

# 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)

12 January 2018

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, 22nd January, 2018 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

## A G E N D A

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To confirm as a correct record the Minutes of the meeting of Audit Committee held on 4 September 2017

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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.

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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**

17. Urgent Items

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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 M C Base (Vice-Chairman)

Cllr T Bishop  
Cllr T Edmondston-Low  
Cllr B T M Elks  
Cllr S R J Jessel

Cllr Mrs F A Kemp  
Cllr S C Perry  
Cllr B W Walker

Apologies for absence

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Declarations of interest

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## TONBRIDGE AND MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 4th September, 2017

**Present:** Cllr V M C Branson (Chairman), Cllr M C Base (Vice-Chairman), Cllr T Bishop, Cllr B T M Elks, Cllr Mrs F A Kemp and Cllr B W Walker

Grant Thornton, External Auditors: Ms S Ironmonger (Engagement Lead) and Mr R Lawson (Audit Manager)

Councillors Mrs J A Anderson, O C Baldock, M A Coffin, N J Heslop, D Lettington, M R Rhodes, H S Rogers and T C Walker were also present pursuant to Council Procedure Rule No 15.21.

Apologies for absence were received from Councillors T Edmondston-Low, S R J Jessel and S C Perry

### PART 1 - PUBLIC

#### **AU 17/40 DECLARATIONS OF INTEREST**

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

#### **AU 17/41 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 3 July 2017 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE CABINET

#### **AU 17/42 STRATEGIC RISK REGISTER**

The report of the Management Team presented the 'final' version of the Strategic Risk Register which had been reviewed and updated to align with the new Corporate Strategy. Members were reminded that, as the register was considered to be a live document, it would be updated as and when required with periodic reporting to the Audit Committee together with the more formal annual review.

**RECOMMENDED:** That the Strategic Risk Register be commended to the Council.

#### **AU 17/43 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW**

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April to July

of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2017/18 was also presented.

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

- (1) the action taken by officers in respect of treasury management activity for April to July 2017 be endorsed;
- (2) the progress made in respect of property fund investments 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 17/44 EXTERNAL AUDITORS REPORT ON OUTCOME OF AUDIT OF STATEMENT OF ACCOUNTS 2016/17**

The report of the Director of Finance and Transformation presented the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2016/17. The Engagement Lead for the Council's external auditor (Grant Thornton UK LLP) advised that she intended to issue an unqualified audit opinion on the financial statements and value for money conclusion and commended the Council for a good set of accounts.

**RESOLVED:** That

- (1) the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2016/17, as set out at Annex 1 to the report, be approved;
- (2) the Chairman of the Audit Committee and the Director of Finance and Transformation be granted delegated authority to countersign the Letter of Representation, as set out at Annex 2 to the report, when Grant Thornton are ready to issue their opinion; and
- (3) the Chairman be requested to sign the Accounts in the appropriate place.

**AU 17/45 CONSULTATION ON AUDITOR APPOINTMENT FROM 2018/19**

The report of the Director of Finance and Transformation set out details of the consultation by Public Sector Audit Appointments Limited on the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19.

**RESOLVED:** That the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19 be endorsed.

**MATTERS SUBMITTED FOR INFORMATION**

**AU 17/46 INTERNAL AUDIT AND COUNTER FRAUD UPDATE**

The report of the Chief Audit Executive provided an update on the work undertaken by the Internal Audit and the Counter Fraud functions for the period April to August 2017.

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

**AU 17/47 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 17/48 INSURANCE CLAIMS HISTORY: APRIL - JULY 2017**

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

The report of the Director of Finance and Transformation provided details of the nature and volume of liability and property damage insurance claims submitted during the period April 2017 to July 2017.

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

The meeting ended at 8.27 pm

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

#### Report of the Management Team

#### Part 1- Public

#### Matters for Recommendation to Council

#### 1 RISK MANAGEMENT STRATEGY

**This report asks Members to review the Risk Management Strategy and to recommend its endorsement by Full Council.**

**Further, it asks Members to note the resourcing pressures in respect of the risk 'Emergency Planning' and adds a new strategic risk in relation to potentially contaminated land.**

#### 1.1 Introduction

1.1.1 The Risk Management Strategy sets out the Council's risk management objectives and details the roles and responsibilities of officers, Members and the Council's partners in the identification, evaluation and cost-effective control of risks.

1.1.2 The Council's risk management arrangements are designed to ensure that risks are reduced to an acceptable level or, where reasonable, eliminated thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community. Examples of risk include budget deficit, cyber/data loss, environmental and reputational.

1.1.3 The Council endeavours to pursue a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements, i.e. Constitution, Procedural Rules, etc. These arrangements will serve to ensure that the Council does not expose itself to risks above an acceptable level.

#### 1.2 Review of the Risk Management Strategy

1.2.1 As part of arrangements in place to ensure risk management maintains a high profile within the Council, the Strategy is subject to annual review and endorsement through the Audit Committee, Cabinet and Council.

- 1.2.2 The Risk Management Strategy, together with the Risk Management Guidance, was reviewed and substantially updated this time last year and this latest review found that no changes were required to the Strategy. The Guidance required minor changes to the Risk Management flow chart at Section 3 and to paragraphs 7.3 and 7.4 to better reflect the current escalation process.
- 1.2.3 A copy of the current Risk Management Strategy and Risk Management Guidance is attached at **[Annex 1]** and **[Annex 2]** respectively.

### **1.3 Risk Management Process**

- 1.3.1 The risk management escalation process referred to at 1.2.2 has been implemented following approval of the Strategic Risk Register by the Cabinet and Council in October 2017. It is proposed that this Committee will receive reports on outcomes from the process bi-annually in July and January. Reporting will commence from July 2018 as the process is at a relatively early stage at this time.
- 1.3.2 With regard to the Strategic Risk Register, however, there are two matters to draw to Members' attention at this stage.
- 1.3.3 Firstly, the identified risk 'Emergency Planning', which is presently coloured 'amber' in the Risk Register, is the subject of particular focus at this time. As Members will be aware, there are ongoing, and indeed increasing, resourcing pressures for the Council to respond to emergency situations within the context of the Civil Contingencies Act. Management Team are of the view that the risk of not being able to respond appropriately may increase if those resourcing pressures are not addressed in the near future. Members are advised that it is the intention of Management Team to report to the next General Purposes Committee in respect of resourcing requirements.
- 1.3.4 Secondly, a new strategic risk has been identified relating to the monitoring of potentially contaminated land in respect of the Council's duties and responsibilities under the Environmental Protection Act 1990 which will be added to the Strategic Risk Register at its next iteration. A report on this particular issue will be brought to the Street Scene and Environment Advisory Board.

### **1.4 Legal Implications**

- 1.4.1 There is a Health and Safety requirement for effective risk management to be in place and the Strategy supports this requirement.

