant Thornton LLP as the Council's External Auditor.

1.2.3 The Fraud Manager has been added to the list of contacts at paragraph 5.4

1.2.4 Members are asked to recommend approval of the revised policy to Council via Cabinet.

### **1.3 Housing & Council Tax Benefit Anti-Fraud Policy**

- 1.3.1 This policy was last reviewed and approved by Council in February 2014. The recent review has identified one minor change. A copy of the revised policy is attached. **[Annex 2]**
- 1.3.2 Paragraph 5.6, which read '*The Investigation Manager will circulate a quarterly report on the outcome of referrals. This report will include the source of the cases and details of the fraud type. This report will be given to the Service Manager – Revenues & Benefits and all benefit staff*' has been deleted.
- 1.3.3 Members are asked to recommend approval of the revised policy to Council via Cabinet.

### **1.4 Council Tax Reduction, Discount and Exemption Anti-Fraud Policy**

- 1.4.1 The review found that no changes were required to this policy. A copy of the policy is attached. **[Annex 3]**

### **1.5 Action Following Approval of Policies**

- 1.5.1 When these policies are approved by full Council they will be circulated to all staff with computer access using Netconsent and will be updated on the Council website.

### **1.6 Legal Implications**

- 1.6.1 These policies are not mandatory but do comply with best practice and refer to the relevant legislation where appropriate.

### **1.7 Financial and Value for Money Considerations**

- 1.7.1 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources from fraud.
- 1.7.2 These policies comply with recognised best practice and reinforce the zero tolerance stance of the Council towards fraud. Effective fraud prevention minimises losses to the Council through fraud.

### **1.8 Risk Assessment**

- 1.8.1 The policies reflect best practice and the culture of the Council is aimed at minimising the risk of fraud. The policies are supported by the internal control mechanisms in place and form part of the overall control environment of the Council.

## **1.9 Equality Impact Assessment**

1.9.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## **1.10 Recommendations**

1.10.1 Members are asked to **recommend** that:

- 1) Following consideration by Cabinet, Council approve the following policies:
  - Anti-Fraud & Corruption Policy **[Annex 1]**.
  - Housing & Council Tax Benefit Anti-Fraud Policy **[Annex 2]**.
  - Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy **[Annex 3]**.

Background papers:

contact: James Larkin

Nil

Sharon Shelton  
Director of Finance & Transformation

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# **ANTI-FRAUD & CORRUPTION POLICY**

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**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**Anti-Fraud & Corruption Policy**

**1 INTRODUCTION**

- 1.1 Tonbridge & Malling Borough Council is opposed to all forms of fraud and corruption, including bribery, and is determined to protect itself from such actions whether attempted from within the Council or by an outside individual, group or organisation.
- 1.2 The Council recognises that fraud, bribery and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. Such activity may therefore impact on the ability of the Council to achieve its corporate objectives, as set out in its Corporate Plan. In response to this, the Anti-Fraud & Corruption Policy is designed to: -
- encourage prevention;
  - promote detection, and
  - support investigation.

**2 DEFINITIONS OF FRAUD, BRIBERY & CORRUPTION**

- 2.1 Fraud is defined as:

*The intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain.*

- 2.2 This may involve:

- Dishonestly making a false representation to make a gain, to cause loss or to expose another to a risk of loss.
- Dishonestly failing to disclose information for which there is a legal duty to disclose, in order to make a gain, to cause loss or to expose another to a risk of loss.
- Dishonestly abusing a position, where the person occupying the position is expected to safeguard, or not act against, financial interests to make a gain, to cause loss or to expose another to a risk or loss.

- 2.3 Fraud can be any act of deception which acts to the financial detriment of the Council. Acts such as misappropriation or petty theft will therefore also be considered by the Council as fraud and treated under the arrangements within this Policy.

- 2.4 Bribery is defined as:

*The offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly.*

2.5 Corruption is defined as:

*The giving and/or acceptance of an inducement or reward which influences the action of any person.*

### **3 THE COUNCIL'S COMMITMENT**

3.1 In developing and operating its anti-fraud, bribery and corruption arrangements, the Council will:

- Where possible, take action to prevent fraud, bribery and corruption activity occurring.
- Encourage the detection of such activity.
- Promote Member, officer, the general public and other stakeholder awareness of fraud, bribery and corruption.
- Offer specific training on these issues to officers in key positions within the organisation.
- Encourage Members, officers, the general public and other stakeholders to report any concerns or suspicions.
- Investigate any substantiated concerns or suspicions in a fair and confidential manner.
- Take action as appropriate based on the outcomes of investigations.

### **4 PREVENTION OF FRAUD, BRIBERY & CORRUPTION**

#### **Recruitment and induction**

- 4.1 The Council recognises that a key preventative measure in the fight against fraud, corruption and bribery is to take effective steps at the recruitment stage to verify the propriety and integrity of the previous records of potential employees of the organisation. The Council has a Recruitment Guide in place, which should be adhered to in recruiting both permanent and temporary/contract staff. This guidance requires a number of checks at the recruitment stage to establish and confirm the previous records of potential employees, including the take up of written references and Criminal Records Bureau checks for certain identified posts.
- 4.2 The Council has developed a formal induction process for new employees and a Staff Handbook which is issued to new employees as part of the induction process. These are intended to develop an awareness of the Council's internal control arrangements, key policy documents and the Employee Code of Conduct.
- 4.3 As elected representatives of the local community, newly-elected Members are also required to complete an induction to assist them in understanding the Council, its decision-making arrangements and the requirements of the Member Code of Conduct. These matters are also detailed in the handbook issued to all Members.

## **Training**

- 4.4 The Council recognises that training is a vital tool in ensuring that both officers and Members clearly understand their roles and responsibilities within the organisation and carry these out within the Council's framework of policies and procedures. Training is particularly important where employees are required to operate within financial systems or handle monies or personal/confidential information.
- 4.5 The Council will promote a general awareness of fraud, bribery and corruption to all employees and Members, with specific training provided to officers engaged in the prevention and detection of such activity to ensure that they have the necessary skills to carry out these functions.

## **Internal Control Arrangements**

- 4.6 The Council as a whole operates within a framework of policies and procedures intended to direct the activity of the Council and ensure transparency in decision making. The Constitution forms the main spine of these arrangements and includes the Council's financial procedure rules and contract procedure rules.
- 4.7 Responsible officers are expected to ensure that effective internal control arrangements are incorporated into the design or development of systems and procedures. Such arrangements would include ensuring adequate segregation of duties, authorisation and physical security controls to protect the Council from error, misappropriation or loss.
- 4.8 Members and officers are required to declare any financial and other interest in any outside bodies or organisations which could be considered or perceived as having an influence on their actions on behalf of the Council.
- 4.9 The Council has established a Standards Committee to deal with matters relating to the Member's Code of Conduct.

## **Organisational Culture and Conduct**

- 4.10 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud, bribery and corruption. The Council operates a zero-tolerance approach towards fraud, bribery and corruption activity.
- 4.11 The Council supports the Seven Principles of Public Life identified by the Nolan Committee and recognises that these are fundamental to developing an effective working environment which does not allow or tolerate fraud, bribery and corruption activity. Further information on the Seven Principles of Public Life can be found as **Annex 1** to this document.
- 4.12 The Council expects that Members and officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. In particular, Members and officers are expected to adhere to their relevant Code of Conduct and declare any interests they may have that could or could be perceived, to influence them in any decision-making they may be involved in relating to Council business. Members and Officers are also required to declare any gifts or hospitality they are offered relating to their role

or Council business, whether these are accepted or declined.

- 4.13 Managers should strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. There is also a Confidential Reporting Code in place to enable staff to raise any concerns where staff feel unable to raise concerns with their manager.
- 4.14 The Council also expects that individuals and organisations (e.g., suppliers, contractors, partners and service providers), that it comes into contact with will act with integrity in their dealings with the Council and without thought or actions involving fraud and corruption.

#### **Internal Scrutiny Arrangements**

- 4.15 The Council has an internal audit function which has the responsibility to objectively examine, evaluate and report on the adequacy of the control environment by evaluating its effectiveness in achieving the organisation's objectives. This work of internal audit will include review of the existence and effectiveness of the Council's internal control arrangements. Any review work undertaken by the internal audit function will give due consideration to the risk of fraud or corruption within the area subject to audit.
- 4.16 Assurance of the effective operation of internal control arrangements is requested from management annually as part of the Council's arrangements for preparing the Annual Governance Statement. Managers are required to specifically provide assurance on the effective operation of internal control arrangements and staff awareness of this Policy. Managers also have a responsibility to carry out regular risk reviews and to raise concerns if they identify any areas where there is a potential weakness in internal controls.
- 4.17 The Audit Committee also have a role in providing independent assurance to the Council on the adequacy of the Council's control environment. This role is discharged by the committee through the receipt of regular reports on the work and findings of internal and external audit, and the Council's governance and risk arrangements.

#### **External Scrutiny Arrangements**

- 4.18 The Council is subjected to a high degree of external scrutiny of its affairs by a variety of bodies and people.
- 4.19 As part of its statutory duties, the External Auditor is required to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

#### **Working with others**

- 4.20 The Council is committed to working with other organisations to prevent and detect fraud, bribery and corruption through undertaking specific initiatives and ensuring that arrangements are in place to encourage the exchange of information between the Council and other agencies. Though not intended to be exhaustive, the Council currently works with the following:

- Department for Work and Pensions
- Kent Police
- National Health Service
- Inland Revenue
- National Anti-Fraud Network
- National Fraud Initiative
- Kent Audit Group
- Local Authority Investigation Officers Group
- Kent Investigation Officers Group
- ~~The Audit Commission~~

## 5 DETECTION OF FRAUD, BRIBERY & CORRUPTION

- 5.1 The Council has put in place a range of internal control arrangements within its systems and processes to detect inappropriate or dishonest activity, including budget monitoring and reconciliations. These arrangements should be sufficient in themselves to detect fraud, corruption and bribery activity should this occur. The Council recognises, however, that the detection of such activity is often as a result of the alertness of employees, Members, the general public and other stakeholders.
- 5.2 Members of the public and stakeholders are encouraged to come forward and report any concerns or suspicions they may have through:
- The Council's Confidential Reporting Code, which is available at [www.tmbc.gov.uk/assets/audit/CRC.pdf](http://www.tmbc.gov.uk/assets/audit/CRC.pdf), from Council offices or by calling 01732 844522
  - The Council's Internal Audit team (01732 876086)
  - The Council's External Auditor, ~~the Audit Commission~~ *Grant Thornton LLP*
- 5.3 Concerns or suspicions directly relating to benefit fraud, Council Tax Reduction Scheme fraud, Council Tax fraud or housing fraud should be reported to the fraud investigation team through the council website or via the benefit fraud hotline. (01732 876337)
- 5.4 Elected Members are also encouraged to come forward and report any concerns or suspicions they may have of fraud, corruption or bribery to:
- the Chief Internal Auditor
  - *the Fraud Manager*
  - the Director of Finance & Transformation
  - the Monitoring Officer
  - the Chief Executive
- 5.5 Employees are encouraged to report any concerns or suspicions in the first instance to their Line Manager or Service Manager where it is appropriate to do so. However, if the issues are of a serious or sensitive nature or involve management concerns they may be reported directly to the Audit & Fraud Team or may be raised use the Whistleblowing Charter which is available on

the Council website.

- 5.6 The Council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance & Transformation of any financial irregularity or suspected financial irregularity.
- 5.7 The Council recognises that on occasions, employees, Members and organisations working with the Council may not want to express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. In such instances, persons are urged to report concerns or suspicions through the channels set out in the Council's Confidential Reporting Code.

## **6 INVESTIGATION**

- 6.1 Any Manager with information about suspected fraud, bribery or corruption activity must report this immediately to the Chief Internal Auditor, Audit Manager or Fraud Investigation Manager. Managers are also responsible for:
- recording and securing all evidence received and collected;
  - ensuring that evidence is sound and adequately supported;
  - implementing Council disciplinary procedures where appropriate.
- 6.2 The Council has established a corporate approach to co-ordinate the investigation of allegations of fraud and corruption to ensure the effective use of the skills and resources within the organisation. This approach is intended to utilise officers from Internal Audit, Fraud Investigations and Personnel based on the nature of the allegation and the investigatory skills required.
- 6.3 The Council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent or deter the reported activity from recurring.
- 6.4 The Council's disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a Council employee.
- 6.5 Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council's presumption is that the issue will be pursued. The matter may be referred to the Police. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.
- 6.6 When making decisions about prosecutions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions
- 6.7 The Council will seek, where appropriate, to maximise the recovery of any loss to the Council.



- 6.8 The investigation process must not be misused. The Council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.
- 6.9 Elected Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.
- 6.10 The Fraud investigations team is responsible for all investigations relating to benefit fraud, Council Tax fraud including Single Person Discount, Council Tax Reduction Scheme and exemptions. These investigations will be undertaken in accordance with the Council's Housing & Council Tax Benefit Anti-Fraud Policy, Council Tax Reduction, Discount & Exemption Anti-Fraud Policy and their associated Prosecution Policies

## **7 RESPONSES TO REPORTED CONCERNS AND SUSPICIONS**

- 7.1 Any person or organisation reporting concerns or suspicions of fraud or corruption activity may request to be kept informed of the progress of any investigation or its outcome. The Council reserves the right to not fulfil this request where doing so may be to the detriment of the effectiveness and confidentiality of the investigation process.
- 7.2 Where people or organisations have raised a concern or suspicion about fraud or corruption activity but are not satisfied with the response they received, they may pursue the matter further by referring the issue through one of the following channels:
- the Council's complaints procedure
  - An Elected Member
  - The Audit Commission *External Auditor Grant Thornton LLP*
  - Public Concern at Work
  - A relevant professional or regulatory body
  - A solicitor or the Police.

## **8 ACTION TO DETER FRAUD, BRIBERY & CORRUPTION**

- 8.1 All anti-fraud, bribery and corruption activities undertaken by the Council, including the update of this policy, will be publicised in order to make employees, Members, the general public and stakeholders aware of the Council's commitment to taking action on such activity, when it occurs.
- 8.2 The Council will endeavour to act robustly and decisively when fraud, bribery or corruption is suspected and proven. This will be demonstrated through disciplinary action or prosecution.
- 8.3 The Council will take action to help ensure the maximum recoveries for the Council.

- 8.4 The Council's Media & Communications Team is responsible for optimising the opportunities available to publicise to the public any anti-fraud, bribery and corruption activity being undertaken within the Council. Once notified of such cases, the Media & Communications Team is also responsible for endeavouring to ensure that the results of any investigations undertaken, including prosecutions, are reported in the local press.

## **9 MEASURING THE EFFECTIVENESS OF THIS POLICY**

- 9.1 The Council has recognised the importance of measuring the effectiveness of its anti-fraud, bribery and corruption arrangements and that this cannot consist of one single measure. The Council will demonstrate the effectiveness of this Policy through a number of measures focusing on outcomes and will include assessments of:

- awareness levels
- number of suspicions and concerns reported per annum
- number of investigations undertaken
- outcomes of investigations undertaken
- level of losses identified
- sanctions applied
- financial losses recovered or, where appropriate, financial savings generated.

- 9.2 This information will be reported to the Audit Committee on an annual basis

## **10 REVIEW AND APPROVAL OF THIS POLICY**

- 10.1 The Anti-Fraud and Corruption Policy will be reviewed at least annually by the Audit Committee with any significant changes being approved by Council following consideration by the Overview & Scrutiny Committee.

## The Seven Principles of Public Life

### **Selflessness**

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

### **Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

### **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

### **Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### **Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### **Leadership**

Holders of public office should promote and support these principles by leadership and example.

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# **HOUSING & COUNCIL TAX BENEFIT ANTI-FRAUD POLICY**

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**Tonbridge and Malling Borough Council**  
**Housing & Council Tax Benefit Anti-Fraud Policy**

**1. INTRODUCTION**

- 1.1 Tonbridge and Malling Borough Council is committed to the delivery of Housing & Council Tax Benefit to its citizens and considers benefit is for those who are most vulnerable in society. It is important to detect and prevent fraud and error in the first instance and as such the council seeks to check and verify all original documents and personal circumstances before making payments or amending existing payments of benefit to claimants.
- 1.2 The council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. The council has issued an Anti-Fraud and Corruption Strategy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.
- 1.3 This Housing & Council Tax Benefit Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Strategy specifically in relation to Housing and Council Tax Benefit Administration and is designed to: -
- stop fraudulent claims from entering our systems
  - find any fraudulent claims already in the system
  - stop payments from going to people who are not entitled to it
  - punish those people who commit fraud
  - recover fraudulent overpayments of benefit
  - deter people from trying to commit fraud
- 1.4 The Housing & Council Tax Benefit Anti-Fraud Policy and the Sanctions & Prosecutions policy will be reviewed at least annually by the Investigation Manager, with any material amendment subject to the approval of the Cabinet.

## 2. DEFINITION OF BENEFIT FRAUD

2.1 Benefit fraud is where a person, dishonestly, or not,

- a) Falsifies a statement or a document; or
- b) Is involved in a failure to notify a relevant change of circumstance; or
- c) Omits relevant information

for the purpose of obtaining or increasing entitlement to housing/council tax benefit for themselves or another.

## 3. CULTURE

3.1 The council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud and corruption and as such has established a dedicated Investigation Team.

3.2 The council's staff and members, at all levels, are an important element in its stance on fraud and corruption and should lead by example. They are encouraged to raise any concerns and can do this in the knowledge that these will be treated in confidence and properly investigated.

3.3 Instances of suspected/alleged Housing Benefit and/or Council Tax Benefit fraud may be referred for investigation to the Investigation Team. Investigation Officers are based in the Audit Fraud Team within the Finance Service and can be contacted on extension 6337/6101 or through the e-mail system. All staff conducting either investigations and or interviews should be aware of the council's procedures for dealing with unacceptable and aggressive behaviour, which is contained within the Statement of Health and Safety Policy found in the Staff Portfolio.

## 4. PREVENTION

### Staff

4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential recruits are comprehensively checked. Benefits staff should also sign a declaration covering any interests that may conflict with their work. For example, receiving HB and CTB, or acting as a landlord or agent.

4.2 All individuals within the Investigation Team are required to act with integrity and follow the **Code of Conduct for Investigation Staff (see Appendix A)**.

4.3 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the council e.g. processing a Housing or Council Tax Benefit application form for a relative or friend.



- 4.4 Procedures have been designed to ensure that the work of one member of staff is checked by a Senior Benefits Officer. These types of checks are important deterrents to fraud and error.
- 4.5 Benefits staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive refresher training.
- 4.6 Appropriate staff both internally within the council and externally will receive benefits fraud awareness training.
- 4.7 All Investigation Officers will undertake training in order to ensure that they carry out their duties in accordance with recognised standards for Benefit Fraud Investigation as set out in the Local Authorities Benefit Fraud Manual. Guidance can also be obtained from the DWP Fraud Manual located within the secure IRRV website. In addition they will undertake any training required by the Department for Work and Pensions in order to use specific powers under the Social Security Administration Act and Social Security Fraud Act (Authorised Officer powers).

### **Systems**

- 4.8 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.
- 4.9 All Benefits recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions
- 4.10 All staff with access to the confidential details of claimants will be responsible for ensuring the control of physical access to the data and will be responsible for compliance with the Data Protection Act and the Freedom of Information Act. This responsibility requires managers to ensure that the physical access to equipment is restricted, as far as practical, to authorized users only. All individuals must protect their passwords and not keep them written down or 'lend them'.
- 4.11 All manual Benefit Fraud records must be kept securely filed when not in use and access to these files must be restricted to designated Investigators only.
- 4.12 All valuables, including documentation, must be recorded and tracked through the council system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.
- 4.13 All telephone calls received in relation to Benefit Fraud will be recorded manually and a note of the content of the conversation will be kept on file.