There is also a requirement in the Accounts and Audit Regulations that accounting control systems must include measures to ensure that risk is appropriately managed.

## 1.5 Financial and Value for Money Considerations

1.5.1 Effective risk management arrangements make a positive contribution to ensuring value for money is provided in the delivery of services.

## 1.6 Risk Assessment

1.6.1 Sound risk management arrangements aid the Council in effective strategic decision-making. The Council's approach to risk should be reviewed on a regular basis to ensure it is up to date and operating effectively.

## 1.7 Equality Impact Assessment

1.7.1 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.

## 1.8 Recommendations

1.8.1 Members are asked to:

- 1) **Review** the Risk Management Strategy and subject to any amendment required to **recommend** to Cabinet for adoption by Council;
- 2) **Note** the impact of ongoing resourcing pressures to respond in respect of the identified risk 'Emergency Planning' and the intention to report to the next meeting of the General Purposes Committee as to resourcing requirements; and
- 3) **Note** the emergence of a new strategic risk in respect of the monitoring of potentially contaminated land which will be added to the Strategic Risk Register in due course.

Background papers:

contact: Samantha Buckland

Nil

Julie Beilby  
Chief Executive

Sharon Shelton  
Director of Finance and Transformation  
on behalf of the Management Team

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# RISK MANAGEMENT STRATEGY



January 2018

## **1. Introduction**

- 1.1. The risk management strategy of Tonbridge and Malling Borough Council (the Council) is to adopt best practices in the identification, evaluation, and cost-effective control of risks. This is intended to ensure that risks are reduced to an acceptable level or, where reasonable eliminated, thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community.
- 1.2. The Council endeavours to pursue a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements, i.e. Constitution, Procedural Rules, etc. These arrangements will serve to ensure that the Council does not expose itself to risks above an acceptable level.

## **2. Mandate and commitment**

- 2.1. This strategy is supported and endorsed by the Management Team and Members of the Audit Committee who will ensure that:
  - The risk management objectives are aligned with the objectives and strategies of the Council
  - The Council's culture and risk management strategy are aligned
  - The necessary resources are allocated to risk management
  - There is a commitment to embedding risk management throughout the organisation, making it a part of everyday service delivery and decision making
  - The framework for managing risk continues to remain appropriate

## **3. Applicability**

- 3.1. This strategy applies to the whole of the Council's core functions. Where the Council enters into partnerships the principles of risk management established by this strategy and supporting guidance should be considered as best practice and applied where possible. We would also expect that our significant contractors have risk management arrangements at a similar level, and this should be established and monitored through procurement processes and contract management arrangements.

## **4. Objectives**

- 4.1. The risk management objectives of the Council are to:
  - Embed risk management into the culture of the Council
  - Apply best practice to manage risk using a balanced, practical and effective approach
  - Manage risks in line with its risk appetite, and thereby enable it to achieve its objectives more effectively

- Integrate the identification and management of risk into policy and operational decisions, anticipating and responding proactively to social, environmental and legislative changes and directives that may impact on delivery of our objectives
- Eliminate or reduce the impact, disruption and loss from current and emerging events
- Harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes
- Ensure effective intelligence sharing and collaboration between risk management disciplines across all Council activities
- Ensure fraud risks are proactively considered and embedded into the organisation's risk management arrangements
- Benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge; demonstrate a consistent approach to the management of risks when embarking on significant change activity
- Ensure sound and transparent risk management arrangements are operated in partnership and commissioner / provider situations, underpinned by a culture that supports collaboration and the development of trust, ensuring clear effective lines of communication and the management of relationships.

4.2. The Council shall delegate responsibility to an appropriate officer who shall maintain a programme that sets out the delivery of this strategy, with delivery being assured by the Management Team.

## 5. Roles and responsibilities

- 5.1. Responsibility for risk management runs throughout the Council; everyone has a role to play. Managers and staff that are accountable for achieving an objective are accountable for managing the risks to achieving it. To ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified, see table at 5.3 below.
- 5.2. Other officer groups' deal with related risk specialisms such as Health and Safety; Treasury Management; Emergency Resilience and Business Continuity; Insurance; Information Security; Anti-fraud and corruption etc. These groups are linked into the governance arrangements of the Council so that their work is co-ordinated within the Council's overall risk management framework.
- 5.3. In order to support Members and Officers with their responsibilities, risk management guidance is available.

<b>Group or Individual</b>	<b>Responsibilities</b>
Full Council	Council approval of the Risk Management Strategy will be witnessed by the signature of the Leader of the Council.
Audit Committee	The Chairman of the Audit Committee will take a lead role in promoting the application of sound risk management practices across the Council.  Training will be provided periodically for all Audit Committee members.

	<p>The Audit Committee will consider the Risk Management process as part of the assurance evidence in support of any Corporate Governance Statement.</p> <p>The Audit Committee will provide independent assurance of the adequacy of the risk management framework and will monitor the effective development and operation of risk management in the Council.</p>
Committees	<p>Responsibility for considering risk when making decisions on behalf of the Council.</p> <p>Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability.</p> <p>Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.</p>
Advisory Boards	<p>Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability.</p> <p>Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.</p>
Chief Executive	<p>Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.</p> <p>Also responsible for counter-signing the Risk Strategy.</p>
Section 151 Officer	<p>Active involvement in all material business decisions to ensure immediate and longer term financial implications, opportunities and risks are fully considered.</p>
Management Team (MT)	<p>To ensure the Council manages risks effectively and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register.</p> <p>Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme.</p> <p>Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability.</p> <p>Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.</p> <p>Delegate the development and delivery of appropriate training to support the implementation of this policy for Members and Officers.</p>
Service Management Teams (SMT)	<p>Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Management Team as appropriate.</p> <p>Briefing sessions will be provided on an as and when basis to senior management.</p>
Internal Audit	<p>Assesses the effectiveness of the risk management framework and the control environment in mitigating risk.</p> <p>Review and challenge risk management arrangements through its audit and fraud prevention activities.</p>
All elected	<p>Identify risks and contribute to their management as appropriate.</p>

Members and staff members	Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.
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## 6. Review of this strategy

- 6.1. It is the responsibility of the Audit Committee to: ‘On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.’ Internal Audit will support their role in assuring its effectiveness and adequacy.
- 6.2. Information from Internal Audit and from other sources will be used to inform recommended changes to the strategy and framework at least annually. Any changes will be presented to the Audit Committee for approval before publication. The Strategy was last reviewed in January 2018 and will be reviewed next in January 2019.

## 7. Approval

Signed: \_\_\_\_\_ Print Name: Nicolas Heslop

Date: \_\_\_\_\_ Position: Leader of the Council

Signed: \_\_\_\_\_ Print Name: Julie Beilby

Date: \_\_\_\_\_ Position: Chief Executive

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**TONBRIDGE AND MALLING BOROUGH COUNCIL**  
**RISK MANAGEMENT GUIDANCE**

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**TONBRIDGE AND MALLING BOROUGH COUNCIL**  
**RISK MANAGEMENT GUIDANCE**

## **1. Introduction**

- 1.1. Tonbridge and Malling Borough Council (the Council) has an approved Risk Management Strategy (the Strategy) and this guidance should be read in conjunction with this Strategy. The aim of this guidance is two-fold; to specify how the Council will deliver its objectives as outlined in the Strategy, and provide guidance on how to effectively manage risk.

## **2. Achieving strategy objectives**

- 2.1. The Council shall achieve its objectives, as outlined in the Strategy, through:
- Integrating effective risk management practices into the Council's management, decision making and planning activities.
  - Maintaining common links between business planning, performance and risk management.
  - Maintaining the frequency and effectiveness of monitoring of key risks.
  - Providing a mix of risk management training, awareness sessions and support for both Officers and Members of the Council.
  - Ensuring links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the Council.
  - Subjecting the Council's risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity.
  - Ensuring risk management arrangements are embedded within transformation activity.
  - Providing continuous challenge and quality assurance to all elements of the risk management process.
  - Focusing on robust monitoring of mitigating actions to ensure that risks, once identified and assessed, are appropriately managed.
  - Working collaboratively with partners and providers (both internal and external) to develop effective risk ownership and risk sharing arrangements; striking a proportionate balance of oversight of risks of providers / partners without being over-constrictive.
  - Providing guidance on identifying, assessing, managing and reporting on risk, including escalation of risks.

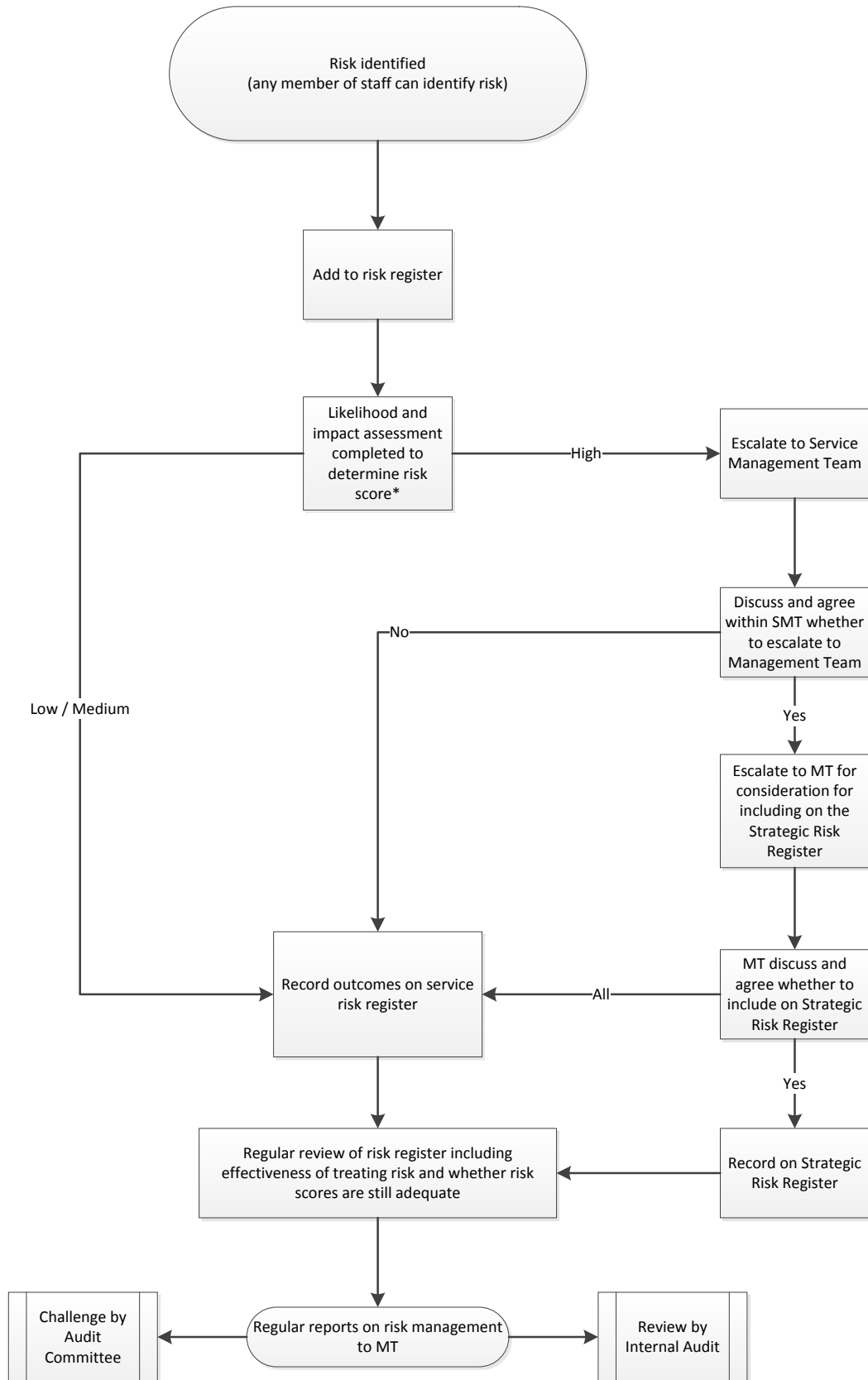
## **3. Risk management at a glance**

- 3.1. The following process flow visually demonstrates the risk management process.



# TONBRIDGE AND MALLING BOROUGH COUNCIL

## RISK MANAGEMENT GUIDANCE



\* A risk assessment form is available at [http://www.tonbridgeandmalling.gov.uk](#) which can be used to help this part of the process

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**4. Identifying risks**

- 4.1. Risk is something that might happen, which if it materialises will affect us in some way or other. A risk is a combination of ‘likelihood’ and ‘impact’, that is; how likely the risk is to happen and if it did how much would it affect us. As soon as a risk is identified it should be recorded on the Risk Register, see Appendix A. This Register should be continually updated to demonstrate assessment, evaluation, treatment and ongoing review.
- 4.2. Before we can evaluate the level of risk associated with an activity we have to determine what is most likely to trigger the risk or initiate its occurrence and assess what the consequences may be if it did occur i.e. identify the risk event.
- 4.3. Risk assessment looks to determine the key triggers and causes and the likely consequences and impact. Once these are established we can use the assessment to gauge the likelihood of occurrence and impact of the consequences to determine the severity or level of risk.

**5. Assessing risks**

- 5.1. Identified risks need to be assessed so that they may be evaluated to determine their severity and to present an overall picture of the extent of the combined risks on the achievement of the objectives. The Council recognises 3 levels of risk:

LOW	MEDIUM	HIGH
1 – 4	5 – 12	15 – 24

- 5.2. The scoring of risks will be carried out using a Likelihood & Impact matrix, see table below with accompanying definitions.