## 5. DETECTION AND INVESTIGATION

- 5.1 Surveys by the Audit Commission have identified that Housing/Council Tax Benefit Fraud is one of the largest area of detected fraud in local government.
- 5.2 Whilst encouraging genuine claimants to apply for benefit the council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:
- operation of a fraud 'hotline'; 01732 876337
  - participation in the Department for Work and Pension's monthly data-matching exercise;
  - using computer links to the Department for Works and Pensions to check entitlements and to receive benefit notifications;
  - undertaking land registry checks;
  - carrying out joint fraud investigations with other bodies such as the Counter Fraud Investigation Service, Border Agency, Kent Police, other Local Authorities and other investigation departments;
  - publicity of anti-fraud initiatives and the Fraud Hotline number including regular articles in 'Here & Now' and press releases to the press office.
- 5.3 All referrals passed to the team will be sifted and vetted for strength of evidence. All cases where the evidence is considered sufficient to investigate will be logged on to the Northgate Fraud Management System and a case file opened.
- 5.4 The council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a council employee.
- 5.5 Members of staff within the Benefits Section should refer suspected cases of fraud to the Investigation Team by completing the Referral Form on Northgate. The Investigation Team will give feedback to staff regarding the quality of the Fraud Referral and the outcome of any resulting investigation.
- 5.6 ~~The Investigation Manager will circulate a quarterly report on the outcome of referrals. This report will include the source of the cases and details of the fraud type. This report will be given to the Service Manager — Revenues & Benefits and all benefit staff.~~
- 5.7 All claims where there is sufficient proof for the council to believe that benefit has been claimed fraudulently will be dealt with under the Sanctions and Prosecution Policy. The sanctions open to the council include a civil penalty, Caution, Administration Penalty or Prosecution.
- 5.8 The council will take action, including legal recovery, in order to recover all overpayments of Housing & Council Tax Benefit that result from fraudulent

activity or claimant failure to notify a change of circumstances.

**Tonbridge and Malling Borough Council**  
**Housing and Council Tax Benefit**  
**Sanction and Prosecution Policy**

**I. STATEMENT OF INTENT**

- Tonbridge and Malling Borough Council has a duty to administer claims for Housing and Council Tax Benefit and a responsibility to prevent and detect benefit fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing benefit fraud.
- Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where rents vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.
- Cases deemed suitable for prosecution may be passed to the Department for Work and Pensions Solicitor's Office under the existing Local Authority Prosecution arrangements. These cases are generally prosecuted under the Social Security Administration Act 1992.
- Cases may also be dealt with in house; the Investigation Manager will present cases at plea and direction with the backing of private prosecution services to conduct cases where a not guilty plea has been entered. If a guilty plea has been entered the Investigation Manager will proceed and conclude the hearing.
- The initial recommendation on the appropriate action to be taken in each case lies with the Fraud Investigator. This will depend on the evidence they have gathered and the seriousness of the fraud. The final decision on whether a case should be referred for prosecution will be made by the Investigation Manager who will take into account the factors outlined in this policy.
- Cases that are progressed under the One Customer One Team (OCOT) agreement with the Department for Work and Pensions will be subject to this policy and consideration given to the Department for Work and Pensions sanction policy when considering offences committed against Tonbridge and Malling Borough Council.
- Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

## **II. RECOVERY OF OVERPAYMENTS**

- Regardless of whether or not any Sanction action is taken, Tonbridge and Malling Borough Council will attempt to recover all overpayments. This action is taken by the Overpayments Officer who will pursue all available methods of recuperating the debt including taking civil action when necessary.

## **III. NO FURTHER ACTION**

- Tonbridge and Malling Borough Council may consider closing the case without any further action if:
  - To our knowledge the claimant has never previously offended
  - The claimant has not made any false declarations
  - There was no planning involved in the process
  - There was no other person involved in the fraud
  - The offence is minor
  - The period over which the fraud has been committed is very short
  - The overpayment is very low
- In cases where no further action is appropriate and an Interview Under Caution has taken place a letter will be issued stating that no further action will take place, however a strong reminder advising of the responsibility to notify changes and correct information will be included in the letter.

## **IV. EVIDENTIAL CRITERIA**

- Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.
- In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?
- In making this decision, the following factors will be considered;
  - How clear the evidence is
  - If there has been any failure in the investigation
  - If there has been any failure in benefit administration

## **V. PUBLIC INTEREST CRITERIA**

- If the evidential criteria are met then the council will consider whether or not Sanction action would be in the public interest. In making this decision, the following factors will be considered first:
  - Medical conditions

- Other social factors
  - Council's Vulnerability Policy
- If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors will be considered in order to decide the appropriate sanction

## **VI. FORMAL CAUTIONS**

- The Authority may consider issuing a Formal Caution if:
  - The claimant has been Interviewed Under Caution
  - To our knowledge the claimant has never previously offended
  - Or if the person has committed benefit fraud before the offence was minor and the current offence is also minor;
  - There was no planning involved in the process
  - There was no other person involved in the fraud
  - Criminal proceedings are not the first option
  - Penalty action is not appropriate
  - The offence is minor
  - The amount of overpayment is relatively low.
  - The person has fully admitted the offence during an IUC.
  - The persons subsequent attitude, e.g. whether they express genuine regret for what they have done.
- If the person refuses the Caution the case will usually be referred for prosecution.

## **VII. ADMINISTRATIVE PENALTIES**

- The Authority may consider issuing an Administrative Penalty if:
  - The claimant has been Interviewed Under Caution
  - To our knowledge the claimant has never previously offended
  - Or if the person has committed benefit fraud before the offence was minor and the current offence is also minor;
  - There was no planning involved in the process
  - There was no other person involved in the fraud
  - Criminal proceedings are not the first option
  - A Caution is not appropriate
  - The offence is minor
  - The person has not admitted the offence during an IUC.
  - For offences committed before the 8 May 2012 the administration penalty will be 30% of the total overpayment.
  - For offences committed wholly on or after 8 May 2012, the minimum penalty is £350.00. For overpayments totally over £700, the penalty is set at 50% of the recoverable overpayment, up to a maximum penalty of £2,000.

- If the person refuses the Administrative Penalty the case will usually be referred for prosecution.

## **VIII. CASES NOT SUITABLE FOR A CAUTION OR A PENALTY**

- Even if the above criteria for Cautions and Penalties was satisfied Tonbridge and Malling Borough Council may decide that a Formal Caution or Administrative Penalty is not appropriate if the person:
  - ❑ Has been prosecuted for a benefit offence in the last 5 years.
  - ❑ Has been cautioned two or more times in the past five years.
- This is because this would indicate that
  - ❑ Previous sanctions have not deterred them from re-offending
  - ❑ Their lack of contrition for the offences committed;
  - ❑ Their disregard for the legislation;
  - ❑ A deliberate and repeated intent to commit benefit fraud
  - ❑ Their apparent belief that these offences are not serious.
- Instead Tonbridge and Malling Borough Council may consider referring the case for prosecution.
- In cases where a Sanction is not appropriate and an offence has been identified then a formal warning letter may be issued and held on file for five years. The warning letter will be cited in further cases where appropriate.

## **IX. PROSECUTION**

- The final decision on whether to refer a case for prosecution lies with the Investigation Manager.
- Once the decision to prosecute has been made the case will be presented to the Council's Legal team for an opinion on the evidential and public interest test. If the evidential and public interest tests have been met the case will be authorised by the legal team and passed for prosecution. If the Legal team consider the evidential and public interest test has not been met the case will be referred back to the Investigation Team with a recommendation.
- In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration
  - ❑ Whether the claim was false from inception
  - ❑ Whether there was planning in the process
  - ❑ Whether the suspect was a ring leader or an organizer of the offence
  - ❑ Any previous incidence of fraud
  - ❑ Whether there has been any abuse of position or privilege
  - ❑ The amount of the overpayment

- ❑ The duration of the alleged offence
- ❑ Whether there are grounds for believing that the offence is likely to be continued or repeated, based on the person's previous history.
- ❑ Whether the offence is widespread in the area where it was committed and so prosecution may act as a deterrent
- ❑ Any voluntary disclosure
- ❑ Has the person refused to accept a Formal Caution or Administrative Penalty

## CODE OF CONDUCT FOR FRAUD INVESTIGATION STAFF

### Code of Conduct & Good Practice for Investigation Staff

This code applies to all officers engaged in carrying out duties involving the investigation of Fraud.

The code should be read in conjunction with the legal requirements of the post and current staff rules.

The Chief Auditor will deal with a breach of The Code of Conduct and Good Practice.

Inefficiency is a breach of this Code, and falls short of the expected standard and may require remedial training.

### General Conduct

Officers of Tonbridge & Malling Borough Council will not:

- exceed their actual authority or hold themselves out as having any authority not provided by legislation.
- act in any way, benefit or gain, which exceeds the limits of their powers.
- misuse their official position for any benefit or gain for themselves or another.

### Legislation

- Officers must pursue all reasonable lines of enquiry even if it points away from a suspect's guilt
- Ensure that all material that is gathered during the investigation is recorded and retained and that all relevant material is revealed to the prosecutor in accordance with The Criminal Procedure and Investigations Act and the Codes of Practice
- Ensure that the Codes of Practice are observed in accordance with The Police and Criminal Evidence Act.
- Ensure that applicable provisions of The Regulation of Investigatory Powers Act and the Codes of Practice and guidance in relation to directed surveillance are adhered to.
- Observe all other applicable legislation and internal and external guidance

### Evidence (witness and suspects)

Officers to whom the Code applies must not under any circumstances:

- Conceal or fabricate evidence or knowingly allow any evidence to be concealed or fabricated.
- Discriminate or exercise any bias on the grounds of race sex, marital status, sexual orientation, or disability.



- Accept or offer any inducement, bribe or other advantage from or to any witness or suspect.
- Use any information gathered in the course of their duties for personal gain or coercion or otherwise misuse such information.
- Do or fail to do anything that may result in a miscarriage of justice.

### **Disclosure of Interests**

- Officers must declare any circumstances or interests which may affect their ability to conduct an investigation objectively.
- Any relationship to or with a suspect or witness or informant.
- Any personal interest in the outcome of an investigation or other civil or criminal Proceedings.
- Their dependency on alcohol or drugs other than those prescribed.
- Officers should disclose to their line manager if they are or have been subject to any: summons, charge, or arrest.

### **Information**

- Officers must treat all information gathered for evidential purposes during an investigation as confidential and, must not deliberately or negligently:
  - Disclose such information to an unauthorised third party.
  - Reveal the source of the information to an authorised third party.
- Personal Injury and Damage to Property
  - Officers, must exercise all reasonable care to prevent injury to the person, loss or damage to the public and private property, and must not:
    - Forcibly enter public or private property except to save life or prevent serious injury or on the invitation of the occupier or other responsible person or constable.
    - Deliberately or negligently destroy or damage any property.
    - Seize or retain any property without lawful authority.
    - Use threatening physical violence towards a colleague or member of the public.

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**COUNCIL TAX REDUCTION,  
DISCOUNT & EXEMPTION ANTI-  
FRAUD POLICY**

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**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discount & Exemption Anti-Fraud Policy**

**1. INTRODUCTION**

- 1.1 Tonbridge and Malling Borough Council is committed to ensuring that the correct levels of council tax liability are collected from its residents and considers that council tax reduction is for those who are most vulnerable in society and that discounts and exemptions should only be applied to households that meet the necessary criteria. It is important to detect and prevent fraud and error in the first instance and as such the council seeks to check and verify all original documents and personal circumstances before awarding any reductions, discounts or exemptions, or amending existing reductions discounts or exemptions.
- 1.2 The council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. The council has issued an Anti-Fraud and Corruption Strategy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.
- 1.3 This Council Tax Reduction, Discount & Exemption Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Strategy specifically in relation to Council Tax Administration and is designed to: -
- stop fraudulent applications for reductions, discounts or exemptions from entering our systems
  - find any fraudulent reductions, discounts or exemptions already in the system
  - punish those people who commit fraud
  - recover council tax owed as the result of fraudulently obtained reductions, discounts or exemptions
  - deter people from trying to commit fraud
- 1.4 The Council Tax Reduction, Discount & Exemption Anti-Fraud Policy and the associated Sanctions & Prosecutions policy will be reviewed at least annually by the Investigation Manager, with any material amendment subject to the approval of the Cabinet.

## 2. DEFINITION OF COUNCIL TAX FRAUD

2.1 Council Tax fraud is where a person, dishonestly, or not,

- a) Falsifies a statement or a document; or
- b) Is involved in a failure to notify a relevant change of circumstance; or
- c) Omits relevant information

for the purpose of obtaining a reduction in council tax liability for themselves or another.

## 3. CULTURE

3.1 The council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud and corruption and as such has established a dedicated Investigation Team.

3.2 The council's staff and members, at all levels, are an important element in its stance on fraud and corruption and should lead by example. They are encouraged to raise any concerns and can do this in the knowledge that these will be treated in confidence and properly investigated.

3.3 Instances of suspected/alleged Council Tax fraud may be referred for investigation to the Investigation Team. Investigation Officers are based in the Audit Fraud Team within the Finance Service and can be contacted on extension 6337/6101 or through the e-mail system. All staff conducting either investigations and or interviews should be aware of the council's procedures for dealing with unacceptable and aggressive behaviour, which is contained within the Statement of Health and Safety Policy found in the staff intranet.

## 4. PREVENTION

### Staff

4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential recruits are comprehensively checked. Benefits staff should also sign an annual declaration covering any interests that may conflict with their work. For example, receiving HB and CTB, or acting as a landlord or agent.

4.2 All individuals within the Investigation Team are required to act with integrity and follow the **Code of Conduct for Investigation Staff (see Appendix A)**.

4.3 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the council e.g. processing a Council Tax Reduction application form for a relative or friend.

4.4 Procedures have been designed to ensure that the work of one member of staff is checked by a Senior Officer. These types of checks are important deterrents to fraud and error.

- 4.5 Council Tax staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive annual refresher training.
- 4.6 Appropriate staff both internally within the council and externally will receive fraud awareness training.
- 4.7 All Investigation Officers will undertake training in order to ensure that they carry out their duties in accordance with recognised standards for Fraud Investigation. In addition they will undertake any training required by the Department for Work and Pensions in order to use specific powers under the Social Security Administration Act and Social Security Fraud Act (Authorised Officer powers) for investigations relating to council tax reduction.

### **Systems**

- 4.8 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.
- 4.9 All Council Tax recording systems must be designed in consultation with and to the satisfaction of the Director of Finance & Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.
- 4.10 All staff with access to the confidential details of claimants will be responsible for ensuring the control of physical access to the data and will be responsible for compliance with the Data Protection Act and the Freedom of Information Act. This responsibility requires managers to ensure that the physical access to equipment is restricted, as far as practical, to authorized users only. All individuals must protect their passwords and not keep them written down or 'lend them'.
- 4.11 All manual Council Tax records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.
- 4.12 All valuables, including documentation, must be recorded and tracked through the council system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.
- 4.13 All telephone calls received in relation to Council Tax Fraud will be recorded manually and a note of the content of the conversation will be kept on file.

## **5. DETECTION AND INVESTIGATION**

- 5.1 Surveys by the Audit Commission have identified that Council Tax Fraud causes significant loss to local government.
- 5.2 Whilst encouraging genuine people to apply for reductions, discounts and exemptions, the council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:

- operation of a fraud 'hotline'; 01732 876337
  - participation in the National Fraud Initiative data-matching exercise;
  - undertaking land registry checks;
  - carrying out joint fraud investigations with other bodies such as the Counter Fraud Investigation Service, Home Office, Kent Police, other Local Authorities and other investigation departments;
  - publicity of anti-fraud initiatives ,the Fraud Hotline number and press releases.
- 5.3 All referrals passed to the team will be sifted and vetted for strength of evidence. All cases where the evidence is considered sufficient to investigate will be logged and a case file opened.
- 5.4 The council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a council employee.
- 5.5 Members of staff within the Council Tax Section should refer suspected cases of fraud to the Investigation Team. The Investigation Team will give feedback to staff regarding the quality of the Fraud Referral and the outcome of any resulting investigation.
- 5.6 The Investigation Manager will circulate a quarterly report on the outcome of referrals. This report will include the source of the cases and details of the fraud type. This report will be given to the Service Manager – Revenues & Benefits and all Council Tax staff.
- 5.7 All claims where there is sufficient proof for the council to believe that a reduction, discount or exemption has been claimed fraudulently will be dealt with under the associated Sanctions and Prosecution Policy. The sanctions open to the council include a Caution, an Administration Penalty (in respect of council tax reduction) or Prosecution.
- 5.8 The council will take action, including legal recovery, in order to recover all Council Tax liability that results from fraudulent activity or a person's failure to notify a change of circumstances, regardless of whether sanction action takes place, and may consider imposing a civil penalty of £70 for incorrect statements or negligently failing to report changes in circumstances.



**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discount & Exemption**  
**Sanction and Prosecution Policy**

**I. STATEMENT OF INTENT**

- Tonbridge and Malling Borough Council has a duty to ensure that all applications for Council Tax reduction, discounts and exemptions are correctly awarded and a responsibility to prevent and detect fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing fraud in order to reduce their council tax liability.
- Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where liabilities vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.
- The recommendation on whether a case is suitable for sanction action lies with the Investigations Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the investigations manager in accordance with the sanction policy to determine what course of action, if any, is appropriate. This review will take into account;
  - ❑ The evidential test criteria,
  - ❑ The Public interest test criteria,
  - ❑ Value and length of the offence,
  - ❑ Local prevalence,
  - ❑ Social and health factors, and
  - ❑ Any other mitigating factors
- Sanction cases will be approved by the Chief Internal Auditor. Prosecution recommendations will be reviewed by Legal Services and the Chief Financial Services Officer for approval. Cases deemed suitable for prosecution may be dealt with in-house by the Authority's legal team. These cases are generally prosecuted under the Fraud Act 2006 or the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013..
- Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

## **II. EVIDENTIAL CRITERIA**

- Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.
- In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?
- In making this decision, the following factors will be considered;
  - ❑ How clear the evidence is
  - ❑ If there has been any failure in the investigation
  - ❑ If there has been any failure in benefit administration

## **III. PUBLIC INTEREST CRITERIA**

- If the evidential criteria are met then the council will consider whether or not Sanction action would be in the public interest. In making this decision, the following factors will be considered first:
  - ❑ Medical conditions
  - ❑ Other social factors
  - ❑ Financial implications compared with losses
  - ❑ Council's Vulnerability Policy
- If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors will be considered in order to decide the appropriate sanction

## **IV. NO SANCTION OR PROSECUTION**

- Tonbridge and Malling Borough Council may consider closing the case without any sanction or prosecution action if:
  - ❑ To our knowledge the person has never previously offended
  - ❑ The offence is minor
  - ❑ The period over which the fraud has been committed is very short
  - ❑ The value involved is very low
  - ❑ The case does not satisfy the Evidential and Public Interest Criteria
- In cases where no further action is appropriate and an Interview Under Caution has taken place a letter will be issued stating that no further action will take place, however a strong reminder advising of the responsibility to notify changes and provide correct information will be included in the letter.

## V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

- Even if it is determined Tonbridge & Malling will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for making an incorrect statement or failing to notify a change of circumstances
- The Authority may consider imposing a penalty of £70 on a person where;
  - ❑ The Person makes an incorrect statement or representation, or negligently gives incorrect information or evidence in or in connection with an application or in connection with the award of a reduction under the council tax reduction scheme,
  - ❑ Fails to take reasonable steps to correct the error,
  - ❑ The error results in an award of a reduction council tax reduction which is greater than the amount to which the person was entitled,
  - ❑ The person has not been charged with an offence or cautioned, or been given an administration penalty, or
  - ❑ Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances to the authority,
  - ❑ The failure results in an award of a reduction council tax reduction which is greater than the amount to which the person was entitled,
  - ❑ The person has not been charged with an offence or cautioned, or been given an administration penalty.

## VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

- Where the authority has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.
- These alternative sanctions take the form of a caution or, in the case of Council Tax Reduction, an administrative penalty.
- **A Caution;**
  - ❑ Acts as a final written warning for the offence committed,
  - ❑ Is for council tax administration purposes only
  - ❑ Is not a criminal record and therefore, does not affect a persons employment prospects
  - ❑ Remains on record for a period of 5 years,
  - ❑ Would be cited at proceedings should any subsequent offences be committed within the 5 year period
- The Authority may consider issuing a Caution if:
  - ❑ To our knowledge the person has never previously offended, or
  - ❑ The person has committed council tax fraud or benefit fraud before but the offence was minor and the current offence is also minor,
  - ❑ There was no planning involved in the process,
  - ❑ There was no other person involved in the fraud,

- The offence is minor,
  - The value of the offence is relatively low,
  - The person has fully admitted the offence during an IUC,
  - The persons subsequent attitude, e.g. whether they express genuine regret for what they have done,
  - Criminal proceedings are not the first option
  
- **An Administrative Penalty;**
  - Is a financial penalty calculated as a percentage of the fraudulently obtained council tax reduction, which is set at;
    - 50% of the excess reduction, with a minimum of £100 and a maximum of £1,000,
  - Is for council tax administration purposes only,
  - Is not a criminal record and therefore, does not affect a persons employment prospects,
  - Remains on record for a period of 5 years,
  - Would be cited at proceedings should any subsequent offences be committed within the 5 year period
  
- The Authority may consider issuing an Administrative Penalty if:
  - To our knowledge the person has never previously offended, or
  - The person has committed council tax fraud or benefit fraud before but the offence was minor and the current offence is also minor,
  - There was no planning involved in the process,
  - There was no other person involved in the fraud,
  - A Caution is not appropriate as there has been no admission to the offence,
  - The offence is minor,
  - Criminal proceedings are not the first option
  
- If a person refuses to accept a caution or administrative penalty, the case will be referred for prosecution.
  
- Even if the above criteria for Cautions and Penalties was satisfied Tonbridge and Malling Borough Council may decide that a Caution or Administrative Penalty is not appropriate if the person:
  - Has been prosecuted for a council tax or benefit fraud offence in the last 5 years.
  - Has been cautioned two or more times in the past five years.
  
- This is because this would indicate that
  - Previous sanctions have not deterred them from re-offending,
  - Their lack of contrition for the offences committed,
  - Their disregard for the legislation,
  - A deliberate and repeated intent to commit fraud,
  - Their apparent belief that these offences are not serious.

- Instead Tonbridge and Malling Borough Council may consider referring the case for prosecution.

## **VII. PROSECUTION**

- The final decision on whether to refer a case for prosecution lies with the Chief Internal Auditor. This decision will then be reviewed by Legal Services and the Chief Financial Services Officer for approval.
- Once a decision to prosecute has been made, the case will be presented to the Council's Legal team, who will provide an opinion on the evidential and public interest test.
- If the evidential and public interest tests have been satisfied, the case will be authorised by the legal team and passed for prosecution. If the Legal team consider the evidential and public interest test has not been met the case will be referred back to the Investigation Team with a recommendation.
- In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration;
  - ❑ Whether the application for reduction, a discount or exemption was false from inception, or
  - ❑ The change in circumstances was intentionally withheld,
  - ❑ Whether there was planning in the process,
  - ❑ Whether the suspect was a ring leader or an organizer of the offence,
  - ❑ Any previous incidence of fraud,
  - ❑ Whether there has been any abuse of position or privilege,
  - ❑ The amount of the excess reduction in liability,
  - ❑ The duration of the alleged offence,
  - ❑ Whether there are grounds for believing that the offence was likely to be continued or repeated, based on the person's previous history.
  - ❑ Whether the offence is widespread in the area where it was committed and so prosecution may act as a deterrent,
  - ❑ Whether the person has refused to accept a Caution or Administrative Penalty

## **VIII. COLLECTION OF COUNCIL TAX**

- Regardless of whether or not any Sanction action is taken, Tonbridge and Malling Borough Council will attempt to collect all Council Tax owed as the result of false applications for reductions, discounts and exemptions. This action is taken by the Revenues Team who will pursue all available methods of recuperating the debt including taking civil action when necessary.

## CODE OF CONDUCT FOR FRAUD INVESTIGATION STAFF

### Code of Conduct & Good Practice for Investigation Staff

This code applies to all officers engaged in carrying out duties involving the investigation of Fraud.

The code should be read in conjunction with the legal requirements of the post and current staff rules.

The Chief Auditor will deal with a breach of The Code of Conduct and Good Practice.

Inefficiency is a breach of this Code, and falls short of the expected standard and may require remedial training.

### General Conduct

Officers of Tonbridge & Malling Borough Council will not:

- exceed their actual authority or hold themselves out as having any authority not provided by legislation.
- act in any way, benefit or gain, which exceeds the limits of their powers.
- misuse their official position for any benefit or gain for themselves or another.

### Legislation

- Officers must pursue all reasonable lines of enquiry even if it points away from a suspect's guilt
- Ensure that all material that is gathered during the investigation is recorded and retained and that all relevant material is revealed to the prosecutor in accordance with The Criminal Procedure and Investigations Act and the Codes of Practice
- Ensure that the Codes of Practice are observed in accordance with The Police and Criminal Evidence Act.
- Ensure that applicable provisions of The Regulation of Investigatory Powers Act and the Codes of Practice and guidance in relation to directed surveillance are adhered to.
- Observe all other applicable legislation and internal and external guidance

### Evidence (witness and suspects)

Officers to whom the Code applies must not under any circumstances:

- Conceal or fabricate evidence or knowingly allow any evidence to be concealed or fabricated.
- Discriminate or exercise any bias on the grounds of race sex, marital status, sexual orientation, or disability.

- Accept or offer any inducement, bribe or other advantage from or to any witness or suspect.
- Use any information gathered in the course of their duties for personal gain or coercion or otherwise misuse such information.
- Do or fail to do anything that may result in a miscarriage of justice.

### **Disclosure of Interests**

- Officers must declare any circumstances or interests which may affect their ability to conduct an investigation objectively.
- Any relationship to or with a suspect or witness or informant.
- Any personal interest in the outcome of an investigation or other civil or criminal Proceedings.
- Their dependency on alcohol or drugs other than those prescribed.
- Officers should disclose to their line manager if they are or have been subject to any: summons, charge, or arrest.

### **Information**

- Officers must treat all information gathered for evidential purposes during an investigation as confidential and, must not deliberately or negligently:
  - Disclose such information to an unauthorised third party.
  - Reveal the source of the information to an authorised third party.
- Personal Injury and Damage to Property
  - Officers, must exercise all reasonable care to prevent injury to the person, loss or damage to the public and private property, and must not:
    - Forcibly enter public or private property except to save life or prevent serious injury or on the invitation of the occupier or other responsible person or constable.
    - Deliberately or negligently destroy or damage any property.
    - Seize or retain any property without lawful authority.
    - Use threatening physical violence towards a colleague or member of the public.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance & Transformation

#### Part 1- Public

#### Matters for Recommendation to Cabinet - Council Decision

#### **1 TREASURY MANAGEMENT UPDATE AND ANNUAL INVESTMENT STRATEGY FOR 2015/16**

**1.1 The report provides details of investments undertaken and returns achieved in the first nine months of the current financial year and provides an introduction to the Annual Investment Strategy for 2015/16. Members are invited to recommend adoption of the Strategy to Cabinet.**

#### **1.2 Introduction**

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

1.2.2 The Act also requires the Council to set out its Treasury Management Strategy Statement for borrowing and to prepare an Annual Investment Strategy. The latter sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

#### **1.3 Treasury Management Update**

1.3.1 In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. We continue to find ourselves in a very difficult investment market. Yields are low, in-line with the 0.5% Bank Rate and have been suppressed further by the Bank of England's 'Funding for Lending' scheme. As a consequence, investment returns are expected to remain low relative to pre 2008 financial crisis levels throughout the remainder of this financial year and the next.

1.3.2 Cash flow funds are available on a temporary basis and their amount varies from month to month and during the course of each month dependent on the timing of receipts (collection of business rates, council tax, grants and other sources of income) and payments (to government, precepting authorities, housing benefit recipients, staff and suppliers). The authority holds £13.4m of core cash balances

for investment purposes. These funds which comprise our revenue and capital reserves are for the most part available to invest for more than one year.

- 1.3.3 At the end of December 2014 funds invested and interest earned is set out in the table below:

	<b>Funds invested at 31 Dec 2014</b>	<b>Average duration to maturity</b>	<b>Weighted average rate of return</b>	<b>Interest earned to 31 Dec 2014</b>	<b>Gross annualised return</b>	<b>7 day LIBID benchmark</b>
	<b>£m</b>	<b>Years</b>	<b>%</b>	<b>£</b>	<b>%</b>	<b>%</b>
<b>In-house cash flow</b>	8.6	0.07	0.69	53,050	0.65	0.35
<b>Externally managed core funds to 31 July</b>	-	0.78 [1]	0.61 [1]	25,500	0.57	0.35
<b>In-house managed core funds from 1 August</b>	13.4	0.25	0.72	40,800	0.72	0.35
<b>Total</b>	22.0	0.18	0.71	119,350	0.65	0.35

[1] Figures shown for comparative purposes represent the values applicable to the externally managed portfolio on 31 July, the day before transfer to In-house management.

- 1.3.4 Whilst the authority bettered the 7 day LIBID benchmark by 30 basis points, interest earned of £119,350 is £6,150 lower than our 2014/15 original estimate for the same period. This underperformance against budget is attributed to the lower than expected return delivered by our external fund manager in the early part of the financial year and is explored in more detail below.
- 1.3.5 **Cash flow funds.** Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. The majority of our cash flow surpluses are invested overnight in bank deposit accounts and money market funds to ensure sufficient short term liquidity to meet payment obligations. When cash surpluses permit fixed term investments are undertaken to take advantage of the higher yields available.
- 1.3.6 **Core funds.** Historically these funds have been managed by an external fund manager. They are used to support both revenue and capital expenditure over the next few years of our medium term financial strategy as the Council grapples with savings targets to achieve a balanced budget. The core fund balance of £13.4m is at a level where In-house management is practical without the need for additional staff resources. The 2014/15 Annual Investment Strategy, considered

by Audit Committee in January 2014, made provision for these funds to be transferred to In-house management by the end of the financial year and thus contribute to future savings targets through reduced fund management fees. Members are reminded that the transfer to In-house management took place on 1 August 2014.

- 1.3.7 On 1 August all tradable instruments (gilts, treasury bills and certificates of deposit) which comprised the lion's share (£12.6m) of the core fund were transferred to the Council's custody account with King & Shaxon and the cash balance (£0.8m) transferred to the Council's bank account. With the exception of gilts (£2.2m, 1.25%, July 2018) the fund manager's preference for short duration instruments, typically three months in duration, explains the poor performance referred to at paragraph 1.3.4. However, one benefit from their approach is that all core fund investments have now been replenished by the In-house team. The gilt has also been sold and generated a small capital profit on disposal in October 2014.
- 1.3.8 Following the transfer, initial core fund maturities were reinvested in nine month term deposits (both fixed and tradable certificates of deposit) to generate yield. Other maturities as they arose were invested in shorter duration instruments (mix of five and six month durations plus cash on deposit) to retain a degree of liquidity. The table at paragraph 1.3.3 demonstrates an improvement in core fund yield such that interest earned is expected to be in-line with budget for the period 1 August to 31 March 2015.
- 1.3.9 **Current investment position.** A full list of investments held on 2 January 2015 is provided at **[Annex 1]** of this report and a copy of our internal lending list of the same date is provided at **[Annex 2]**.

## 1.4 Annual Investment Strategy for 2015/16

- 1.4.1 **Money market funds (MMFs)** form a critical component in our daily cash flow management. They provide the same day access to cash as a traditional bank deposit account; allow surplus cash to be placed in a 'AAA' credit rated product; and ensure our peak monthly cash balances are disbursed across a range of counterparties. The current yield on a typical MMF used by the Council is 0.4% and falls roughly mid-way between the average yield from our bank deposit accounts at 0.6% and that offered by the UK Debt Management Office at 0.25%.
- 1.4.2 Regulatory changes affecting funds traded in the US have recently been introduced by the Securities and Exchange Commission. Whilst these regulations do not affect funds domiciled in Europe (the ones we use) regulatory reform in Europe is in progress. The exact nature of the reform and when it will be enacted is unclear at the present time and any change will involve a 'bedding-in period' to allow MMFs to adapt to the new requirements. Any impact on our cash management operation for 2015/16 is thought unlikely.

- 1.4.3 **Stress testing** of UK and EU financial institutions has been in focus during the latter part of 2014. Systematic and regular stress testing has been adopted by both the UK Prudential Regulation Authority (PRA) and the European Banking Authority (EBA) to analyse each banks' resilience to hypothetical adverse macroeconomic scenarios. The tests were initially formulated to highlight any vulnerability present within the tested banks' balance sheets prompting action to improve the banking sector and restore consumer and investor confidence.
- 1.4.4 The results from the PRA tests were published in December. The tests covered the UK's eight largest banks: Barclays, Co-operative Bank, HSBC, Lloyds Banking Group, Nationwide Building Society, Royal Bank of Scotland Group, Santander UK and Standard Chartered. The PRA tests used tougher benchmarks in comparison to the EBA and placed a strong focus on the housing sector which is considered to be the main risk to domestic financial stability.
- 1.4.5 With the exception of the Co-operative Bank, the remaining seven UK banks passed the test albeit the part state owned banking groups of the Royal Bank of Scotland and Lloyds fared less well than others. The results of the test didn't alter the credit ratings of the seven banks that passed and the Co-operative Bank has not featured on the Council's lending list for a number of years.
- 1.4.6 The October report to the Audit Committee included details of a change to **Capita's creditworthiness methodology** which forms part of our assessment of a banks' suitability for inclusion in the Council's lending list. Capita's methodology uses the various components of the rating agency's (Fitch, Moody's and Standard & Poor's) credit rating in a formula to calculate a creditworthiness score for a bank. The lower the score the more creditworthy a bank is deemed to be. The score is also used to determine a maximum duration for fixed term investment.
- 1.4.7 Throughout the financial crisis the rating agencies have provided some institutions with an uplift to their long and short-term credit ratings to reflect sovereign support. Due to the evolving regulatory regime, these uplifts are going to be removed by the rating agencies. Rather than the bank 'bail-outs' that we have become accustomed to (taxpayer investment in RBS and Lloyds) a 'bail-in' by investors will be the norm in the future.
- 1.4.8 It is important to stress that the change in approach by the rating agencies does not reflect a change in the underlying status of an institution or the credit environment in which they operate, merely the implied level of support that has been built into ratings through the financial crisis. The eventual removal of Government support will only take place when the regulatory environment has ensured that financial institutions are much stronger and less prone to failure in a crisis should one occur in the future.
- 1.4.9 All three rating agencies provide a long-term (up to five years) and short-term (up to one year) credit rating. Fitch and Moody's also provide a rating which assesses the ability of a financial institution to meet payment obligations in the absence of

any external support (known as the 'viability' and 'financial strength' ratings). Fitch also provides a separate assessment of the likelihood of and quality of that external support through their 'support' rating. In the future these additional rating components will effectively become redundant and as a consequence are now excluded from Capita's creditworthiness formula. Rating watch and outlook information continues to feature in Capita's overall assessment as does the market view of risk derived from credit default swap data.

- 1.4.10 Capita introduced the change in approach in June of this year and at that time it had little impact on their creditworthiness assessments. No banks were removed from the list of suggested counterparties, a few were added and a few had their recommended investment duration increased by one band. However, the long and short-term credit ratings of some banks **may** reduce in the future as the rating agencies remove the uplift derived from sovereign support. No time scale for the change in approach has been given by the rating agencies.
- 1.4.11 Capita's amended methodology now implies a minimum long-term credit rating of Fitch 'A-' or equivalent rather than Fitch 'A'. The minimum short-term credit rating of Fitch 'F1' has not altered. Fitch use plus and minus after the letter to denote relative status between financial institutions assigned to the 'AA' and 'A' rating categories. In the Fitch criteria 'A' denotes 'high credit quality' and 'F1' denotes 'highest short-term credit quality'.
- 1.4.12 The Annual Investment Strategy for 2015/16 at **[Appendix 3]** adopts Fitch 'A-', 'F1' or equivalent as the Council's minimum credit criteria. The Strategy makes no other changes to the parameters currently in use to limit the Council's exposure to investment risks.

## **1.5 Legal Implications**

- 1.5.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.
- 1.5.2 This report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

## **1.6 Financial and Value for Money Considerations**

- 1.6.1 The Bank Rate has remained at a historic low of 0.5% for over 6 years. Capita, our treasury advisors, in common with other market forecasts, anticipate an interest rate rise sometime during the quarter ending December of next financial year.
- 1.6.2 Investment income is £6,150 below budget at the end of December. The shortfall is attributed to the relatively poor performance achieved by our external fund manager in the early part of the year. Core funds were transferred to In-house

management at the beginning of August and investment income for the remainder of the financial year is expected to be in-line with budget.

- 1.6.3 A small uplift over current returns is anticipated in the budgeted returns for 2015/16 (0.75% cash flow and 1.0% for core funds).
- 1.6.4 Investment performance is monitored against relevant benchmarks and compared to other local authorities using benchmarking data provided by Capita.

## 1.7 Risk Assessment

- 1.7.1 Capita are employed to advise on the content of the Treasury Management Strategy Statement and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.
- 1.7.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits need to be established to ensure an appropriate level of diversification.
- 1.7.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2015/16 Strategy have been minimised.

## 1.8 Equality Impact Assessment

- 1.8.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## 1.9 Recommendations

- 1.9.1 Members are invited to **RECOMMEND** that Cabinet:

- 1) note the treasury management position as at 31 December 2014;
- 2) reduce the current minimum long-term credit requirement from Fitch 'A' to Fitch 'A-' or equivalent;
- 3) adopts the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 set out at **[Annex 3]**.