<b>Likelihood</b> ↕	Almost inevitable	6	6 Medium	12 Medium	18 High	24 High
	Very likely	5	5 Medium	10 medium	15 High	20 High
	Likely	4	4 Low	8 Medium	12 Medium	16 High
	Unlikely	3	3 Low	6 Medium	9 Medium	12 Medium
	Very Unlikely	2	2 Low	4 Low	6 Medium	8 Medium
	Almost impossible	1	1 Low	2 Low	3 Low	4 Low
			1	2	3	4
<b>Impact</b> ↗			Negligible	Marginal	Significant	Critical

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- 5.3. Each risk identified and recorded may be broken down into its component parts using a Risk Assessment Form – see Appendix B.
- 5.4. The source/cause, risk event and consequences should be listed, together with any controls or actions and their owners. Such controls and actions are used to mitigate the risk level and should be described in a clear and specific manner to enable stakeholders to gain sufficient understanding of them.
- 5.5. Risk assessments should be used to assess the level of risk associated with the objective and inform the process for refreshing risk registers. In some cases, where the details of risks are clear, key risk information can be entered straight onto risk registers.
- 5.6. Key project and partnership risks should be included within this process as they will have their sources of origin in business objectives.

## **6. Evaluating risks**

- 6.1. From the information collated and recorded when assessing the risk it should be possible to estimate and distinguish how likely the risk is to happen – Almost inevitable, very likely, likely, very unlikely, almost impossible. Similarly, from the information collated and recorded it should be possible to distinguish the level of impact the risk would have if the risk occurred now – Negligible, Marginal, Significant or Critical.

For example:

- A risk with an “unlikely” likelihood (3) and “critical” impact (4) would equate to a “Medium” risk level with a score of 12 (3 x 4).
  - A risk that is judged to be “likely” (4) and have a “negligible” impact (1) would equate to a “Low” risk level with a score of 4 (4 x 1).
- 6.2. When determining the risk rating, bear in mind that it is not an exact science. Without significant historical data or mathematical prediction it is, for the most part, a subjective but important estimate. Appendix C provides a couple of guides to help you to estimate likelihood; one in the form of a cross reference table and the second a decision chart.
  - 6.3. For reference, the initial result of an evaluation is known as the ‘inherent risk’, which refers to the exposure arising from a specific risk *before* any action has been taken to manage it. Due to the fact that determining the inherent risk can seem a rather theoretical exercise, there is not a requirement to include this as part of the risk assessment process. The focus is instead on assessing the current level of risk, taking controls in place into account, and setting a realistic target level of risk that you would wish to manage the risk down to.

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## **7. Escalating risks**

- 7.1. It is not uncommon for risks to have knock-on effects for other activities across a risk perspective or in another risk perspective, for example a risk in one operational (perspective) area may be a source of risk to another; similarly a high level risk in a project perspective may need to be highlighted and considered at a strategic perspective.
- 7.2. It is essential that we understand risks and their potential to have knock-on effects. It is equally important that we set out clear rules for escalation of risks.
- 7.3. Any risk evaluated as 'High Risk' (score of 15 or above) will be deemed by the Council to be beyond 'risk tolerance' and to have exceeded its 'risk appetite' and will be escalated immediately. Such risks should be added to the service's risk register and discussed at the earliest opportunity within the Service Management Team (SMT) to inform a decision as to whether this should be escalated to Management Team (MT) by the respective Service Director. Management Team should then consider whether the risk is significant enough for inclusion in the Strategic Risk Register and action this if relevant. A record should be maintained of all 'High' risks discussed at SMTs and MT and the outcome of those discussions.
- 7.4. Similarly risks identified as "Medium Risk" may be escalated to the appropriate Service Management for advice and to ensure they are kept fully aware of the current risks being faced. Risks determined as "Low Risk" should be managed within the service team. It is recommended that SMTs consider periodic review or moderation processes for Service Risk Registers to ensure they are happy with the scores risks have been given and confirm whether there are 'Medium' or 'Low' risks they wish to consider further.
- 7.5. Where 'High' risks are identified in Project and Programme Risk Registers the Project / Programme Manager must check its impact on the relevant division or directorate risk registers.
- 7.6. The target residual rating for a risk is expected to be 'Medium' or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.
- 7.7. There may be rare occasions where a risk is deemed to be well within risk appetite and therefore could be seen as over-controlled. In this instance a target level of risk could be set that is higher than the current level, as long as it remains within risk appetite.

## **8. Proximity of risk**

- 8.1. Some risks identified may pose an immediate risk whereas others may not be a risk for several months or even years. Establishing risk 'proximity' adds an

**TONBRIDGE AND MALLING BOROUGH COUNCIL**  
**RISK MANAGEMENT GUIDANCE**

additional dimension especially when planning and prioritising resources to deal with risk actions.

8.2. Proximity may be categorised as follows:

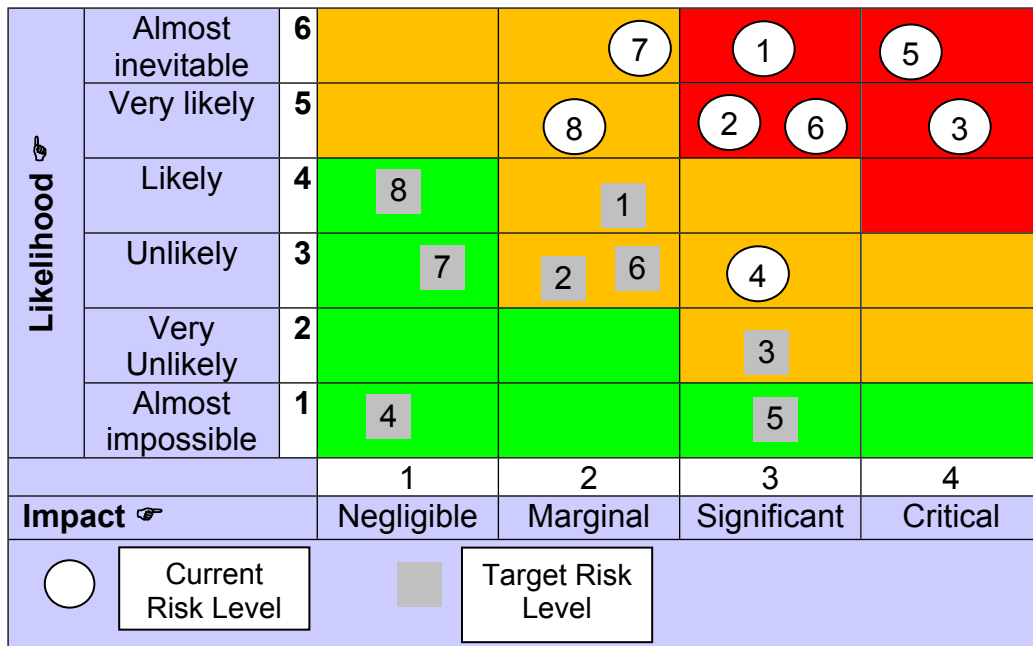
- Immediate – Risk likely to occur / most severe within the next 6 months
- Medium Term - Risk likely to occur / most severe between 6 to 12 months
- Long Term - Risk likely to occur / most severe 12 months plus

**9. Summary risk profile**

9.1. A summary risk profile is a simple mechanism to increase the visibility of risks. It is a graphical representation of information normally found on an existing risk register.

9.2. It provides a powerful visual snapshot of the collective risk associated with the activity. The summary risk profile makes use of the chart in figure 1 above to plot each of the risks identified. The example below gives an example of a completed Summary Risk Profile.

9.3. Example - Completed Summary Risk Profile



9.4. In the example, the risk numbers (in white circles) are plotted to show their current risk levels for a series of 8 risks. It suggests that the activity is fairly high risk overall.

9.5. Again, in the example, the risk numbers (in grey squares) are plotted to show the target risk levels for the series of 8 risks. These show the effect that the risk controls and actions should have on the risks if they were successfully applied and completed.

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9.6. Overall it demonstrates how an activity that carries a degree of high risk and potential failure could be made more acceptable. On a cautionary note, the effort and resources to be expended on managing the risk need to be re-factored into plans to ensure the activity in question remains a viable one.

## **10. Allocating risks and determining actions**

10.1. All risks, no matter how they are assessed, should be allocated an owner. The owner shall be responsible for managing the risk to ensure it is appropriately treated. The level of risk will determine who the owner should be:

- High Risk – Management Team
- Medium Risk – Service Management Team
- Low Risk – Head of Service

10.2. Once a risk has been identified, assessed and evaluated, it's important that actions are determined to treat the risk. The extent of any actions will be driven by a number of factors including the overall risk score, risk appetite and desired risk score. All actions should be documented on the Risk Assessment Form.

## **11. Monitoring Risks**

11.1. Risks should be continuously monitored, as unmanaged risks can prevent the Council from achieving its objectives. The extent of monitoring will be driven by the risk rating. For example a risk assessed as High would require more frequent monitoring than a risk assessed as Low.

11.2. As a minimum it is good practice to monitor risks formally on a quarterly basis and record sufficient evidence of this.

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**Appendix A - Risk Register**

Area \_\_\_\_\_

No	Risk Title	Consequences	Date identified	Likelihood Score	Impact score	Overall inherent risk score	Risk Assessment form completed?	Desired risk score	Mitigating actions to achieve desired risk score	Links to Corporate Objectives / Directorate Business Plans	Risk Owner	Review Date

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**Appendix B - Risk Assessment Form**

<b>SECTION 1 – RISK</b>																																																												
<b>Risk Owner:</b>			<b>Service:</b>				<b>Directorate:</b>																																																					
<b>Risk Event:</b>			<b>Source/ cause:</b>				<b>Consequences:</b>																																																					
			<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <tr> <td rowspan="6" style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold;">Likelihood F</td> <td>Almost inevitable</td> <td style="font-weight: bold;">6</td> <td style="background-color: #ffc000;">6 Medium</td> <td style="background-color: #ffc000;">12 Medium</td> <td style="background-color: #ff0000;">18 High</td> <td style="background-color: #ff0000;">24 High</td> </tr> <tr> <td>Very likely</td> <td style="font-weight: bold;">5</td> <td style="background-color: #ffc000;">5 Medium</td> <td style="background-color: #ffc000;">10 medium</td> <td style="background-color: #ff0000;">15 High</td> <td style="background-color: #ff0000;">20 High</td> </tr> <tr> <td>Likely</td> <td style="font-weight: bold;">4</td> <td style="background-color: #00ff00;">4 Low</td> <td style="background-color: #ffc000;">8 Medium</td> <td style="background-color: #ffc000;">12 Medium</td> <td style="background-color: #ff0000;">16 High</td> </tr> <tr> <td>Unlikely</td> <td style="font-weight: bold;">3</td> <td style="background-color: #00ff00;">3 Low</td> <td style="background-color: #ffc000;">6 Medium</td> <td style="background-color: #ffc000;">9 Medium</td> <td style="background-color: #ffc000;">12 Medium</td> </tr> <tr> <td>Very Unlikely</td> <td style="font-weight: bold;">2</td> <td style="background-color: #00ff00;">2 Low</td> <td style="background-color: #00ff00;">4 Low</td> <td style="background-color: #ffc000;">6 Medium</td> <td style="background-color: #ffc000;">8 Medium</td> </tr> <tr> <td>Almost impossible</td> <td style="font-weight: bold;">1</td> <td style="background-color: #00ff00;">1 Low</td> <td style="background-color: #00ff00;">2 Low</td> <td style="background-color: #00ff00;">3 Low</td> <td style="background-color: #00ff00;">4 Low</td> </tr> <tr> <td colspan="2"></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> </tr> <tr> <td colspan="2" style="font-weight: bold;">Impact <input type="checkbox"/></td> <td></td> <td>Negligible</td> <td>Marginal</td> <td>Significant</td> <td>Critical</td> </tr> </table>				Likelihood F	Almost inevitable	6	6 Medium	12 Medium	18 High	24 High	Very likely	5	5 Medium	10 medium	15 High	20 High	Likely	4	4 Low	8 Medium	12 Medium	16 High	Unlikely	3	3 Low	6 Medium	9 Medium	12 Medium	Very Unlikely	2	2 Low	4 Low	6 Medium	8 Medium	Almost impossible	1	1 Low	2 Low	3 Low	4 Low				1	2	3	4	Impact <input type="checkbox"/>			Negligible	Marginal	Significant	Critical	<b>Likelihood score:</b> <b>Impact score:</b> <b>Overall risk score:</b> <b>Accepted?*</b>		
Likelihood F	Almost inevitable	6	6 Medium	12 Medium	18 High	24 High																																																						
	Very likely	5	5 Medium	10 medium	15 High	20 High																																																						
	Likely	4	4 Low	8 Medium	12 Medium	16 High																																																						
	Unlikely	3	3 Low	6 Medium	9 Medium	12 Medium																																																						
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			1	2	3	4																																																						
Impact <input type="checkbox"/>			Negligible	Marginal	Significant	Critical																																																						
							* If yes, provide rationale. * If no, go to Section 2.																																																					
<b>SECTION 2 – CONTROLS/ MITIGATING ACTIONS (copy this section for each control/ action)</b>																																																												
<b>Control/ Action Owner:</b>			<b>Service:</b>				<b>Directorate:</b>																																																					
<b>Control/ Action:</b>			<b>Dependencies:</b>				<b>Key Dates:</b>																																																					
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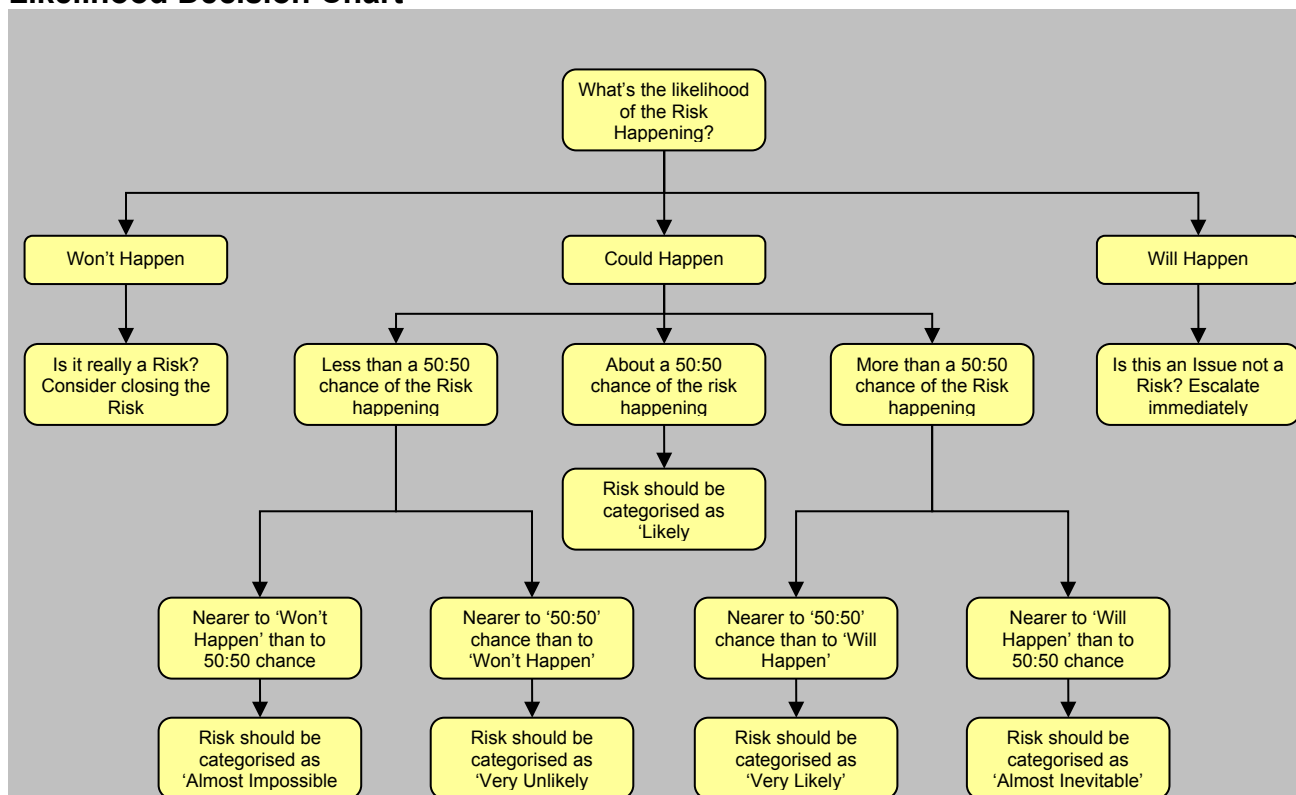
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**Appendix C - Determining Likelihood**