Background papers:

contact: Mike Withey

Nil

Sharon Shelton  
Director of Finance & Transformation

## Investment Summary as at 2 January 2015

Counterparty	Sovereign	Fitch Credit rating				Capita Credit Worthiness/ Suggested Duration Limit	Investment type (Specified/Non-specified) [Statement date to Maturity]	Investment from	Maturity Date	Principal sum invested £	Return (coupon / yield at purchase) %	% of total investments	Instrument type	Core Funds £	Cash Flow £	
		Long Term	Short Term	Viability	Support											
Bank of Scotland	UK	A	F1	a-	1	1 year	Specified	11/04/2014	13/04/2015	1,000,000	0.95%	7.57%	Fixed deposit	1,000,000	1,000,000	
Bank of Scotland	UK	A	F1	a-	1	1 year	Specified	14/10/2014	14/04/2015	1,000,000	0.70%					
<b>Bank of Scotland Total</b>										<b>2,000,000</b>						
Barclays Bank	UK	A	F1	a	1	6 months	Specified	29/08/2014	29/05/2015	1,000,000	0.80%	8.52%	Fixed deposit	1,000,000		
Barclays Bank	UK	A	F1	a	1	6 months	Specified	22/10/2014	22/07/2015	1,250,000	0.78%		Fixed deposit	1,250,000		
<b>Barclays Bank Total</b>										<b>2,250,000</b>						
BNP Paribas MMF	Luxembourg	AAA	mmf (Eq)	-	-	5 years	Specified	02/01/2015	05/01/2015	2,100,000	0.46%	7.95%	Call - MMF		2,100,000	
<b>BNP Paribas MMF Total</b>										<b>2,100,000</b>						
Goldman Sachs MMF	Ireland	AAA	mmf	-	-	5 years	Specified	02/01/2015	05/01/2015	1,328,000	0.42%	5.03%	Call - MMF		1,328,000	
<b>Goldman Sachs MMF Total</b>										<b>1,328,000</b>						
Handelsbanken [1]	Sweden	AA-	F1+	aa-	1	12 months	Specified	02/01/2015	05/01/2015	4,350,000	0.45/ .50%	16.47%	Call	2,250,000	2,100,000	
<b>Handelsbanken Bank Total</b>										<b>4,350,000</b>						
Ignis MMF	Ireland	AAA	mmf	-	-	5 years	Specified	02/01/2015	05/01/2015	2,100,000	0.42%	7.95%	Call - MMF		2,100,000	
<b>Ignis MMF Total</b>										<b>2,100,000</b>						
Insight Liquidity Plus EMF	Ireland	AAA	f/S1 (S&P)	-	-	5 years	Specified	18/02/2014	05/01/2015	1,050,000	0.78%	3.98%	Call - EMF		1,050,000	
<b>Insight Liquidity Funds Total</b>										<b>1,050,000</b>						
Lloyds Bank	UK	A	F1	a-	1	1 year	Specified	11/04/2014	13/04/2015	1,000,000	0.95%	9.46%	Fixed deposit	1,000,000	1,000,000	
Lloyds Bank	UK	A	F1	a-	1	1 year	Specified	23/09/2014	23/03/2015	1,000,000	0.70%		Fixed deposit			1,000,000
Lloyds Bank	UK	A	F1	a-	1	1 year	Specified	22/10/2014	22/07/2015	500,000	0.80%		Fixed deposit			500,000
<b>Lloyds Bank Total</b>										<b>2,500,000</b>						
Natwest Bank Call Account	UK	A	F1	bbb	1	1 year	Specified	02/01/2015	05/01/2015	185,000	0.25%	0.70%	Call		185,000	
<b>Natwest Bank Total</b>										<b>185,000</b>						
Nationwide Building Society	UK	A	F1	a	1	6 months	Specified	29/08/2014	29/05/2015	1,000,000	0.80%	7.57%	Fixed deposit	1,000,000		
Nationwide Building Society	UK	A	F1	a	1	6 months	Specified	14/10/2014	16/03/2015	1,000,000	0.60%		Fixed deposit			1,000,000
<b>Nationwide Building Society Total</b>										<b>2,000,000</b>						
Santander UK Plc	UK	A	F1	a	1	6 months	Specified	02/01/2015	05/01/2015	4,551,000	0.80%	17.23%	Call	2,451,000	2,100,000	
<b>Santander UK Plc Total</b>										<b>4,551,000</b>						
Standard Chartered Bank	UK	AA-	F1+	aa-	1	6 months	Specified	02/09/2014	02/06/2015	1,000,000	0.84%	7.57%	CD	1,000,000		
Standard Chartered Bank	UK	AA-	F1+	aa-	1	6 months	Specified	08/09/2014	08/06/2015	1,000,000	0.84%		CD			1,000,000
<b>Standard Chartered Bank Total</b>										<b>2,000,000</b>						
<b>Total invested</b>										<b>26,414,000</b>		<b>100.00%</b>		<b>13,451,000</b>	<b>12,963,000</b>	

Number of investments	20	Average investment value £	1,321,000
Number of counter parties	12	Average investment per counter party £	2,201,000
<b>Group exposures (UK Nationalised) - max 25% for core funds or £2.6m cash flow.</b>			
<b>RBS + National Westminster excluding RBS managed Global Treasury Fund</b>		<b>Core £</b>	<b>Core %</b>
		0	0.00%
<b>Bank of Scotland + Lloyds</b>		2,500,000	18.59%
			<b>Cash £</b>
			2,000,000

<b>Total non-specified investments should be less than 60% of Core Funds</b>	0.00%
--	-------

[1] 0.45% upto £2.5m, 0.50% over £2.5m

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## Tonbridge and Malling Borough Council Internal Lending List

Checked against Capita Duration Matrix dated 02/01/15										
Minimum investment criteria is Capita Green (100 days) Duration Band (entry point broadly equates to Fitch A, F1, bbb-, 1 unless UK nationalised / semi-nationalised).										
Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Fitch Viability	Fitch Support	Exposure Limits			Capita Duration [2]
							Cash Flow	Core Fund	Combined	
Nordea Bank	Finland	AA+	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	12 months
Deutsche Bank	Germany	AAA	A+	F1+	a	1	£2.1m	£2.6m	£4.7m	100 days
ING Bank	Netherlands	AA+	A+	F1+	a	1	£2.1m	£2.6m	£4.7m	6 months
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	12 months
Barclays Bank	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
HSBC Bank plc	UK	AA+	AA-	F1+	a+	1	£2.1m	£2.6m	£4.7m	12 months
Santander UK plc	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
Standard Chartered Bank	UK	AA+	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	6 months
Nationwide Building Society	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
Bank of Scotland plc [3] Group limit with BOS and Lloyds of £2.6m	UK	AA+	A	F1	a-	1	£2.6m	£3.3m	£5.9m	12 Months
Lloyds Bank plc [3] Group limit with BOS and Lloyds of £2.6m	UK	AA+	A	F1	a-	1	£2.6m	£3.3m	£5.9m	12 Months
National Westminster Bank plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	£3.3m	£5.9m	12 Months
The Royal Bank of Scotland plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	£3.3m	£5.9m	12 Months
UK Debt Management Office inc Treasury Bills	UK	AA+	N/A	N/A	N/A	N/A	No limit	No limit	No limit	N/A
UK Treasury - Sovereign Bonds (Gilts)	UK	AA+	N/A	N/A	N/A	N/A	N/A	£6.7m	£6.7m	N/A
UK Local Authorities	UK	AA+	N/A	N/A	N/A	N/A	£2.1m	£2.6m	£4.7m	N/A

[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires sovereigns to be rated at least AA-.

[2] All deposits overnight unless otherwise approved by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight duration must not exceed Capita's recommendation (Capita + 3 months for UK Entities up to a maximum of 12 months).

[3] UK nationalised / semi-nationalised.

**Money Market Funds**

**Minimum investment criteria one of AAA-mf, AAAMmf or AAAM.**

Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAM	£2.1m	£2.6m	£4.7m
BNP Paribas	-	-	AAAM	£2.1m	£2.6m	£4.7m
Goldman Sachs	AAA-mf	AAAMmf	AAAM	£2.1m	£2.6m	£4.7m
Deutsche Fund	AAA-mf	-	AAAM	£2.1m	£2.6m	£4.7m
Ignis	-	AAAMmf	AAAM	£2.1m	£2.6m	£4.7m
Morgan Stanley	AAA-mf	AAAMmf	AAAM	£2.1m	£2.6m	£4.7m
Prime Rate	AAA-mf	AAAMmf	AAAM	£2.1m	£2.6m	£4.7m
Insight	-	AAAMmf	AAAM	£1.05m	£1.3m	£2.35m

**Enhanced Cash Funds**

**Minimum investment criteria AAA.**

Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus	-	-	AAAf/S1	£1.05m	£1.3m	£2.35m

Approved by Director of  
Finance & Transformation  
5th January 2015

No Change

## **Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16**

### **1 Introduction**

#### **1.1 Background**

##### 1.1.1 Treasury management is defined as:

‘The management of the local authority’s 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’.

#### **1.2 Statutory requirements**

1.2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

1.2.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included at Section 7 of this report); this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.2.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

#### **1.3 CIPFA requirements**

1.3.1 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 18 February 2010. In preparing this strategy due regard has also been given to subsequent revisions to the code.

1.3.2 The primary requirements of the Code are as follows:

- 1 Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- 2 Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- 3 Receipt by the full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead; a Mid-year Review Report; and an Annual Report (stewardship report) covering activities during the previous year.
- 4 Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 5 Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

1.3.3 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]** and **[Appendix 2]** respectively.

#### **1.4 Treasury Management Strategy for 2015/16**

1.4.1 The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Capita Asset Services (previously known as Sector).

1.4.2 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- the current treasury position
- the borrowing requirement
- Prudential and Treasury Indicators
- prospects for interest rates
- creditworthiness policy
- the investment strategy
- policy on use of external service providers

## 1.5 Balanced Budget Requirement

1.5.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

## 2 Treasury Limits for 2015/16 to 2017/18

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

2.3 Whilst termed an 'Affordable Borrowing Limit', the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in **[Appendix 3]** of this report.

## 3 Current Portfolio Position

3.1 The Council is debt free and as such the overall treasury position at 31 December 2014 comprised only investments, which totaled £22.0m generating an average return of 0.71%.

## 4 Borrowing Requirement

- 4.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 3]** borrowing will not be necessary. All capital expenditure in 2015/16 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assts.

## **5 Prudential and Treasury Indicators for 2015/16 – 2017/18**

- 5.1 Prudential and Treasury Indicators as set out in **[Appendix 3]** are relevant for the purposes of setting an integrated treasury management strategy.
- 5.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 30 September 2003 and the revised 2009 Code was adopted by the full Council on 18 February 2010. Subsequent Code amendments are also complied with.

## **6 Prospects for Interest Rates**

- 6.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **[Appendix 4]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Capita's expectation for the Bank Rate for the financial year ends (March) is:
- 2014/ 2015 0.50%
  - 2015/ 2016 0.75%
  - 2016/ 2017 1,25%
  - 2017/ 2018 2.00%
- 6.3 UK GDP growth surged during 2013 and the first half of 2014 peaking at 0.9% in Q2 2014 (annualised rate of 3.2%). Since then growth has become more subdued but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. However, there needs to be a rebalancing of the economy away from consumer spending to manufacturing, business investment and exports for the recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought inflation down to a low of 1.0% (CPI) in November, the lowest since September 2002. Inflation is expected to stay around or below 1.0%

over the next 12 months which will help improve consumer disposable income and so underpin economic growth. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of slack in the labour market suggest this is unlikely to happen in the early part of 2015.

- 6.4 The US, the biggest world economy, has generated growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forward and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now expected that the US will be the first major western economy to start on central rate increases and these are anticipated by mid 2015.
- 6.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:
- Greece: the general election in January 2015 may bring a political party to power which is anti Eurozone and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will destabilise the Eurozone as adequate firewalls to contain the immediate impact have now been put in place. The indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU, however, are more difficult to quantify;
  - Eurozone concerns in general subsided during 2013. However, the downturn in growth and inflation during the second half of 2014 and worries over the Ukraine and Middle East have led to a resurgence of those concerns as risks increase that the Eurozone could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and concerns could return in respect of individual countries that do not address the fundamental issues of low growth, international uncompetitiveness and the need for economic reform. It is possible that over the next few years government debt to GDP ratios continue to rise to levels that result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to

suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond.

6.5 A more detailed view of the current economic background, provided by Capita, is contained in **[Appendix 5]**.

## **7 Annual Investment Strategy**

### **7.1 Investment Policy**

7.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (adopted 2009 Code and subsequent revisions). As a consequence, the Council's investment priorities are:

- the security of capital and;
- the liquidity of its investments.

7.1.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

7.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

7.1.4 Investment instruments identified for use in the financial year are listed in **[Appendix 6]** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set out at paragraph 7.3.2.

### **7.2 Creditworthiness Policy**

7.2.1 This Council uses the creditworthiness service provided by Capita. This service has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies;



- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

7.2.2 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 code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to **inform** the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

7.2.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Capita's weekly credit list of worldwide potential counterparties. Subject to an appropriate sovereign and counterparty rating the Council will therefore use counterparties within the following durational bands:

Yellow	5 years
Purple	2 years
Blue	1 year (nationalised or part nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 Days (previously 3 months)

7.2.4 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This approach has the potential to leave the Council with few banks on its approved lending list. The Capita creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

7.2.5 All credit ratings will be reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita 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 against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the Councils lending list.

7.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

### 7.3 Country, Group and Counterparty Limits

7.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of 'AA-' as determined by all three rating agencies (Fitch, Moody's and Standard and Poor's). The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 7]**. This list will be added to, or deducted from; by officers should ratings change in accordance with this policy.

7.3.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality and are applicable to both cash flow and core fund investment.

Country, Counterparty and Group exposure	Maximum Proportion of Cash Flow and Core Funds
UK Sovereign (subject to a minimum rating of AA- )	100%
Each non-UK Sovereign rated AA- or better	20%
Group limit excluding UK nationalised / part nationalised banks	20%
Each counterparty rated <b>Fitch A-, F1</b> (green using Capita's credit methodology) or better ( <b>previously Fitch A, F1, bbb-,1</b> )	20%
Each UK nationalised or part nationalised bank / group	25%

Each AAA multilateral / supranational bank	20%
Each AAA rated bond fund / gilt fund / enhanced cash fund / government liquidity fund / equity fund or property fund subject to maximum 20% exposure to all such funds	10%
Each money market fund rated Moody's AAAmf, Fitch AAmmf, Standard & Poor's AAAM	20%
Non-specified investments over 1 year duration	60%

7.3.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. For cash flow investments the limits identified in paragraph 7.3.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year.

## 7.4 Investment Strategy

### Available funds

7.4.1 Funds available for investment are split between cash flow and core funds. Cash flow funds are generated from the collection of council tax, business rates and other income streams. They are consumed during the financial year to meet payments to precepting authorities and government (NNDR contributions) and to meet service delivery costs (benefit payments, staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Council's revenue and capital reserves and are generally available to invest for durations in excess of one year.

### Cash flow investments

7.4.2 The average daily cash flow balance throughout 2015/16 is expected to be £9.0m. Of that figure some £3m is likely to be available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash funds. Cash balances available for more than 3

months may be transferred to the core fund portfolio if a better overall return for the Council can be achieved by doing so.

- 7.4.6 In compiling the Council's estimates for 2015/16 a return on cash flow investments of 0.75% has been assumed. This return is a modest improvement on the return being achieved in 2014/15 (0.65% to December) and anticipates the Bank Rate will rise above the current 0.5% during the latter part of the financial year.

#### **Core fund investments**

- 7.4.7 Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council during 2014/15 for In-house management. The core fund balance is diminishing as a proportion is consumed each year (approximately £2.25m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2015/16 is expected to be £10m.
- 7.4.10 The Council will avoid locking into longer term deals while investment rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by this Council.
- 7.4.11 In compiling the Council's estimates for 2015/16 a return on core fund investments of 1.0% has been assumed. This return anticipates a small uplift in yield will be generated over cash flow investment expectations (paragraph 7.4.6) and offers a modest uplift on the current core fund return (0.72% to December 2014). Subject to the credit quality and exposure limits outlined in paragraph 7.3.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts and enhanced cash funds will also be used if these offer favourable returns relative to term deposits.

#### **7.5 End of year investment report**

- 7.5.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

#### **7.6 Policy on the use of external service providers**

- 7.6.1 The Council uses Capita as its external treasury management advisors.

7.6.2 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.

7.6.3 It 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 Council 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.

January 2015

Appendices

1. Treasury management scheme of delegation
2. Treasury management role of the section 151 officer
3. Prudential and Treasury indicators
4. Interest rate forecasts
5. Economic background
6. Specified and Non-specified Investments
7. Approved countries for investments

**Appendix 1 Treasury management scheme of delegation****(i) Full council**

- budget approval.
- approval of treasury management policy.
- approval of the annual Treasury Management Strategy Statement and Annual Investment Strategy.
- approval of amendments to the Council's adopted clauses, Treasury Management Policy Statement and the annual Treasury Management Strategy Statement and Annual Investment Strategy.
- approval of the treasury management outturn report.

**(ii) Cabinet**

- budget consideration.
- approval of Treasury Management Practices.
- approval of the division of responsibilities.
- approval of the selection of external service providers and agreeing terms of appointment.
- acting on recommendations in connection with monitoring reports.

**(iii) Audit Committee**

- reviewing the annual Treasury Management Strategy Statement and Annual Investment Strategy and making recommendations to Cabinet and Council.
- receive reports on treasury activity at regular intervals during the year and making recommendations to Cabinet.
- reviewing treasury management policy, practices and procedures and making recommendations to Cabinet and Council.

**(iv) Finance, Innovation and Property Advisory Board**

- receiving budgetary control reports at regular intervals that include treasury management performance.

**Appendix 2 Treasury management role of the section 151 officer**

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- recommending the appointment of external service providers.



### Appendix 3 Prudential and Treasury Indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2015/16 report that is to be submitted to Cabinet on 3 February 2015.

The treasury management indicators are as set out in the table below:

TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that net exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	16,309 (86.1%)	It is anticipated that net exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	2,234 (11.8%)	60% of core funds			

Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

Appendix 4 Interest Rate Forecasts (January 2015)

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
<b>Bank Rate View</b>	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
<b>Bank Rate</b>													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

**Appendix 5 Economic Background Provide by Capita Asset Services**

**UK.** After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at low levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

**Euro zone (EZ).** The Euro zone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. The European Central Bank (ECB) took limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Euro zone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy. It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the impact of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis.

**Greece:** the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Euro zone as the EU has put in place adequate firewalls to contain the immediate impact. However, the indirect effects of strengthening of anti EU and anti austerity political parties throughout the EU are much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Euro zone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

**USA.** The US Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% hold great promise for strong growth going forward. Forecasters are confident that interest rates in America will have risen by the middle of 2015.

**China.** Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese

leadership has only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

**Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

### **Capita Asset Services Forward View**

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly spread. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient firewalls in place such that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and difficult, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an

increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.

- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields

## Appendix 6 Specified and Non-specified Investments

All specified and non-specified Investments will be:

Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy.

Subject to the duration limit recommended by Capita (**+3 months for UK Financial Institutions** at the time each investment is placed.

Subject to a maximum of 60% of core funds, in aggregate, being held in non-specified investments at any one time.

Sterling denominated.

**Specified Investments** (maturities up to 1 year):

Investment	Minimum Credit Criteria
UK Debt Management Agency Deposit Facility	UK Sovereign AA-
Term deposits - UK local authorities	UK Sovereign AA-
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 or Green <b>excluding CDS</b>
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1, or Green <b>excluding CDS</b>
UK Treasury Bills	UK Sovereign AA-
UK Government Gilts	UK Sovereign AA-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK govt)	AAA



<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):</b>	
1. Money Market Funds	Moody's AAAmf, Fitch AAAmmf, Standard and Poor's AAAM
2. Government Liquidity Funds	AAA
3. Enhanced Cash Funds	AAA
4. Bond Funds excluding corporate bonds	AAA
5. Gilt Funds	AAA
6. Equity Funds	AAA
7. Property Funds	AAA

**Non-specified Investments** (maturities in excess of 1 year and any maturity if not included above):

<b>Investment</b>	<b>Minimum Credit Criteria</b>	<b>Max duration to maturity</b>
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign AA-	2 years
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1(Green)	2 years
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A- F1 (Green)	2 years

Commercial paper - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Commercial paper - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	5 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other than the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign AA-	Max of 25% 5 years
UK Government Gilts	UK Sovereign AA-	Max of 25% 10 years

**Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**Appendix 7      Approved countries for investments**

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a sovereign rated as a minimum AA- by each of the three rating agencies (Fitch, Moody's and Standard and Poor's).

This list will be reviewed and amended if appropriate on a weekly basis by the Director of Finance and Transformation.

As of 31 December 2014 sovereigns meeting the above requirement were:

AAA	Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland
AA+	Finland Netherlands Hong Kong UK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium Saudi Arabia

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Delegated

### 1 ACCOUNTING POLICIES FOR 2014/15 FINANCIAL STATEMENTS

This report presents the Accounting Policies proposed for the 2014/15 Financial Statements.

#### 1.1 Introduction

1.1.1 The Accounting Policies to be used in the preparation of the Financial Statements are attached at **[Annex 1]** for Members' consideration and approval.

1.1.2 The only change is as a result of Grant Thornton's recommendation following the audit of the 2013/14 Accounts in respect of the interim revaluation of assets. The intention is to ask the Council's external valuers to provide a valuation of the asset category subject to revaluation in year and also interim valuations in respect of our major assets, i.e. council offices, leisure premises and car parks where appropriate. The new accounting policy can be found below.