**Likelihood Cross Reference Table**

	Likelihood	Indicators
<b>Almost Inevitable</b>	<ul style="list-style-type: none"> <li>Almost certainly will occur</li> </ul>	<ul style="list-style-type: none"> <li>Regular occurrence</li> <li>Circumstances frequently encountered i.e. daily/weekly/monthly</li> <li>The risk is current &amp; is almost certain to happen within the next twelve months</li> </ul>
<b>Very Likely</b>	<ul style="list-style-type: none"> <li>More likely to occur than not</li> </ul>	<ul style="list-style-type: none"> <li>Likely to happen at some point within the next 1-2 years</li> <li>Circumstances occasionally encountered (once or twice a year)</li> </ul>
<b>Likely</b>	<ul style="list-style-type: none"> <li>Fairly likely to occur</li> </ul>	<ul style="list-style-type: none"> <li>Has happened in past</li> <li>Reasonable possibility it will happen within next 3 years</li> </ul>
<b>Very Unlikely</b>	<ul style="list-style-type: none"> <li>Unlikely to occur</li> </ul>	<ul style="list-style-type: none"> <li>May have happened in the past</li> <li>Unlikely to happen in 3+ years</li> </ul>
<b>Almost Impossible</b>	<ul style="list-style-type: none"> <li>Extremely unlikely or virtually impossible</li> </ul>	<ul style="list-style-type: none"> <li>Has happened rarely or never before</li> </ul>