#### *Land and Buildings*

*The Borough Council has a policy of revaluing its property assets on a rolling programme such that the intervals between valuations do not exceed 5 years. The programme is as follows:*

<i>Asset Category</i>	<i>Year of Valuation</i>	
<i>Properties for Community Use</i>	<i>2008/09</i>	<i>Completed</i>
<i>Public Conveniences</i>	<i>2009/10</i>	<i>Completed</i>
<i>Council Offices</i>	<i>2010/11</i>	<i>Completed</i>
<i>Car Parks</i>	<i>2011/12</i>	<i>Completed</i>
<i>Leisure Premises</i>	<i>2012/13</i>	<i>Completed</i>
<i>Properties for Community Use</i>	<i>2013/14</i>	<i>Completed</i>

*In addition to the valuation of the asset category above the Code requires the Council to consider material changes in other assets not due for revaluation in year under the five year rolling programme. The Council's external valuers will undertake interim valuations in respect of our major assets, i.e. council offices,*

*leisure premises and car parks where appropriate. Where the interim valuation shows a movement of £100,000 or more the Balance Sheet values will be updated accordingly.*

*The valuations reviews are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institution of Chartered Surveyors (RICS) and based on the market value for existing use or where a market value cannot be determined as the property is of a specialist nature the depreciated replacement cost. The method used will be explained in the notes to the Accounts. Items of plant that are integral to the operation of a building are included in the valuation for that building.*

*All buildings are subject to straight line depreciation over their estimated useful lives which range between 15 and 50 years depending on the building. In accordance with the Code land is not depreciated.*

*The Note to the Core Financial Statements in respect of Non-Current Assets provides details of the asset class, Land and Buildings, rather than for each of the categories listed above that make up that asset class. This departure from the requirements of the Code has no financial impact and is not considered to detract from the message being given to the reader of the accounts.*

*Under the Code the Council is required to consider componentisation of significant parts of an asset, where they are of a material financial nature or have significantly differing life expectancies. The Council, following a review of the property, plant and equipment asset registers has decided that the Council's offices and major leisure facilities will be the subject of componentisation if the replacement value of the component is in excess of £100,000.*

## **1.2 Legal Implications**

- 1.2.1 Under the Code the Council is required to prepare and follow Accounting Policies for its Financial Statements.

## **1.3 Financial and Value for Money Considerations**

None.

## **1.4 Risk Assessment**

- 1.4.1 Failure to follow Accounting Policies could result in misrepresentation of the Financial Statements and ultimately qualification of the Accounts.

## **1.5 Equality Impact Assessment**

- 1.5.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## 1.6 Recommendations

1.6.1 The Committee is requested to:

- 1) **Note** and **endorse** the Accounting Policies to be used in the preparation of the Financial Statements as set out at **[Annex 1]** and to make such recommendations, as the Committee considers appropriate, to the General Purposes Committee meeting on 2 February.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

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## 1. ACCOUNTING POLICIES

### a) General

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*. The Code is based on a hierarchy of approved accounting standards:

- International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB).
- International Accounting Standards (IAS) approved by the International Accounting Standards Committee (IASC).
- Interpretations originating from the International Financial Reporting Interpretations Committee (IFRIC).
- Interpretations originating from the Standing Interpretations Committee (SIC).
- International Public Sector Accounting Standards (IPSAS) approved by the International Public Sector Accounting Standards Board (IPSASB).
- Financial Reporting Standards (FRS) approved by the Accounting Standards Board (ASB).
- Statements of Standard Accounting Practice (SSAP) approved by the Accounting Standards Committee (ASC).
- Urgent Issues Task Force's (UITF) Abstracts.

The accounting convention adopted for the preparation of these Accounts is an historical cost basis modified for the revaluation of certain categories of assets.

### b) Qualitative Characteristics of Financial Information

- Relevance - in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the objective of the principal statements is to provide information on the Council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.
- Reliability - the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The Accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the Council's financial standing.
- Comparability - the Accounts contain comparative information about the Council so that performance may be compared with a prior period.
- Understandability - although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.
- Materiality - an item of information is material to the Accounts if its misstatement or omission might reasonably be expected to influence assessments of the Council's stewardship and economic decisions.

#### **c) Accounting Concepts**

- Going concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Accounts have been prepared on a going concern basis.
- Accruals - the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Primacy of legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

#### **d) Accruals of Income and Expenditure**

Income and expenditure is accrued to ensure it is accounted for in the period to which it relates. Exceptions to this principle, for example, are electricity, gas and similar periodical payments which are charged at the date of meter reading rather than being apportioned between financial years; and penalty charge notices and licensing fees which are accounted for on the day of receipt. This policy is consistently applied each year and its effect on the Accounts is not considered to be material.

#### **e) Assets Held for Sale**

Non-current assets that have been identified for sale by the Council will be reclassified as current assets when the asset is being actively marketed and has a high probability of sale within twelve months of the Balance Sheet date.

#### **f) Cash and Cash Equivalents**

Internally managed investments of three months or less from the date of acquisition will be recognised as cash equivalents (short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value). Externally Managed funds normally comprise of investments that cannot be easily realised and are excluded from this heading.

#### **g) Council Tax and National Non-Domestic (Business) Rates**

The Council is a billing authority which is required to bill local residents and businesses for Council Tax and National Non-Domestic Rates respectively. The Council acts as an agent for Kent County Council, Police and Crime Commissioner for Kent and Kent Fire and Rescue in respect of Council Tax and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Council Tax and the major precepting authorities as a net debtor or creditor.

Similarly, the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of Business Rates and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Business Rates and the other bodies covered by the Business Rates Retention scheme as a net debtor or creditor.

In addition, the Comprehensive Income and Expenditure Statement includes our share of the Collection Fund surplus/deficit for the year in respect of Council Tax and Business Rates, which is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account in the Balance Sheet.

#### **h) Contingent Assets and Liabilities**

Contingent assets should not be recognised in the accounting statements, they should be disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures should indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities should not be recognised in the accounting statements, they should be disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability the Council should disclose the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

#### **i) Debt Write-Off**

The Director of Finance and Transformation approves and or recommends the write-off of debt where efforts to collect the sums have failed and any further action would be uneconomic or impractical or in the opinion of the Director of Finance and Transformation there is a valid reason for not pursuing the debt. In order to mitigate the financial impact of write-offs the Director of Finance and Transformation makes an impairment allowance taking into account the size and age of the debt outstanding and the likelihood of recovery.

#### **j) Employee Benefits**

Under the Code employee benefits are accounted for when the Council is committed to pay an employee. Employee benefits are split into three categories.

##### **Benefits Payable during Employment**

This covers:

- Short-term employee benefits, such as salaries and wages, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.
- Benefits earned by current employees, but payable twelve months or more after the end of the reporting period (e.g. long-service awards).

##### **Termination Benefits**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee the known liability is recognised at the earlier of when the authority can no longer withdraw the offer of these benefits or when the

authority recognises the costs of a restructure will involve the payment of termination benefits, any enhanced retirement benefits paid by the employer are accounted for on a cash basis.

### **Post-Employment Benefits**

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Under IAS 19, the employer recognises as an asset or liability the surplus / deficit in a pension scheme. The surplus / deficit in a pension scheme is the excess / shortfall of the value of assets when compared to the present value of the scheme liabilities. A prerequisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from a pension reserve. The Balance Sheet will show the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The next formal valuation is due on 31 March 2016. **The outcome of the 2013 valuation is to take effect from 1 April 2014.**

### **k) Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Accounts are authorised for issue.

The authorised for issue date can be either:

- When the responsible Financial Officer certifies that the Accounts present a 'true and fair view' which should be by no later than the 30 June.
- When the Accounts are approved by Members and published with the audit opinion and certificate which should be by no later than 30 September.

Events arising after the Balance Sheet date and before either of the two dates above will be reflected in the Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included (adjusting events). Such events:

- could materially alter an estimate of, for example, debtors, creditors or an impairment allowance previously identified in the accounting processes;
- could substitute a materially different actual figure for an estimate; or
- could reflect a permanent impairment or betterment in the financial position, but only where the originating event took place prior to the year-end and the amounts are considered material to the Accounts.

#### **l) Exceptional Items and Prior Period Adjustments**

Exceptional items, when they occur, are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary in order to give a fair presentation of the Accounts. A description of each exceptional item is given within the notes to the Accounts.

Prior period adjustments arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified and are accounted for accordingly. Material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period and adjusting the appropriate opening balances for the cumulative effect.

#### **m) Financial Instruments**

Financial instruments are broken down between financial assets (cash, investments and some categories of debtors) and financial liabilities (loans payable and some categories of creditors).

Debtors and creditors are measured at fair value and are carried in the Balance Sheet at amortised cost.

Investments are broken down in two ways. Firstly, by maturity, in that any investment with a maturity date of more than 364 days after the Balance Sheet date will be classed as long-term and less than as short-term; and secondly by class of asset such as loans and receivables or available-for-sale.

Loans and receivables are assets that have fixed or determinable payments, but are not quoted in an active market, these are measured at fair value and are carried on the Balance Sheet at amortised cost.

Available-for-sale assets have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the Balance Sheet at fair value using determinations from our Fund Manager.

Accrued interest is shown as part of the investment balance. This is a departure from the Code which requires accrued interest to be shown as part of the debtors balance. Accrued interest receivable within 364 days of the Balance Sheet date will be recognised as part of the short-term investment balance on the Balance Sheet, irrespective of the date of maturity of the investment.

Realised gains and losses in relation to investments are recognised within the Comprehensive Income and Expenditure Statement under interest and investment income. Unrealised gains and losses are recognised in the Balance Sheet under the appropriate investment heading offset by an adjustment to Available-for-Sale Financial Instruments Reserve.

#### **n) Foreign Currency Transactions**

Any gains or losses arising from exchange rate fluctuations will be charged to the Comprehensive Income and Expenditure Statement in the year of payment or receipt.

#### **o) Government Grants and Other Contributions**

Revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Statement in the same period as the related expenditure was incurred.

Grants specific to a service will be shown against that service expenditure line. General grant, e.g. Revenue Support Grant and New Homes Bonus are credited and disclosed separately in the Comprehensive Income and Expenditure Statement under taxation and non-specific grant income.

Capital grants and contributions (such as Section 106 developer contributions) received will be credited in full to the Comprehensive Income and Expenditure Statement on receipt where there are no conditions attached to its use and in the year that the capital expenditure is incurred where there are conditions attached to its use.

**p) Inventories**

Inventories are valued at the latest price paid. This is a departure from the requirements of the Code and IAS 2 (Inventories), which require stocks to be shown at actual cost or net realisable value, if lower. The difference in value is not considered to be material.

**q) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. A definition of a lease includes hire purchase arrangements.

**Finance Leases**

The Council currently has no finance lease arrangements where it is the lessor or where it is a lessee other than in respect of what is termed embedded leases as explained below.

Embedded leases are where assets, although not owned by the Council, are used primarily by the Council for service delivery. An example of this would be vehicles used by the Council's Refuse Collection and Recycling and Street Cleansing contractor. In this case an estimated value and useful life has been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

**Operating Leases**

Lease payments under an operating lease shall be recognised as income or an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by the Council where the Council is a lessor or lessee respectively.

**r) Non-Current Assets**

The Council has set a de-minimis level of £5,000 for the purposes of capital expenditure. In the case where the individual value of an item, e.g. computer is below the de-minimis level, but the aggregate value of similar items purchased in the year exceed the de-minimis level the expenditure may be treated as capital expenditure.

## Property, Plant and Equipment

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services or for administrative purposes and expected to be used during more than one period.

Property, plant and equipment is split into five classes as described below.

Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets
Community Assets	Assets Under Construction	

The policy for each type of asset is explained below.

### Land and Buildings

The Borough Council has a policy of revaluing its property assets on a rolling programme such that the intervals between valuations do not exceed 5 years. The programme is as follows:

Asset Category	Year of Valuation	
Properties for Community Use	2008/09	Completed
Public Conveniences	2009/10	Completed
Council Offices	2010/11	Completed
Car Parks	2011/12	Completed
Leisure Premises	2012/13	Completed
Properties for Community Use	2013/14	Completed

In addition to the valuation of the asset category above the Code requires the Council to consider material changes in other assets not due for revaluation in year under the five year rolling programme. The Council's external valuers will undertake interim valuations in respect of our major assets, i.e. council offices, leisure premises and car parks where appropriate. Where the interim valuation shows a movement of £100,000 or more the Balance Sheet values will be updated accordingly.

The valuations reviews are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institution of Chartered Surveyors (RICS) and based on the market value for existing use or where a market value cannot be determined as the property is of a specialist nature the depreciated replacement cost. The method used will be explained in the notes to the Accounts. Items of plant that are integral to the operation of a building are included in the valuation for that building.

All buildings are subject to straight line depreciation over their estimated useful lives which range between 15 and 50 years depending on the building. In accordance with the Code land is not depreciated.

The Note to the Core Financial Statements in respect of Non-Current Assets provides details of the asset class, Land and Buildings, rather than for each of the categories listed above that make up that asset class. This departure from the requirements of the Code has no financial impact and is not considered to detract from the message being given to the reader of the accounts.

Under the Code the Council is required to consider componentisation of significant parts of an asset, where they are of a material financial nature or have significantly differing life expectancies. The Council, following a review of the property, plant and equipment asset registers has decided

that the Council's offices and major leisure facilities will be the subject of componentisation if the replacement value of the component is in excess of £100,000.

#### Vehicles, Plant and Equipment

Vehicles, Plant and Equipment, other than plant that is integral to the operation of a building, are recognised in the Balance Sheet at historic cost and are subject to straight line depreciation over a period of between 2 and 30 years.

#### Infrastructure Assets

These are non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of Infrastructure Assets are footpaths and signage.

These assets are carried on the Balance Sheet at historic cost and are not subject to revaluation. These assets are subject to straight line depreciation over a period of between 3 and 40 years.

#### Community Assets

These are non-current assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and open spaces.

These assets are carried on the Balance Sheet at historic cost and are not subject to revaluation or depreciation.

#### Assets under Construction

This covers assets not yet ready for operational use, but expected to be operational within twelve months of the Balance Sheet date. Assets under Construction are not subject to revaluation or depreciation.

### **Heritage Assets**

Heritage assets are defined as a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

Heritage assets where the Council holds information on their cost or value, via insurance or valuation records are to be recognised on the Balance Sheet. Where the Council does not hold information on the cost or value and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts such details as the Council holds are to be included in the notes to the financial statements.

The value of Heritage assets recognised on the Balance Sheet is to be subject to review at intervals not exceeding 5 years.

Heritage assets are not subject to depreciation.

### **Investment Property**

Investment property is property (land and / or buildings) held solely to earn rental income or for capital appreciation, or both.

Investment property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period with gains/losses recognised in the Comprehensive Income and Expenditure Statement. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value.



Investment property is not subject to depreciation.

### **Intangible Assets**

These are non-current assets that do not have physical substance, but are identifiable and controlled by the Council through custody or legal rights. Intangible Assets held by this Council currently consist of IT software and associated costs.

Intangible Assets are recognised on the Balance Sheet at historic cost, are not subject to revaluation, but are amortised over their useful economic life assessed to be 5 years for IT software and associated costs.

### **Impairment of Non-Current Assets**

A review for impairment of a non-current asset whether carried at historical cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the non-current asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in a non-current asset's market value during the period;
- evidence of obsolescence or physical damage to the non-current asset;
- a significant adverse change in the statutory or other regulatory environment in which the Council operates; and
- a commitment by the Council to undertake a significant reorganisation.

In the event that impairment is identified the value will either be written off to the revaluation reserve, where sufficient reserve levels for that asset exist or written off to revenue through the Comprehensive Income and Expenditure Statement. Any impairment at the Balance Sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer assessing the value of the impairment.

### **Gains or Losses on Disposal of Non-Current Assets**

When an asset is disposed of or de-commissioned, the net book value of the asset and the receipt from the sale are both charged to the Comprehensive Income and Expenditure Statement which could result in a net gain or loss on disposal.

Receipts in excess of £10,000 are categorised as capital receipts. The receipt is required to be credited to the usable capital receipts reserve and can only be used to finance capital expenditure. Receipts below £10,000 are considered de-minimis and treated as revenue.

The net gain or loss on disposals has no impact on taxation requirements as the financing of non-current assets is provided for under separate arrangements.

## **s) Overheads**

The majority of management and administrative expenses, including buildings, are allocated to Services. Costs of Support Services are allocated on the basis of estimated time spent by officers on Services and costs of buildings are apportioned on a floor area basis. The costs of Corporate Management and Democratic Core, resulting from the Council being a multifunctional organisation, are allocated to a separate objective head and, in accordance with the Code, are not reapportioned.

**t) Provisions**

The Council sets aside provisions for liabilities or losses that are either likely to, or certain to be incurred, but uncertain as to the amount or the date on which they will arise.

Provisions are recognised when:

- the Council has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

**u) Reserves**

The Council maintains both general and earmarked reserves. General reserves are to meet general rather than specific future expenditure and earmarked reserves, such as the building repairs reserve are for specific purposes. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

**v) Revenue Expenditure Funded from Capital Under Statute**

This is expenditure of a capital nature on non-current assets not owned by the Council, for example house renovation grants. Under the Code this is revenue expenditure and as such the expenditure is charged in full to the relevant service revenue account in the Comprehensive Income and Expenditure Statement in the year it is incurred. Statute, however, allows such expenditure to be funded from capital resources. In our case such expenditure is mainly funded from reserves.

**w) Value Added Tax (VAT)**

VAT is included within the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Delegated

### 1 INTERNAL AUDIT CHARTER

**The purpose of the report is to inform Members of the outcome of the review of the Internal Audit Charter. Members are asked to note and endorse the revised Charter.**

#### 1.1 Background

1.1.1 The Internal Audit Charter is a key document in the delivery of Internal Audit, setting out the purpose, authority and responsibility of the internal audit function. It is subject to regular review and approval by the Audit Committee.

1.1.2 Proper practice for Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the Standards. The PSIAS require that "The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards."

#### 1.2 Review of the Internal Audit Charter

1.2.1 The current Internal Audit Charter was approved by the Audit Committee in October 2013 and has been reviewed in December 2014. The Charter is considered to meet the requirements of the PSIAS and no amendments to the content have been identified. The document has been updated to reflect the change of title of the Audit Manager to Audit & Assurance Manager, reflecting her additional responsibility for the Council's Investigations Team. A copy of the Charter is attached at **[Annex 1]**.

#### 1.3 Legal Implications

1.3.1 Section 151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of their financial affairs". Further to this, the Accounts & Audit Regulations 2011 require a relevant body to "undertake an adequate and effective internal audit of its accounting records and of its system

of internal control in accordance with the proper practices in relation to internal control.”

- 1.3.2 The Internal Audit Charter is based upon the requirements set out in the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note which is identified as “proper practice” for internal audit.

#### **1.4 Financial and Value for Money Considerations**

- 1.4.1 An adequate and effective internal audit function provides the Council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.

#### **1.5 Risk Assessment**

- 1.5.1 The Internal Audit Charter establishes the purpose, authority and responsibility of the Council’s internal audit function. It is, therefore, vital that the Council periodically reviews the Charter to ensure that the internal audit function is effective in delivering its responsibilities and that the Charter itself is compliant with proper practice.
- 1.5.2 The Internal Audit Charter has been prepared with due consideration to proper practice, as set out in the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards. It is, therefore, considered that adequate action has been taken to minimise the risk that external assessment could consider the Charter to not meet proper practice.

#### **1.6 Equality Impact Assessment**

- 1.6.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

#### **1.7 Recommendations**

- 1.7.1 Members are asked to **note** and **endorse** the attached Internal Audit Charter.

Background papers:

contact: Katey Arrowsmith

Nil

David Buckley  
Chief Internal Auditor



## INTERNAL AUDIT CHARTER

### **Purpose**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Authority**

The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs." Regulation Six of the Accounts and Audit Regulations 2011 specifically requires relevant bodies to "undertake an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." Proper Practices is defined as the Public Sector Internal Audit Standards (PSIAS – herein referred to as the Standards) along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA); as such compliance with these documents is mandatory.

The Standards set out requirements for the work of Internal Audit to be led by a Chief Audit Executive (CAE); at Tonbridge & Malling Borough Council this role is fulfilled by the Chief Internal Auditor. The Standards also set out the responsibility for oversight of the work of Internal Audit as falling jointly to 'senior management' and 'the board'; at Tonbridge & Malling senior management is defined as the Council's Management Team and the board is defined as the Audit Committee.

The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit activity in fulfilling its roles and responsibilities. The Internal Audit activity will also have free and unrestricted access to the Audit Committee.

### **Professionalism**

The Internal Audit activity will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS) along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accounting (CIPFA). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit activity's performance. In addition, the Internal Audit activity will adhere to Tonbridge & Malling Borough Council's policies and procedures and the Internal Audit activity's standard operating procedures manual.

### **Organisational Relationships**

The Chief Internal Auditor will report functionally to the Council's Statutory Officers and Audit Committee. The Chair of the Audit Committee will monitor the performance of the Chief Internal Auditor and will be invited to provide feedback to the appraisal process for this officer.

The Chief Internal Auditor will communicate and interact directly with the Audit Committee, inside and outside of the formal meetings of the Committee as appropriate.

#### *Relationship with the Chief Internal Auditor*

The Chief Internal Auditor is responsible for the provision of the Internal Audit function, but may also be a client of Internal Audit for other services and functions under his responsibility. Where the Chief Internal Auditor is a client of Internal Audit, audit management responsibilities in relation to the assignment will be passed to the Audit & Assurance Manager. Both officers will ensure that Internal Auditors remain independent in the completion of their work enabling them to carry out their work freely and objectively in accordance with the Standards.

#### *Relationship with the Director – Finance & Transformation (Section 151 Officer)*

The Chief Internal Auditor has direct access to the Director – Finance & Transformation as Section 151 Officer.



## **INTERNAL AUDIT CHARTER**

### *Relationship with the Monitoring Officer*

The Chief Internal Auditor has direct access to the Director – Central Services as Monitoring Officer.

### *Relationship with the Chief Executive & Head of Paid Service*

The Chief Internal Auditor has direct access to the Chief Executive (also the Head of Paid Service).

### *Relationship with Management Team*

The Chief Internal Auditor is able to report in his own right to the Council's Management Team, which consists of the Chief Executive and four Directors including the Council's Section 151 Officer and Monitoring Officer.

### *Relationship with the Audit Committee*

The role of the Audit Committee, as it relates specifically to the Internal Audit function, includes monitoring of the performance of the Internal Audit function. This is primarily achieved through consideration of the annual Internal Audit reports which incorporates a review of the following:

- details of audit work completed, including assurance reviews and consulting engagements;
- development of the Internal Audit function;
- Internal Audit staffing.

Additionally, Internal Audit will report to the Audit Committee through the year providing a summary of Internal Audit work completed.

### *Relationship with External Audit*

The Chief Internal Auditor will liaise with External Audit to:

- co-ordinate the overall audit effort;
- ensure appropriate sharing of information;
- reduce the incidence of duplication of effort;
- foster a co-operative and professional working relationship.

In particular the Chief Internal Auditor shall:

- discuss the annual Internal Audit plan with the External Auditor to facilitate external audit planning;
- make all Internal Audit working papers and reports available to the External Auditor;
- receive copies of External Auditor communications to management;
- gain a knowledge of the External Auditor programme and methodology;
- provide liaison, where appropriate, between the External Auditor and management for the purpose of resolution of differences.

### **Independence and objectivity**

The Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Auditor's judgement.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Where there is a training need identified by the Chief Internal Auditor or Audit & Assurance Manager then appropriate training will be sought. All members of the Internal Audit team will be invited to attend the annual conference arranged by the Kent Audit Group.

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements. Each member of the team will make a declaration of any interests or of 'no interest' on an annual basis and any interests will be taken into account when allocating audit work across the team. Where an audit is scheduled for a function for which



## **INTERNAL AUDIT CHARTER**

the Chief Internal Auditor is responsible, the management of that review will fall to the Audit & Assurance Manager with the assistance of the Director – Finance & Transformation where required.

The Chief Internal Auditor will confirm to the board, at least annually, the organisational independence of the Internal Audit activity.

The conduct of an audit or the provision of advice by an Internal Auditor does not in any way diminish the responsibility of line management for the proper execution and control of their activities.

### **Responsibility**

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by Internal Audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.
- Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with Internal Audit.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Board or management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to The Council's Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee. The Chief Internal Auditor is responsible for the Council's counter fraud activity including maintenance of the Anti-Fraud & Corruption Strategy which sets out arrangements for all suspected or detected fraud, corruption or impropriety to be reported to Internal Audit.

The work of Internal Audit extends to consider the entire control environment of the Council; this enables the Chief Internal Auditor to fulfil the responsibility under the Accounts and Audit Regulations 2011 in providing an opinion on the Council's internal control environment, based on the work of Internal Audit. This opinion is then considered by the Council as part of the annual review of the Council's governance arrangements.

### **Partnership Working**

The Internal Audit Services of Gravesham Borough Council and Tonbridge & Malling Borough Council have operated under a partnership working arrangement from 1 December 2010. The objective of this partnership is to provide a high quality Internal Audit service with added resilience. An Internal Audit presence has been retained at each Council with the work of the team at Tonbridge & Malling Borough Council directed by the Chief Internal Auditor and the work of the team at Gravesham Borough Council directed by the Assistant Director – Corporate Performance. The operational work of the two teams is managed by an Audit & Assurance Manager who is shared between the two councils. The teams share best practice and are working to aligned working practices in order to provide a consistent high quality service across the two councils.

The Internal Audit team based at Tonbridge & Malling Borough Council consists of the shared Audit & Assurance Manager and two full time trainee auditors/auditors. The partnership working arrangement with Gravesham Borough Council provides the opportunity to use the expertise of the Internal Auditors based at Gravesham to conduct audits at Tonbridge & Malling and vice versa, where it is practical and beneficial to do so. The Internal Auditor assigned to each audit review is selected by the Audit & Assurance



## INTERNAL AUDIT CHARTER

Manager, in liaison with the Chief Internal Auditor, based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly.

Audit reviews may also be performed by any of the following on a case by case basis provided that they are suitably qualified:

- engaged agency staff;
- engaged consulting services.

In the case of the engagement of a person from another authority or of a consultant, formal arrangements are to be set in place and agreed by the Director – Finance & Transformation in accordance with the Council's Financial Procedures after budget provision has been agreed.

### Internal Audit plan

At least annually, the Chief Internal Auditor will submit to the Audit Committee an Internal Audit plan for review and approval, including risk assessment criteria. The Internal Audit plan will include timing as well as budget and resource requirements for the next financial year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to the Council's Management Team and the Audit Committee.

The Internal Audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of the Council's Management Team and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan will be discussed with the Council's Management Team. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

### Reporting and monitoring

A written report will be prepared and issued by the Chief Internal Auditor or the Audit & Assurance Manager following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Audit Committee.

The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

### Periodic assessment

The Chief Internal Auditor is responsible also for providing periodically a self-assessment on the Internal Audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Chief Internal Auditor will communicate to the Council's Management Team and the Audit Committee on the Internal Audit activity's quality assurance and improvement programme, including results of on-going internal assessments and external assessments conducted at least every five years.

Signed by:

Chief Internal Auditor

Chair of the Audit Committee



## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Delegated

#### **1 AUDIT COMMISSION – PROPOSED WORK PROGRAMME AND SCALES OF FEES 2015/16**

**This report informs Members of the Audit Commission's Proposed Work Programme and Scales of Fees for 2015/16.**

#### **1.1 Introduction**

- 1.1.1 Attached for information at **[Annex 1]** is the Audit Commission's 2015/16 Proposed Work Programme and Scales of Fees. Members should note that this is technically a consultation process and the return date for comments was 9 January 2015. It was considered on this occasion there were no particular comments that needed to be made in response to the consultation.
- 1.1.2 As Members will be aware, the Commission announced significant reductions in audit fees from 2012/13 onwards, following an exercise to outsource the work of its in-house audit practice. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings. When the Commission announced the reductions, it said it expected these lower audit fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.
- 1.1.3 The Commission do not plan to make any changes to the work programme for 2015/16, but are proposing to reduce scale fees by a further 25% as a result of a recent procurement exercise to retender the work undertaken under their older contracts with audit firms.
- 1.1.4 From 1 April 2015, Public Sector Audit Appointments Limited (PSAAL), set up by the Local Government Association as an independent company, will oversee the Commission's audit contracts until they end in 2017, or 2020 if extended by DCLG. PSAAL's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit subsidy certification and for publishing the Commission's value for money profiles tool will also transfer to PSAAL. The Commission's other functions will also transfer to new organisations, with local value for money studies as well as responsibility for the Code of Audit Practice

transferring to the National Audit Office, the National Fraud Initiative to the Cabinet Office, and the counter-fraud functions to the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 1.1.5 The Audit Commission plan to publish the confirmed work programme and scales of fees for 2015/16 in March 2015.

## **1.2 Legal Implications**

- 1.2.1 Legally, we have no choice but to accept the final version of the 2015/16 Work Programme and Scales of Fees and will continue to cooperate with our external auditors who serve us.

## **1.3 Financial and Value for Money Considerations**

- 1.3.1 The audit fee for 2015/16 is given as £45,776 and the indicative fee for grant certification work is £16,200.

## **1.4 Risk Assessment**

- 1.4.1 None.

## **1.5 Equality Impact Assessment**

- 1.5.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## **1.6 Recommendations**

- 1.6.1 Members are **RECOMMENDED** to note and endorse the Audit Commission's proposed 2015/16 Work Programme and Scales of Fees.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

# Proposed work programme and scales of fees 2015/16

Local government and police bodies

October 2014

**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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# Introduction

1 This consultation document sets out the work that auditors will undertake at local government and police audited bodies during 2015/16, with the associated scales of audit fees and indicative certification fees. A separate consultation document covers the [work programme and scales of fees at local NHS bodies](#).

2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [Audit Commission's website](#).

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2015/16 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

4 The Local Audit and Accountability Act 2014 provides for the closure of the Audit Commission and the introduction of a new framework for local public audit.

5 The Audit Commission will close on 31 March 2015. The Department for Communities and Local Government (DCLG) has asked the Commission to set external audit fees for 2015/16 for principal bodies before it closes.

6 We plan to publish the confirmed 2015/16 work programme and scales of fees in March 2015. We have a statutory duty to consult stakeholders before prescribing a scale of fees. We consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

7 From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit certification and for publishing the Commission's value for money profiles tool will also transfer to PSAA.

8 From 1 April 2015, the Commission's other functions will also transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO), for audits of the accounts from 2015/16;

- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI), which has helped to detect fraud, overpayments and errors totalling £1.17 billion since 1996, will transfer to the Cabinet Office; and
- the Commission's counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**9** We will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's functions and where to find details about specific topics. The changes are summarised at Appendix 1 to this consultation, which is provided for information.

## Audit contracts

**10** In March 2012 the Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70 per cent of principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40 per cent in audit and certification fees from 2012/13, subject to annual review.

**11** The Commission completed a further audit procurement exercise in April 2014, retendering the work done under contracts with audit firms originally awarded in 2006 and 2007, covering 30 per cent of principal bodies. This procurement has enabled the Commission to make a further reduction of 25 per cent in the annual audit and certification fees paid by local public bodies from 2015/16.

**12** The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish either in 2017, or in 2020 if extended. The Commission's other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would 'lock in' reduced audit fees, delivering further savings for audited bodies.

## 2015/16 fees

**13** We do not plan to make changes to the overall work programme for local government and police audited bodies for 2015/16. We therefore propose that 2015/16 scale audit fees and indicative certification fees are set based on the fees applicable for 2014/15, reduced by 25 per cent.

**14** The 25 per cent reduction will not apply to fees for pension fund audits, where fee pressures are rising due to the increasing complexity of the funds audited. The reduction will also not apply to 15 local government audited bodies whose 2014/15 audit scale fees are already below £20,000. This is because there is no scope to reduce fees below this level and still ensure

the auditor is able to complete an audit compliant with the Code of Audit Practice and professional standards.

**15** The Commission may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.

### **Joint committees**

**16** The Local Audit and Accountability Act 2014 removes the requirement for the accounts of joint committees to be subject to audit. DCLG has confirmed to the Commission that this change will apply from 2015/16. We are therefore not consulting joint committees on proposed 2015/16 fees.

### **Police bodies**

**17** Police bodies experienced further governance changes in 2014/15, with stage 2 transfers of staff and assets. We do not think this should increase scale audit fees for 2015/16, but will continue to keep the scales of fees for police bodies under review to ensure they are consistent with auditors' assessments of audit risks.

## **Fees beyond 2015/16**

**18** The Commission's contracts with audit suppliers run until 2017, with a possibility of extension for up to a further three years. The responsibility for overseeing these contracts from April 2015 will pass to Public Sector Audit Appointments (PSAA), the independent company set up by the LGA. PSAA will set fees for 2016/17, and any subsequent years if contracts are extended.

## **Responding to this consultation**

**19** We welcome comments from stakeholders on the proposals contained in this document by **Friday 9 January 2015**.

**20** Please send comments by email to:

[workandfeesconsultation@audit-commission.gsi.gov.uk](mailto:workandfeesconsultation@audit-commission.gsi.gov.uk)

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,  
1st Floor, Fry Building  
2 Marsham Street  
London, SW1P 4DF



# Proposed work programme for 2015/16

## Audit

**21** Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) will be responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2015/16 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. The NAO's draft Code is available on the [NAO website](#).

**22** Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

**23** Under the Commission's audit contracts, Public Sector Audit Appointments (PSAA) may specify additional audit work which supplements the local risk-based approach to planning the audit and the requirements set out in the NAO's Code of Audit Practice. This is consistent with the previous arrangements under the Commission's Code. For 2015/16, no additional work is specified.

**24** Auditors are no longer required to undertake certification work on national non-domestic rates, following the introduction in April 2013 of new arrangements for collecting and distributing business rates. In completing their work on the financial statements, auditors previously placed reliance on their work to certify returns on national non-domestic rates to DCLG. In the absence of this work, auditors will need to undertake additional audit procedures on material business rates balances and disclosures in the financial statements. This will require a small increase in the scale audit fees for applicable councils, but provides a net saving to councils of half the average previous certification fees.

**25** The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets*. CIPFA/LASAAC considers this change in accounting policy is equivalent to a change in IFRS, and has indicated that relevant disclosures will be required in the 2015/16 financial statements. Fees for additional work identified by auditors at individual audited bodies in 2015/16 will be subject to approval under the normal fee variations process.

## Auditors' local value for money work

**26** Under the Local Audit and Accountability Act 2014, auditors are required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**27** Auditors will apply a risk-based approach to their local value for money work, giving a conclusion on the arrangements in place. The NAO's Code of Audit Practice and supporting guidance for auditors set out the approach and reporting criteria applicable for principal bodies.

**28** A value for money conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million and which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies. DCLG has consulted on an update to the Regulations, but this does not affect the audit threshold.

**29** Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

**30** Our website provides further [information about the VFM conclusion](#).

## Certification work

**31** As well as their work under the Code, appointed auditors, as agents of the Commission, have previously certified certain claims and returns. DCLG and HM Treasury have worked with grant-paying bodies to develop other assurance arrangements for certifying claims and returns following the closure of the Commission.

**32** At the request of the Department for Work and Pensions (DWP), auditors appointed under the Commission's audit contracts will continue to certify local authority claims for housing benefit subsidy in 2015/16, using the arrangements previously developed by the Commission.

## National reports

**33** In previous years, the Audit Commission has published its annual [Auditing the Accounts](#) report. This report summarises the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money.

**34** PSAA will continue to publish an Auditing the Accounts report on the results of auditors' work.

# Proposed scales of fees for 2015/16

## Scales of audit fees for local government and police bodies

**35** The scales of fees for 2015/16 reflect the cost of the work programme outlined above. The proposed 2015/16 scale fees for each [local government](#) and [police](#) audited body is available on our website.

**36** The proposed scale audit fees for 2015/16 audits are the scale fees applicable for 2014/15 less a reduction of 25 per cent. Scale fees have not been reduced for pension fund audits (see below) or audited bodies with a scale audit fee below £20,000.

**37** The Commission has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

**38** As the 2015/16 scale fees are based on the scale fees for 2014/15, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2015/16 where these factors are significantly different from those identified and reflected in the 2014/15 fee.

**39** The Commission obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by the Commission.

**40** We will continue to keep the scale of fees for police bodies under review to ensure they remain consistent with auditors' local assessments of audit risks.

**41** The Commission will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## Pension fund audits

**42** The proposed scale fees for 2015/16 pension fund audits are the scale fees applicable for 2014/15. The proposed [pension fund audit scale](#) fee for each relevant audited body for 2014/15 is available on our website.

## Certification work

**43** The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work. This requirement will continue to apply to certification work undertaken by auditors under the Commission's audit contracts following transfer to the transitional body.

**44** An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2015/16 certification work will be based on final 2013/14 certification fees for housing benefit subsidy claims only.

**45** The Commission will receive this fee information from appointed auditors in January 2015. We will therefore publish the 2015/16 indicative certification fee for each individual audited body on our website in April 2015.

**46** For the purposes of this consultation, we have produced an [estimated indicative fee](#) for each body as a guideline, because we do not have final 2013/14 certification fee information yet.

**47** The indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

**48** We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

## Value added tax

**49** All the 2015/16 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Next steps

**50** The Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

**51** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to:

[workandfeesconsultation@audit-commission.gsi.gov.uk](mailto:workandfeesconsultation@audit-commission.gsi.gov.uk)

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,  
1st Floor, Fry Building  
2 Marsham Street  
London, SW1P 4DF

**52** Following responses to this consultation, the Commission's Board will approve the final 2015/16 work programme and scales of fees for publication in late March 2015.

**53** If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk).

## Appendix 1 - Transfer of Audit Commission functions

### Management of audit contracts

An independent, private company created by the Local Government Association, (Public Sector Audit Appointments Limited), will be responsible for overseeing the Commission's external audit contracts with audit firms from 1 April 2015 until December 2017 or 2020. It will oversee: the management of the existing audit contracts, a range of statutory functions including appointing auditors, setting and determining fees, and making arrangements for housing benefit certification.

The professional conduct of auditors will continue to be regulated by the professional accountancy bodies<sup>i</sup>. From 2017, these recognised supervisory bodies will also determine the eligibility of local public auditors and register them and, in turn, they will be recognised and supervised by the Financial Reporting Council. The Financial Reporting Council's Audit Quality Review team will continue to monitor the local public audits carried out by auditors through new regulatory arrangements.

### Certification

The role of making arrangements for housing benefit certification will transfer to Public Sector Audit Appointments Limited (PSAA) from 1 April 2015. PSAA will not have a role in relation to the certification of other grant claims or returns.

### Code of Audit Practice

The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors and the associated Code of Audit Practice guidance from 1 April 2015.

### Whistleblowing

The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.

### Counter fraud

The Commission's counter-fraud function will transfer from 1 April 2015 to the new public sector 'Counter Fraud Centre' established by CIPFA, the Chartered Institute of Public Finance and Accountancy. The Centre will work to support senior local authority leaders in management, governance and finance to tackle fraud and corruption. It is anticipated that CIPFA will build upon the annual *Protecting the Public Purse* reports, tailored fraud briefings for local authorities and the survey of fraud and corruption in England that underpins these products. Changing Organisational Cultures, a toolkit that measures and can help improve an organisation's counter-fraud culture will also continue and be expanded upon with the aim of introduce new practical guidance for tackling fraud and corruption. All other related counter-fraud activities of the Commission will cease.

### National Fraud Initiative (NFI)

The Commission's NFI will transfer to the Cabinet Office from 1 April 2015. The NFI matches data provided by some 1,300 participating organisations

<sup>i</sup> Not all of the professional bodies will be Recognised Supervisory Bodies for the purposes of local public audit.

from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

#### **Provision of information about audit**

The National Audit Office will also publish information previously provided by the Audit Commission. The NAO will become the owners of *Council Accounts: A Guide to Your Rights*, often referred to as the guide to electors' rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor and compliance and audit quality.

#### **Analytical tools**

Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool. The Financial Ratios Tool may become part of LG Inform, a tool managed directly by the Local Government Association.

#### **Local value for money studies**

The National Audit Office has started to undertake Value for Money studies on relevant local bodies, and will continue to do so.

#### **Best value inspections**

The powers to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014. The Commission's 'gate-keeping' powers in relation to inspection will cease.