**Likelihood Decision Chart**



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

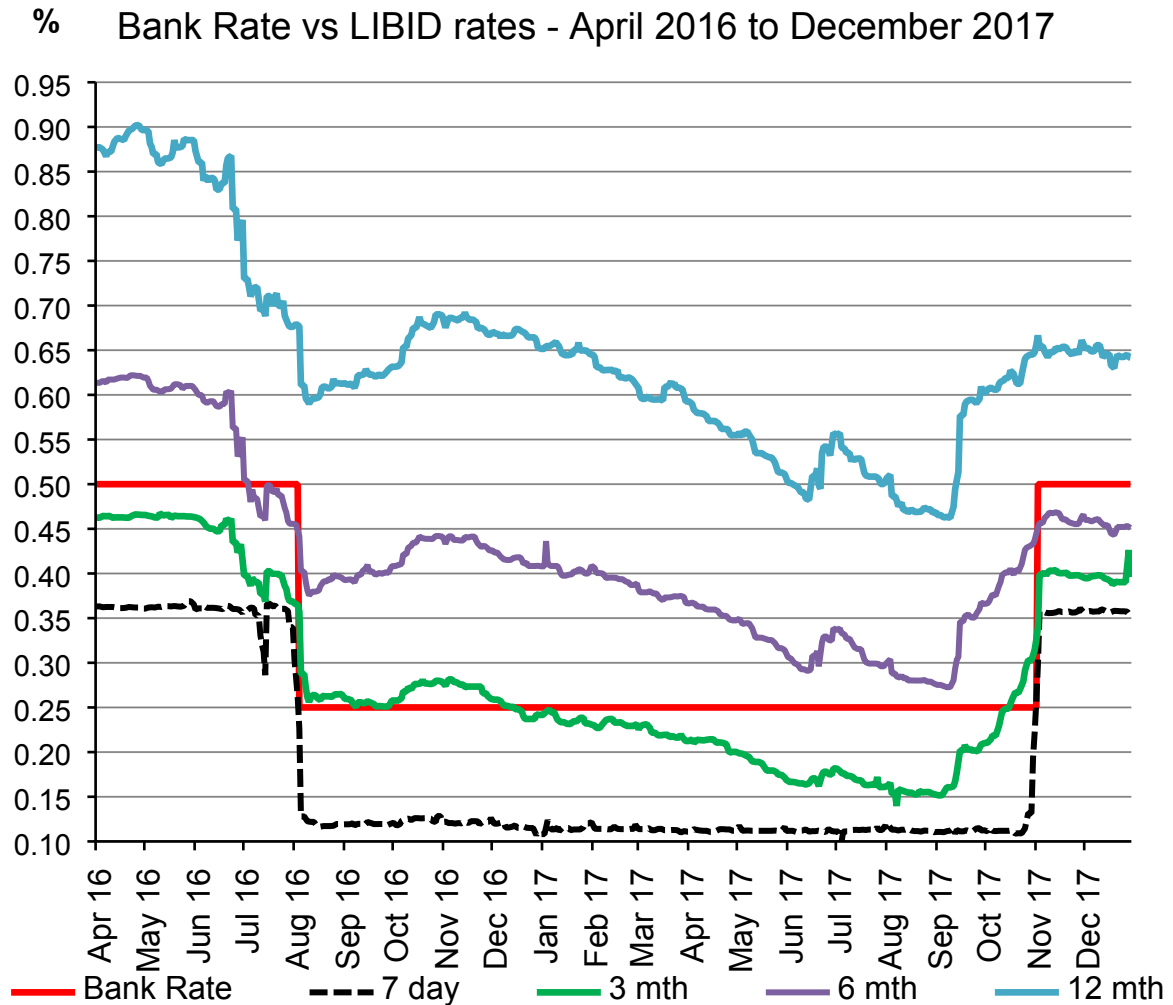
22 January 2018

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

#### Part 1- Public

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

- 1 **TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/19**
- 1.1 **The report provides details of investments undertaken and return achieved in the first nine months of the current financial year. The report explores the use of diversified income funds for medium term investment and recommends their inclusion in the 2018/19 Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.**
  - 1.1.1 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'.
  - 1.1.2 The Act also requires the Council to set out its Treasury Management Strategy 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.
- 1.2 **Treasury Management Update**
  - 1.2.1 Having satisfied security and liquidity requirements, the Council aims to optimise the yield on its investments. Since the 2008 financial crisis yields have been low reflecting the 0.5% Bank Rate introduced in March 2009. The Bank Rate having remained at 0.5% for seven years was reduced to 0.25% in August 2016. The reduction by the Bank of England was accompanied by other initiatives to help bolster economic activity which included 'Term Funding' for banks. In November 2017, the Bank of England returned the Bank Rate to 0.5%. The next rise in Bank Rate is not anticipated until the fourth quarter of 2018. The impact these measures have had on investment rates is demonstrated in the chart below.



Source: Link Asset Services

- 1.2.2 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.
- 1.2.3 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precept authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during the course of a financial year and are spent by financial year end. Thus far in 2017/18 cash flow surpluses have averaged £13.5m.
- 1.2.4 The Authority also has £22m of core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets. The core cash balance also includes some £6m (down from £8m at the start of the financial year) to meet

business rate appeals which are expected to be resolved in the latter part of 2017/18 and during 2018/19.

1.2.5 Long term investment comprises £3m in property fund investments.

1.2.6 A full list of investments held on 31 December 2017 is provided at **[Annex 1]** and a copy of our lending list of 2 January 2018 is provided at **[Annex 2]**. The table below provides a summary of funds invested and interest earned at the end of December.

	<b>Funds invested at 31 Dec 2017 £m</b>	<b>Average duration to maturity Days</b>	<b>Weighted average rate of return %</b>	<b>Interest earned April to December 2017</b>	<b>Gross annualised return %</b>	<b>LIBID benchmark (average since 1 April) %</b>
<b>Cash flow</b>	16.0	27	0.56	45,000	0.44	0.11 (7 Day)
<b>Core cash</b>	22.0	109	0.69	113,600	0.67	0.19 (3 Month)
<b>Sub-total</b>	<b>38.0</b>	<b>75</b>	<b>0.63</b>	<b>158,600</b>	<b>0.58</b>	<b>0.16 (Average)</b>
<b>Long term</b>	3.0			38,000	3.81	
<b>Total</b>	41.0					

*Interest on long term investments is based on dividends declared by the Local Authorities' Property Fund and the Lothbury Property Trust to end of December 2017. The Hermes Property Unit Trust dividend for the quarter October to December is not due to be declared until mid-February 2018.*

1.2.7 **Cash flow and Core Cash investments.** Interest earned of £158,600 from cash flow surpluses and core cash balances to the end of December is £63,900 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 42 basis points. The additional income is due primarily to the higher core cash balance attributed to business rate appeal provisions.

1.2.8 Following the Bank Rate rise in November there has been a noticeable improvement in money market fund returns mirroring the improvement in short duration (sub six month) deposits with banks and building societies. Returns on six to twelve month deposits, where the bulk of the Council's investment income is achieved, has shown little improvement. Nevertheless, investment income from cash flow surpluses and core cash balances is expected to exceed the original estimate for the year as a whole by some £70,000 and this increase is reflected in the revised estimates.

1.2.9 The Council takes advantage of Link Asset Services' (formerly Capita) benchmarking facility which enables performance to be gauged against Link's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return

(vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. At 30 September 2017, our return at 0.64% (purple diamond) was above the local authority average of 0.46% and relative to the Council's exposure to credit / duration risk that return was above Link's predicted return (above the upper boundary indicated by the green diagonal line). The Council's risk exposure was slightly above the local authority average but not excessive by comparison.

- 1.2.10 **Long term investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need (a sustainable, stable income stream). The use of property funds for both existing cash balances and any new money derived from the sale of assets was subsequently approved by Council in February 2017.
- 1.2.11 Link Asset Services were engaged to assist with the detailed analysis required to identify the most appropriate fund(s). The analysis produced a shortlist of four funds who were invited to attend an interview at the Council's offices in late May. The process culminated in three funds being selected for immediate investment.
- 1.2.12 Of the Council's existing cash balances, £2m was identified for long term investment and has been applied to investment in property funds. A further £1m anticipated from the disposal of existing property assets has also been applied now, bringing the total investment in property funds to £3m. Applications were submitted and accepted by each of the: Local Authorities' Property Fund; Hermes Property Unit Trust and the Lothbury Property Trust. Investment was spread equally across the three funds to ensure, as far as is possible, stability of annual income and capital growth over time.
- 1.2.13 From the January Audit Committee report Members will recall that funds issue / redeem primary units at a buy / sell price with the difference between the two prices reflecting the costs associated with buying and selling a property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. Secondary market activity in 'quality' funds is currently both limited and when it does arise, units are traded close to the standard entry price.
- 1.2.14 Primary units in the Local Authorities' Property Fund (LAPF) and Lothbury Property Trust (LPT) were acquired at the end of June from the fund managers at the standard entry price. The sale value of the units acquired was valued below the £1m cash sum paid to each manager by £77,750 for LAPF and £72,300 for LPT. Units in the Hermes Property Unit Trust (HPUT) were acquired at the end of September through an auction of secondary units arranged by the fund manager.