#### **Audit Commission historic reports and information**

The National Archives preserves copies of the Audit Commission's website and these are available at:

[http://webarchive.nationalarchives.gov.uk/\\*/http://audit-commission.gov.uk/pages/default.aspx](http://webarchive.nationalarchives.gov.uk/*/http://audit-commission.gov.uk/pages/default.aspx)

For copies of the Commission's past reports you may view these here on the National Archives website.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Information

#### 1 ANNUAL AUDIT LETTER

The purpose of the report is to inform Members of the receipt of the Annual Audit Letter.

#### 1.1 Introduction

1.1.1 As in previous years the Annual Audit Letter summarises the main outcomes from the work carried out by our external auditors and in this case for the year ended 31 March 2014. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in October.

1.1.2 The Letter is the prime means through which the results of audit and performance assessment work are communicated to Members, the public and other stakeholders. A copy of the Annual Audit Letter for the year 2013/14 is attached at **[Annex 1]**.

1.1.3 I arranged for the Letter to be circulated to all Members by e-mail and for it to be made available on the Council's website.

1.1.4 The key messages drawn from the letter are set out below:

- 1) The Council's accounts were produced to a high standard.
- 2) The Council continues to have a strong focus on effective financial management, with a robust medium term planning framework and well established processes for budget monitoring.
- 3) There is an effective framework to address financial pressures and to deliver planned savings.

#### 1.2 Legal Implications

1.2.1 The Audit Letter fulfils the requirement to communicate the results of audit activity to Members, the public and other stakeholders.

**1.3 Financial and Value for Money Considerations**

1.3.1 None.

**1.4 Risk Assessment**

1.4.1 The work carried out by our external auditors gives an independent and informed opinion of the Council's performance and financial management and is an important component of the Council's accountability to its residents and council taxpayers.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton  
Director of Finance and Transformation

# The Annual Audit Letter for Tonbridge & Malling Borough Council

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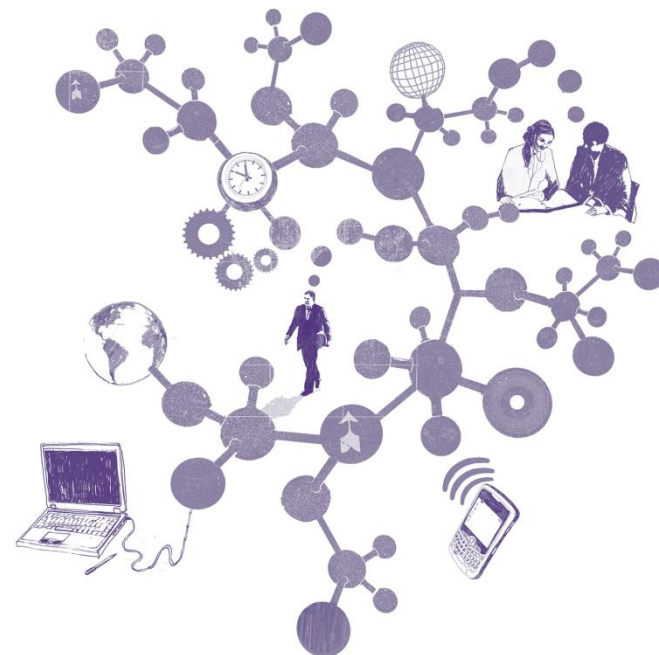
**Year ended 31 March 2014**

October 2014

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## **Appendices**

- A Key issues and recommendations
- B Summary of reports and audit fees

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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Tonbridge & Malling Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p><b>Financial statements audit (including audit opinion)</b></p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report to the General Purposes Committee on 1 September 2014. The Council's accounts were produced to a high standard. Only a small number of audit amendments were required.</p> <p>We issued an unqualified opinion on the Council's 2013/14 financial statements dated 23 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p><b>Value for Money (VfM) conclusion</b></p>	<p>We issued an unqualified VfM conclusion for 2013/14 dated 23 September 2014.</p> <p>We concluded that the Council continues to have a strong focus on effective financial management, with a robust medium term planning framework and well-established processes for budget monitoring. There is an effective framework to address financial pressures and to deliver planned savings.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

# Key messages

<b>Whole of Government Accounts</b>	We considered the consolidation pack which the Council prepares to support the production of Whole of Government Accounts. Under the framework specified by the National Audit Office (NAO) we were not required to perform a detailed review of the consolidation pack. However, where required under this framework we confirmed to the NAO that the entries in the consolidation pack were consistent with the audited statutory accounts.
<b>Certification of grant claims and returns</b>	For the financial year 2013/14 we are required to certify the Council's housing benefit subsidy claim, which has a certification deadline of 30 November. Our work to certify this claim is still in progress.
<b>Audit fee</b>	<p>Our audit fee for 2013/14 was £61,035 (2012/13: £60,135) excluding VAT. This was an increase of £900 on our planned fee of £60,135.</p> <p>Our work on grant claim certification is still in progress. The indicative fee for grant claim certification work included in our audit plan is £27,400.</p> <p>Further detail is included within Appendix B.</p>

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# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council revalues its property assets using a rolling programme over 5 years. In years where an asset is not formally revalued the Council will still assess if any material adjustment to the asset's valuation is required. This assessment does not currently involve input from an external valuer.</p> <p><b>Recommendation:</b> We recommend that the Council obtains input from an external valuer to support this assessment.</p>	High	<p>Agreed. New procedural guidelines to be drafted and implemented for 'interim' valuations to involve external valuer's certification of procedure.</p> <p>Responsible office: Principal Accountant Due date: For 2014/15 valuations</p>

# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	60,135	61,035
Grant certification fee	27,400	TBC
<b>Total fees</b>	<b>87,535</b>	<b>TBC</b>

The additional audit fee of £900 is in respect of work on material business rates balances. This additional work is necessary as auditors are no longer required to carry out work to certify the NNDR3 return which District Councils submit to central government. The additional fee is 50% of the average fee previously charged for NNDR3 certifications at District Councils and is subject to agreement by the Audit Commission.

## Fees for other services

Service	Fees £
None	Nil

## Reports issued

Report	Date issued
Audit Plan	March 2014
Audit Findings Report	September 2014
Annual Audit Letter	October 2014
Certification report	January 2015 (planned)





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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 UPDATE ON THE WORK OF INTERNAL AUDIT DURING 2014-15

##### 1.1 Progress against the 2014-15 Internal Audit Plan

- 1.1.1 The Annual Internal Audit Plan for 2014-15 was approved by this Committee on the 14 April 2014 [**Annex 1**]. The Public Sector Internal Audit Standards (PSIAS) require Internal Audit to *report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*. The purpose of this report, therefore, is to provide Members with an update on the progress of the Internal Audit team in 2014-15 against the Internal Audit Plan.
- 1.1.2 The plan reflects all work undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the 34 items on the original plan, 25 were assurance reviews that would result in an assurance opinion, including three follow up reviews where an audit opinion of Red had been given in the previous year. The remainder of items on the plan relate to consultancy items or allowances for the provision of control advice, etc.
- 1.1.3 Of the 25 assurance reviews, the team have issued final reports and agreed management action plans in respect of eight audits, all of which have been given an audit opinion of Green. (See **Annex 2** for definitions of audit opinions). In addition the team have completed fieldwork which is currently subject to quality control processes for a further four audits and six audits are currently underway. Work has not yet commenced on the remaining seven audits scheduled for the final quarter of the financial year. A summary of the current status of all assurance reviews on the 2014-15 plan including a summary of findings where finalised is attached to this report [**Annex 3**].
- 1.1.4 In addition to the assurance reviews, at the request of management Internal Audit undertook a review of the four flood support schemes introduced by the Government and to be administered by local councils following the severe weather during the Winter of 2013. Assurance can be provided based on this audit testing carried out that the Council implemented the required financial assistance schemes in line with government guidance.

## **1.2 Legal Implications**

- 1.2.1 The Council has a legal obligation under the Accounts and Audit (England) Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined by the Public Sector Internal Audit Standards and the Local Government Application Note to the Standards published by CIPFA.

## **1.3 Financial and Value for Money Considerations**

- 1.3.1 Failure to provide an adequate internal audit could result in a breach of the Accounts and Audit (England) Regulations 2011 with the potential result of additional inspection by external audit or Government intervention for which the authority would have to fund. A sound internal control environment will minimise the risk of fraud and error and reduce the potential cost of such events happening. The internal audit process will also attempt to identify potential efficiency savings as part of its inspection process.

## **1.4 Risk Assessment**

- 1.4.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its internal control arrangements.

Background papers:

contact: Katey Arrowsmith

Nil

David Buckley  
Chief Internal Auditor

No	Area of Audit Focus (In priority order)	Allocation of Audit Days	Proposed Scope
<b>ASSURANCE WORK</b>			
<b>Financial Systems</b>			
1	Debtors	10	Review of arrangements to administer and recover sums owed by the Council's sundry debtors.
2	Income Collection - Web & Telephone	10	Review of arrangements to collect and account for income received through the Council's website and over the telephone.
3	Income Collection - Payment Kiosks	10	Review of arrangements to collect and account for income received through the Council's payment kiosks.
4	Income Collection - Direct Debit & Standing Orders	10	Review of arrangements to collect and account for income received through Direct Debits and Standing Orders.
5	Housing Benefit Overpayments	15	Review of arrangements to identify, administer and recover overpaid Housing Benefit.
6	Council Tax Recovery	10	Review of arrangements to identify and recover unpaid Council Tax liabilities.
7	Fees & Charges	20	Review of arrangements to administer the Council's fees & charges.
8	NNDR Recovery	10	Review of arrangements to recover unpaid NNDR with a specific focus on preventing and detecting fraud.
9	Treasury Management	15	Review of arrangements in place to manage council's treasury management activities.
10	VAT	15	Review of arrangements in place to account for and pay the Council's VAT liabilities.
11	Write offs	10	Review of arrangements to identify and administer write offs.
12	Procurement	15	Review of arrangements of the Council's procurement activities.
		<b>150</b>	
<b>Control Environment Reviews</b>			
13	Standards of Officer Conduct (including anti-bribery and corruption arrangements)	10	Review of the council's arrangements to engender high ethical standards among staff with a specific focus on prevention of bribery and corruption.
14	Section 106 Agreements	10	Review of arrangements to apply Section 106 agreements to development cases.
15	Housing Financial Assistance including Rent Deposit Bonds	15	Review of arrangements to administer the council's Rent Deposit Scheme and other financial assistance.
16	Community Safety Partnership	10	Review of arrangements to deliver the Council's community safety objectives.
17	Licensing Functions (excluding Alcohol & Taxi Licensing)	15	Review of arrangements to deliver the Council's Licensing Functions.
18	Cemeteries	10	Review of arrangements to provide the Cemetery Service.
19	Housing Register & Allocations	10	Review of arrangements to administer the Common Housing Register and housing allocations.
20	Transparency	10	Review of the council's compliance with Transparency requirements.
21	Grounds Maintenance	5	Review of the Council's Grounds Maintenance Contract.
22	Leisure Trust Contract	5	Review of the Council's Leisure Trust contract.
		<b>100</b>	
<b>Audit Follow Up Work:</b>			
23	Recruitment Vetting	30	Follow-up of agreed recommendations and reviews where an opinion of Red is given.
24	Discretionary Housing Payments		
25	Mobile Phones		
<b>CONSULTANCY WORK</b>			
<b>Known Project Work</b>			
26	Flood Expenditure - Spot Checks	10	Allowance to conduct spot checks to provide assurance over the Council's distribution of funding to support those affected by flooding.
27	Personnel Software Implementation - Project Support	5	Allowance to support the implementation of the new Personnel Software system.
28	Individual Elector Registration - Project Support	5	Allowance to support the implementation Individual Elector Registration.
29	Planning Applications - Efficiency Review Support	5	Allowance to contribute to the efficiency review on Planning Applications.
		<b>25</b>	
<b>Anti-Fraud Activity</b>			
30	National Fraud Initiative	20	Allowance for the co-ordination and administration of the council's participation in the National Fraud Initiative data matching exercises.
31	Council Tax Discounts & Exemptions Review	20	Fraud proofing review of arrangements to apply discounts and exemptions to Council Tax accounts.
		<b>40</b>	
32	<b>Consultancy Services</b>	<b>10</b>	Allowance for the provision of consultancy services unknown at the time of planning.
33	<b>Responsive Work</b>	<b>5</b>	Allowance for the provision of responsive support to the council during the financial year.
34	<b>Advice and Information</b>	<b>5</b>	Allowance for the provision of control advice and information to the council during the year.
		<b>365</b>	

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## Definitions of Audit Opinions

**Green** – Risk management operates effectively and objectives are met

*Overall audit opinion:* Expected controls are in place and effective to ensure risks are well managed and the service objectives are being met. Any errors found are minor or the occurrence of errors is considered to be isolated. Recommendations made are considered to be opportunities to enhance existing arrangements.

**Amber** – Key risks being managed to enable the key objectives to be met

*Overall audit opinion:* Expected key or compensating controls are in place and generally complied with ensuring significant risks are adequately managed and the service area meets its key objectives. Instances of failure to comply with controls or errors / omissions have been identified. Improvements to the control process or compliance with controls have been identified and recommendations have been made to improve this.

**Red** – Risk management arrangements require improvement to ensure objectives can be met

*Overall audit opinion:* The overall control process is weak with one or more expected key control(s) or compensating control(s) absent or there is evidence of significant non-compliance. Risk management is not considered to be effective and the service risks failing to meet its objectives, significant loss/error, fraud/impropriety or damage to reputation. Recommendations have been made to introduce new controls, improve compliance with existing controls or improve the efficiency of operations.

**Recommendations made will be categorised as High, Medium or Low.**

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## 2014-15 Internal Audit Assurance Reviews

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
<i>Treasury Management</i>	1	<i>Final Report Issued</i>	Green	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – There are appropriate policies and strategies in place with the CIPFA Code of Practice which are reviewed, approved and monitored regularly. Audit testing found strong policies and procedures in place however minor adjustments were required to reflect current circumstances. Opinion: Green</i></p> <p><i>RMO2 – Appropriate procedures are followed in respect of the investment of treasury management funds. Testing found procedures to be followed with no recommendations raised. Opinion: Green</i></p> <p><i>RMO3 – Externally managed funds are effectively managed and controlled in line with Council policies. Audit testing found all funds to be well managed and controlled with no recommendation raised in relation to this area. Opinion: Green</i></p>
<i>Fees &amp; Charges</i>	1	<i>Final Report Issued</i>	Green	<p><i>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</i></p> <p><i>RMO1 – Fees and Charges are adequately set, approved, communicated and applied. Audit sample testing found that Services do review their fees and charges annually and are aware of the requirement to report to committee; however the audit found some discrepancies with fees advertised on the website and applying new rates from the effective date therefore reminders are to be sent to Services. In addition it was highlighted that fees and charges should be reported to committee in line with Financial Procedure Rules whether or not they result in changes. Opinion: Green.</i></p>

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
<i>Income Collection – Payment Kiosks</i>	<i>1</i>	<i>Final Report Issued</i>	<i>Green</i>	<p><i>The audit considered the Council’s arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate arrangements exist for operating and cashing up of income received via the Council’s payment kiosks. Audit testing found that adequate procedures were in place but the procedure notes required revising to reflect current processes. Opinion: Green</i></p> <p><i>RMO2 – Adequate arrangements exist for the recording; coding and balancing of all income received via the Council’s payment kiosks. Testing found these arrangements to be adequate however system parameters need to be set for miscellaneous income to include a credit card surcharge. Opinion: Green</i></p> <p><i>RMO3 – Appropriate controls exist in respect of contingency planning and minimising the potential for fraud. Audit testing found controls exist however the Business Continuity Plan requires updating with the replacement system, Adelante. Opinion: Amber</i></p>
<i>Income Collection – Web &amp; Telephone</i>	<i>1</i>	<i>Final Report Issued</i>	<i>Green</i>	<p><i>The audit considered the Council’s arrangements in respect of the following risk management objective (RMO):</i></p> <p><i>RMO1 – Adequate arrangements exist for the collection and accounting of income received via the Council’s website and over the telephone. Audit testing found arrangements were in place however some improvements were highlighted regarding provision of an online payment facility for Land Charges, approval of Council Tax invoice templates, transposition of the narrative from Adelante onto Integra and the Telephone Call Recording Policy requires updating regarding payment information not being recorded. Opinion: Green</i></p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Housing Benefit Overpayments	2	Final Report Issued	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Appropriate and timely action is taken to recover all Housing Benefit Overpayments. Audit testing found that appropriate action is being taken to recovery overpayments with only minor operational enhancements identified in this report. Opinion: Green.</p> <p>RMO2 – There are effective performance monitoring arrangements in place in respect of overpayments. Audit testing found that there are robust arrangements in place to monitor the recovery of overpayments and for this to be reported to management. Opinion: Green.</p>
Debtors	2	Final Report Issued	Green	<p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO 1 – Effective key controls are in place to manage the Council's Debtors function. Audit testing confirmed that arrangements are in place for sundry debts to be raised and recovered in line with the Council's policies and procedures. Opinion: Green.</p> <p>RMO 2 - Effective processes exist in respect of Periodical Income. Audit testing confirmed that periodical invoices are being raised accurately in a timely manner, in line with the original rental agreement with the debtors. Opinion: Green.</p>
Section 106 Agreements	2	Field work completed, in quality control	---	<p>The audit considers the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – Section 106 agreement (planning obligations) have been applied to development cases appropriately, in line with legislation and policy.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Transparency	4	Field work completed, in quality control	---	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMO):</p> <p>RMO1: here are arrangements in place to ensure compliance with the mandatory requirements of the Local Government Transparency Code effective from 31st December 2014 on a quarterly basis.</p> <p>RMO2: There are arrangements in place to ensure compliance with the mandatory requirements of the Local Government Transparency Code effective from 31st December 2014 on a one off basis.</p> <p>RMO3: There are arrangements in place to ensure compliance with the mandatory requirements of the Local Government Transparency Code effective from 2nd February 2015 on an annual basis.</p>
Procurement	3	Field work completed, in quality control	---	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMO):</p> <p>RMO1: The Council has an adequate Procurement Strategy in place.</p> <p>RMO2: The Council has adequate and up to date contract and finance procedural rules and these are followed in practice.</p>
Income Collection - Direct Debits & Standing Orders	2	Fieldwork underway	---	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMO):</p> <p>RMO1: Appropriate arrangements exist to promote Direct Debits and Standing Orders as a method of Payment to the Council.</p> <p>RMO2: Adequate arrangements exist for the recording, coding and balancing of all income received via Direct Debit and Standing Order.</p> <p>RMO3: Arrangements exist regarding appropriate compliance with key Direct Debit regulations.</p>

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
Licensing Functions (excluding Taxis and Alcohol)	4	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objectives (RMO): RMO1: The Council has procedures in place to handle the management of licenses for which it has responsibility to issue and maintain, excluding taxi and alcohol licences. RMO2: The Council sets appropriate and justifiable fees, where permitted, for provision and renewal of licences, and collects the same before licences are issued. RMO3: Appropriate enforcement arrangements exist, including issuing penalty notices and collecting penalty fees where necessary.
Standards of Officer Conduct (including anti-bribery and corruption arrangements)	4	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objectives (RMO): RMO1: The Authority has appropriate policies in place relating to standards of Officer conduct. RMO2: Arrangements are in place to uphold standards of officer conduct.
Cemeteries	4	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objectives (RMO): RMO1: There are procedures in place to effectively and efficiently perform the statutory duties required as a local authority and as the owner of a burial ground. RMO2: There are procedures in place to effectively administer and perform the services provided by Tonbridge Cemetery. RMO3: There are procedures in place to correctly and effectively collect the Cemetery Service Charges.
Council Tax Recovery	4	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1: Effective recovery procedures are in place for the collection of Council Tax debt.

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
NNDR Recovery	4	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1: There are processes in place to identify and recover NNDR not paid.
Housing Financial Assistance (Including Rent Deposit Bonds)	4	Not yet started	---	
Community Safety Partnership	4	Not yet started	---	
Leisure Trust Contract	4	Not yet started	---	
Housing Register & Allocations	4	Not yet started	---	
Grounds Maintenance	4	Not yet started	---	
VAT	4	Not yet started	---	
Write-offs	4	Not yet started	---	

## 2014-15 Internal Audit Follow Up Reviews

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Recruitment Vetting Procedures Follow Up	2	Final Report Issued	Amber	The audit considered the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – All weaknesses found as part of the Recruitment Vetting Procedures 13/14 Internal Audit have been addressed. Audit testing found that appropriate action had been taken to address 9 of the 11 recommendations made in the original report. The remaining two recommendations had not been progressed; the issues are not considered to be significant control matters and Internal Audit will continue follow up on these items later in the financial year. Opinion: Amber.
Mobile Phones Follow Up	2	Final Report Issued	Amber	The audit considers the Council's arrangements in respect of the following risk management objectives (RMO): RMO1 – All weaknesses found as part of the Mobile Phones 13/14 Internal Audit have been addressed. Audit testing found that adequate action had been taken to address the weaknesses identified in the original audit report though the implementation of a formal policy had been delayed by the introduction of a new telephony system, in addition further enhancements to the monitoring arrangements were recommended in this report. Opinion: Amber.
Discretionary Housing Payments Follow Up	2	Field work completed, in quality control	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – All weaknesses found as part of the Discretionary Housing Payments 13/14 Internal Audit have been addressed.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Information

#### 1 GRANT THORNTON PUBLICATION – RISING TO THE CHALLENGE – THE EVOLUTION OF LOCAL GOVERNMENT

Grant Thornton in December 2014 published its report entitled 'Rising to the challenge – The evolution of local government'.

#### 1.1 Introduction

1.1.1 'Rising to the challenge – The evolution of local government' assesses whether local authorities have arrangements in place to ensure their sustainable financial future. The paper, based on a sample of 40% of local authorities in England, examined in detail key indicators of financial performance, strategic financial planning, and financial governance and control arrangements.

1.1.2 Overall the message is a positive one. The study found that most local authorities have continued to rise to the challenge posed by government reductions. The paper also noted however, as confirmed in the Autumn Statement, austerity will last through the next parliament, so the challenges facing local government will continue over the medium term.

1.1.3 The report suggests that local authorities must continue to evolve to ensure they have a sustainable future. For those that do not, a financial tipping point is likely to become apparent in 2016. Also, local authorities should consider how their:

- Medium to long term strategy redefines the role of the authority.
- Operational environment will adapt, working in partnership with other authorities and local organisations.
- Strategy looks beyond the traditional two to three year resource planning horizon.
- Organisational culture is aligned to where the authority needs to be in the medium term to long term.

- Senior leadership teams, both officers and Members, have the necessary skills and capacity to ensure delivery against the medium term challenges.
- Corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

1.1.4 The paper runs to some 36 pages so rather than reproduce in hard copy, the paper can be found at the following link:

[http://www.grant-thornton.co.uk/Global/Publication\\_pdf/rising-to-the-challenge-the-evolution-of-local-government.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/rising-to-the-challenge-the-evolution-of-local-government.pdf)

## **1.2 Annual Audit Letter and Medium Term Financial Strategy**

1.2.1 Two key messages drawn from the Annual Audit Letter for the year ended 31 March 2014 and relevant here are:

- 1) The Council continues to have a strong focus on effective financial management, with a robust medium term planning framework and well established processes for budget monitoring.
- 2) There is an effective framework to address financial pressures and to deliver planned savings.

1.2.2 The Council is keenly aware of the significant financial challenge that lies ahead as reductions in funding from central government continue, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

## **1.3 Legal Implications**

1.3.1 None.

## **1.4 Financial and Value for Money Considerations**

1.4.1 As set out in the report published by Grant Thornton.

## **1.5 Risk Assessment**

As set out in the report published by Grant Thornton.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Sharon Shelton  
Director of Finance and Transformation

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Information

#### 1 GRANT THORNTON – AUDIT COMMITTEE UPDATE FOR TONBRIDGE AND MALLING BOROUGH COUNCIL

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

#### 1.1 Committee Update

1.1.1 Attached at **[Annex 1]** is a report from Grant Thornton giving information on the following areas:

- Progress as at January 2015 on the work for the certification of the Financial Statements and Value for Money.
- Rising to the challenge – Grant Thornton’s fourth report on the financial health of Local Government.
- 2020 Vision – Grant Thornton’s view of ensuring economic stability for Local Government Authorities.
- Where Growth Happens – An examination of how to accelerate the economic growth both nationally and locally.
- Best Practice in Local Government Savings.
- Auditing the Accounts – Grant Thornton’s views on how well the closedown for 2013/14 went for them and Local Authorities.
- Managing Council Property Assets – An Audit Commission paper on active and strategic management of the public sector property asset base.

#### 1.2 Legal Implications

1.2.1 None.

**1.3 Financial and Value for Money Considerations**

1.3.1 None.

**1.4 Risk Assessment**

1.4.1 None.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation



# Audit Committee Update for Tonbridge & Malling Borough Council

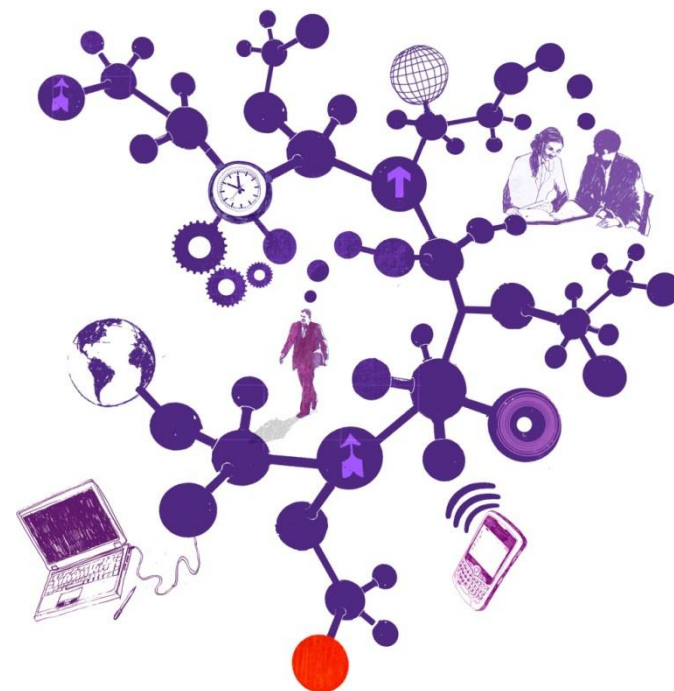
**Year ended 31 March 2015**

January 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

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 Council.

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 at [www.grant-thornton.co.uk/en/Services/Public-Sector/](http://www.grant-thornton.co.uk/en/Services/Public-Sector/) and where you can also download copies of our publications.

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

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# Progress at January 2015

Work	Planned date
<p><b>Interim accounts audit</b> Our interim work will include:</p> <ul style="list-style-type: none"> <li>• work to understand how the Council's functions are delivered, the control environment and the framework of controls for financial systems</li> <li>• walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement</li> <li>• early substantive testing</li> <li>• early work on any emerging accounting issues.</li> </ul>	January – March 2015
<p><b>2014-15 Accounts Audit Plan</b> Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the 2014-15 financial statements.</p>	March 2015
<p><b>2014-15 final accounts audit</b> Work to complete our audit of the 2014-15 financial statements.</p>	July - September 2015
<p><b>Value for Money (VfM) conclusion</b> Our VfM conclusion is based on the following criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> <li>• the organisation has proper arrangements in place for securing financial resilience;</li> <li>• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul> <p>Our work will be based on a risk assessment to identify areas of risk to our VfM conclusion. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p>	February - September 2015

# Rising to the Challenge

## Grant Thornton

This report published in December 2014 is the fourth in our series of annual reports on the financial health of local government.

Like previous reports it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010.

However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

# 2020 Vision

## Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV) our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to overcome these challenges.

Placed in the context of enhanced devolution following the Scottish independence referendum 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the lifetime of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios\* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

# Where Growth Happens

## Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given both nationally and locally as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It gives FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which has eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

# Best Practice in Local Government Savings

## Local government guidance

Grant Thornton and Shared Intelligence were commissioned by DCLG to undertake a national review of good practice in local government savings. The report has now been published at <https://www.gov.uk/government/publications/good-practice-in-local-government-savings>

This report examines how local authorities are making savings that do not adversely impact upon frontline services or the voluntary sector. The study involved an online survey of local authorities, follow-up telephone interviews and 10 in-depth case studies.

Authorities reported that the service areas in which they have made the most significant savings to date were central services, adult social care and environmental and regulatory services. Looking forward they envisage that fewer savings are likely to be achieved in central and environmental and regulatory services, that adult social care will remain important and that children's services will become increasingly important. Councils reported that they have used a combination of approaches to achieve savings, of which the top three were changes to organisational structure, process and back office improvements and service re-design.

The main areas in which districts report having pursued savings are in central services and environmental and regulatory services. District councils are comparatively successful in achieving budgeted savings, having typically over-achieved in relation to these two main areas. Shared services and collaboration with other councils is a far more significant approach for securing savings for districts than it is for other types of council. Improved contracting is also significant. Given the nature of the services districts provide, this looks set to continue.

Effective corporate and political leadership was cited by the councils that responded to the survey as the most important enabling factor in securing savings, as well as the council having established a culture of securing savings and delivering change more generally. Overall the report identifies six attributes of effective local government savings and efficiency programmes. These are;

- high quality, sustained leadership: both political and managerial
- close partner engagement: including co-design with local communities and business partners;
- effective governance and programme management: including clarity about the scope of the project
- paying attention to culture and ways of working
- community responsiveness
- being part of a longer journey: projects at the ambitious end of the spectrum are not a quick fix.

# Auditing the Accounts

## Local government guidance

The Audit Commission has published "Auditing the Accounts 2013/14: Local government bodies". This report summarises the results of auditors' work for 2013/14 at principal local government bodies and small bodies. It covers the timeliness and quality of financial reporting and summarises:

- auditors' work on the 2013/14 financial statements;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2013; and
- the key financial reporting challenges facing bodies for 2014/15 and beyond.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Sixteen principal local government bodies received an unqualified audit opinion by 31 July 2014 and published their audited accounts promptly. At the date of preparing the report there were no qualified audit opinions on principal bodies' 2013/14 accounts. The majority of small bodies (89 per cent of parish councils and 84 per cent of internal drainage boards) received an unqualified opinion on their 2013/14 annual return by 30 September.

The Audit Commission notes that since the publication of the first "Auditing the Accounts report" for 2008/09 there has been a significant improvement in the performance of both principal and small bodies in meeting their financial reporting responsibilities.

# Managing Council Property Assets

## Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate.



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

26 January 2015

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Information

#### 1 GRANT CERTIFICATION WORK 2013/14

This report summarises the findings from the certification by Grant Thornton of the 2013/14 housing benefit subsidy claim. The report of the external auditors is attached at [Annex 1].

#### 1.1 Housing Benefit Subsidy Claim

1.1.1 For the year 2013/14, the Council's gross expenditure for Housing Benefit totalled £34.6 million. By way of comparison, this level of expenditure represents around 40% of gross expenditure of the Council as a whole.

1.1.2 The majority of this expenditure is met by monthly instalments paid to the Council by the Department for Work and Pensions (DWP), based on initial and mid-year estimates provided by the Council.

1.1.3 A final claim is submitted to the DWP at the end of the financial year including a balancing sum. This sum is the difference between the amount the Council has received through the year based on estimates and the subsidy due based on actual expenditure. The balance owed to the Council to the DWP in 2013/14 was £3,567.

The claim is subject to audit carried out by an auditor appointed by the DWP, in our case Grant Thornton on behalf of the Audit Commission. Any weaknesses or errors identified during the inspection are reported to the DWP in a letter from the auditor. The term 'qualification' is used for any issues reported in the letter.

#### 1.2 Legal Implications

1.2.1 These are mandatory services administered at a level compliant with the legislation and satisfying these inspections.

### **1.3 Financial and Value for Money Considerations**

1.3.1 The invoiced fee for certification work for 2013/14 was £24,112 as per the estimate supplied by Grant Thornton with their fees earlier in the year.

### **1.4 Risk Assessment**

1.4.1 The report highlights the recommendations arising from the certification work and the subsequent actions agreed with officers.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation



# Certification report 2013/14 for Tonbridge & Malling Borough Council

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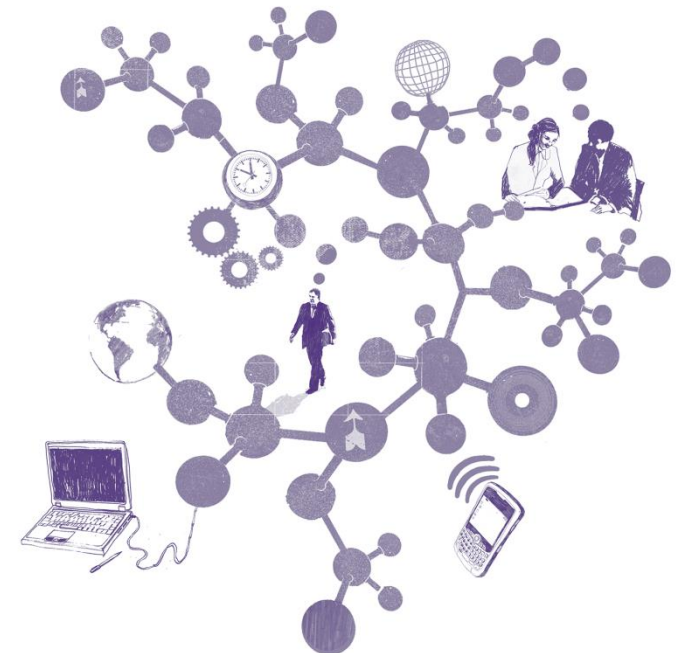
**Year ended 31 March 2014**

January 2015

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# Section 1: Summary of findings

01. Summary of findings

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# Summary of findings

## Introduction

We are required to certify certain claims and returns submitted by Tonbridge & Malling Borough Council ('the Council'). Auditor certification is an important part of the process to confirm the Council's entitlement to funding.

This report summarises the outcomes from our certification work for 2013/14.

## Approach and context to certification

Certification arrangements are prescribed by the Audit Commission, which agrees the scope of the work with the relevant government department or agency and issues auditors with a Certification Instruction (CI) for each claim or return.

The Audit Commission also requires auditors to report the outcomes of certification work to those charged with governance.

In 2013/14 only one claim required auditor certification at Tonbridge & Malling BC. This was the Council's claim for Housing Benefit Subsidy, based on total expenditure (benefit granted) of £34.6m.

## Key messages

The Council's draft and final audited claims for Housing Benefit Subsidy were submitted within the deadlines specified by the Department for Work and Pensions (DWP).

Officers provided clear working paper trails to support the draft claim. Additional working papers were provided to support detailed audit testing.

Officers had taken appropriate action to implement the agreed recommendations arising from our 2012/13 certification work.

A number of amendments were agreed to the draft claim prior to certification. The aggregate impact was to increase the amount of subsidy claimed by £3567. We reported a number of other issues to DWP in a qualification letter. Further information on the outcomes from our certification work is provided at Appendix A.

## **Certification fees**

The Audit Commission sets an indicative scale fee for certification work at each audited body. For the Council the 2013/14 indicative scale fee for the housing benefit subsidy claim reported in our audit plan of March 2014 was £27,400. The Audit Commission has now reduced indicative fees for the certification of the housing benefit subsidy claim by 12 per cent to reflect the removal of council tax benefit from the scheme. This gives a revised indicative scale fee of £24,112.

We are not proposing any changes to the Audit Commission's indicative scale fee.

Further information on our certification fee is included at Appendix B.

## **The way forward**

We set out recommendations arising from our certification work at Appendix C.

## **Acknowledgements**

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation with our 2013/14 certification work.

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**January 2015**

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Appendices



# Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim)	Amended?	Amendment	Qualified?	Comments
Housing benefit subsidy claim	£34,365,279	Yes	+ £3,567	Yes	<p><b>Overall approach</b>                      The Audit Commission certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Where errors are identified then an additional sample of claims is tested for the issue giving rise to the error.</p> <p>Where the impact of errors can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then the issue is reported to DWP using a qualification letter.</p> <p><b>Rent rebates: Misclassification of expenditure</b>                      Our previous year work identified a number of cases where;</p> <ul style="list-style-type: none"> <li>- expenditure relating to short-term leased or self-contained accommodation had been incorrectly classified</li> <li>- the LHA rate used in the calculations was incorrect.</li> </ul> <p>The net impact was to underclaim subsidy by £7775. We reported these issues in our 2012/13 qualification letter.</p> <p>The Council agreed with DWP that the subsidy underclaimed would be recovered by way of an amendment to the 2013/14 claim.</p> <p>Changes to the Council's processes to address these issues were introduced from December 2013. However, officers recognised that similar errors could have occurred in the 2013/14 claim year prior to the changes being introduced.</p>

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# Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim) (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim					<p>Our 2013/14 sample testing of rent rebate cases identified six cases where similar errors had occurred in the period prior to December 2013. The Council therefore reviewed all relevant cases for 2013/14. This work identified 37 cases where expenditure had been misclassified. For all cases the impact was to underclaim subsidy. The Council estimates that the aggregate amount underclaimed for 2013/14 is £15,317. This has been reported in our qualification letter.</p> <p><b>Rent rebates: Payments made by the Housing Department</b>                      For homeless claimants the Council's Housing department effectively acts as "landlord" and funds are transferred from the benefit section. We identified that some overpayments in these cases had been incorrectly treated. Officers reviewed all relevant cases and identified 15 claims where an adjustment was required. The net impact of the claim amendment was to reduce subsidy payable by £4216.</p> <p><b>Rent allowances: Self-employed income</b>                      Testing of an initial sample of 20 benefit cases identified one error in the calculation of self-employed income due to the treatment of allowable expenses. Testing for an additional sample of 40 cases identified a further seven cases where the same error had occurred. The aggregate effect of the errors was to underpay benefit by £3196. However, there was no impact on subsidy, as subsidy cannot be claimed on benefit that has not been awarded.</p>

# Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim) (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim  Page 179					<p><b>Rent allowances: Classification of overpayments</b>                      Testing of an initial sample of 20 benefit cases identified two cases where overpayments had been incorrectly classified. Testing for an additional sample of 40 cases identified one further case where the same error had occurred. The issue has been reported in our qualification letter. The net impact extrapolated for subsidy purposes was to move £23565 from a cell paying 40% subsidy to a cell paying nil % subsidy.</p>

## Appendix B: Fees

Claim or return	2012/13 fee	2013/14 indicative fee	2013/14 actual fee	Variance year on year	Explanation for significant variances
	£	£	£	£	
Housing benefits subsidy claim	24,540	24,112	24,112	(428)	Reduction as council tax subsidy removed from scheme. Continuing volume of work associated with error issues.
National non-domestic rates return (NNDR3)	2,640	0	0	(2,640)	Auditor certification of NNDR3 return not required for 2013/14.
<b>Total</b>	27,180	24,112	24,112	(3,068)	

# Appendix C: Action plan

**Priority**

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<b>Housing and council tax benefit subsidy scheme</b>			
	Officers should consider the nature of the errors identified from certification testing and take action on any training or supervisory issues identified to help reduce errors in future years.	Medium	Officers have considered the nature of the errors identified from certification testing. Sample or full testing of relevant cell entries will take place on an ongoing basis. Training needs have been identified relating to overpayments and self-employed income assessments.	Cell testing throughout financial year. Overpayment training for all assessment and overpayment staff completed in November. Self-employed claims training to be arranged.  A Rosevear, Principal Benefits Officer
2	Benefit records for individual claimants should be amended in the current year for all errors identified from 2013/14 certification testing.	Medium	Individual claim records to be amended where appropriate.	Completed.  A Rosevear, Principal Benefits Officer

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# Agenda Item 14

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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# Agenda Item 15

The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

**ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT  
INFORMATION**

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# Agenda Item 16

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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