The Council's participation in the auction delivered a saving of £7,000 against the standard entry price. At the end of September the sale value of HPUT units was £61,000 below the £1m cash sum paid.

- 1.2.15 The sale value of units in each fund has increased at a steady rate each month since they were acquired. Provided the economy / demand for commercial property continues at its current pace the sale value of units in each fund will exceed the cash sum paid sometime during next financial year (some 12 to 18 months from the start of each investment).
- 1.2.16 In setting the budget for the current financial year no income from property funds was anticipated. Based on recent performance and the timing of each property fund investment, £80,000 (4% return excluding capital appreciation) has been included in this year's revised estimates.

### 1.3 Annual Investment Strategy for 2018/19

- 1.3.1 In response to actual and anticipated reductions in revenue support from Government, the Council is progressing a Savings and Transformation Strategy. Part of that strategy includes identifying new income streams and enhancing existing ones where feasible. A review in 2016 of the Council's cash balances identified the opportunity to invest up to £2m (circa 20% of expected long term balances) in a higher yield investment. The Council's treasury advisor supported diversification into property as an asset class. Whilst further property fund investment isn't feasible from existing balances the **2018/19 investment strategy includes scope to undertake additional property fund investment** from any 'new money' that may become available. This 'new money' is likely to be derived from the sale of existing property assets but may also arise from other 'windfalls' like the £0.5m funding attributable to the Kent Business Rates Retention pilot.
- 1.3.2 **Medium term investment.** Property investment is considered a long term commitment (10 years) and stems from the high entry and exit costs which need to be recouped and to mitigate the impact of a fall in commercial property values should the economy enter recession. Other investment opportunities are being explored that offer higher returns than our conventional term deposits with banks and building societies but aren't subject to the same time constraints as property. One such opportunity is investment in a diversified income (multi-asset) fund which typically implies a 5 year commitment.
- 1.3.3 Diversified income (multi-asset) funds are pooled vehicles investing in a broad range of asset classes including cash, bonds, property and equity. Risk is diversified via the spread of investments across the different asset classes and portfolios actively managed to reflect the changing economic environment. Funds typically achieve a return of 3% to 4% per annum and combine this with the potential for capital growth over time. Purchase and redemption of units is generally effected within 3 days. Buy / sell prices are subject to a spread, similar

to property funds, but the spread is much lower are circa 1.5%. Dividends are paid quarterly and annual management fees range for 0.75% to 1.5% per annum.

- 1.3.4 The Council's treasury advisor, Link Asset Services, comment 'that where long term cash is concerned the diversification into multi-asset income funds is appropriate if the risk factors identified are acceptable to the Authority and due diligence is evidenced in the fund manager appointment process'.
- 1.3.5 As with the recent property fund selection process our treasury advisor would be engaged to assist with the detailed work required to ensure a suitable fund was selected that struck the right balance between risk and return. **The 2018/19 annual investment strategy allows up to £2m (circa 20% of expected long term balances) to be invested in a diversified Income (multi-asset) fund or funds.**
- 1.3.6 **Term deposit duration.** Link Asset Services provide a weekly credit update for all banks and building societies whom they deem suitable for local authority investment. That update includes a suggested investment duration. Since 2014 our annual investment strategies have allowed discretion to add 3 months to that suggested duration limit for UK institutions. In approving the 2017/18 investment strategy Members extended that discretion to plus 6 months subject to a number of constraints. Those constraints are: the extended duration is only used to take advantage of an exceptional offer; the standard exposure limit of 20% of funds per institution is reduced to 10% for any deposits in the extended (plus 6 months) duration; the institutions' CDS (credit default swop – market view of risk) at the time of placing the deposit must be below the average CDS for all institutions; and the overall duration of the deposit must not exceed 12 months.
- 1.3.7 Since taking back responsibility for the investment of all core funds from the Council's external fund manager in 2014, performance has always bettered the local authority average. In the quarterly benchmarking exercises undertaken last June and September (the latest two results available) the Council's performance was elevated to top quartile. Those same benchmarking exercise showed the risks (duration / credit quality) associated with our portfolio whilst slightly above the local authority average was not excessive by comparison. **The 2018/19 investment strategy replicates the plus 6 months duration discretion for UK institutions subject to the constraints detailed above.**
- 1.3.8 **Money market fund reform.** A press release (November 2016) announced the European Parliament, Commission and Council, after lengthy negotiation, had agreed regulatory changes to Money Market Funds (MMFs) operating in the European Union (which include those used by this Council). 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 distributed across a broad range of counterparties.



1.3.9 The regulatory changes include provision for a new class of LNAV (low volatility) fund to be created which will most likely be used by fund providers to replace the existing CNAV (constant net asset value) funds used by the Council. The new funds will be subject to redemption fees and or restrict redemptions at times of heightened market stress. It is expected that the LNAV funds will continue to be credit rated by the rating agencies. Some fund providers may opt to use existing VNAV (variable net asset value) funds as an alternative. Fund providers will need to comply with the regulatory changes during the second half of 2018. **The 2018/19 investment strategy allows LNAV and VNAV funds to be used as a substitute for our existing CNAV money market funds.**

1.3.10 **Risk parameters.** The strategy sets out the parameters that limit the Council's exposure to investment risks by requiring investments to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. Except where indicated by ***bold italic*** text, the 2018/19 Annual Investment Strategy [**Annex 4**] adopts the same risk parameters as currently approved. In summary these are :

- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).
- Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.
- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds.
- In selecting suitable counterparties for overnight deposits and deposits up to 2 years in duration, the Council has adopted Link's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 12 months, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days (based on credit ratings alone). This broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (strong).
- The duration of an investment in a foreign bank must not exceed Link's post CDS recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to six months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. The Council's Treasury Management Practices have been modified to ensure that: where duration is being enhanced by more than three months the bank's CDS must be below the average for all other banks at the time of placing the investment; the discretion is only to be applied to take advantage of an exceptional offer and; counterparty exposure in respect of the additional enhancement (plus 6 months instead of the standard plus three months for a UK institution) will be limited to 10% of cash flow/core cash.

- Money Market funds should be AAA rated and exposure limited to no more than 20% per fund. **LNAV (low volatility) or VNAV (variable net asset value) funds may be used as an alternative to CNAV (constant net asset value) funds.**
- Enhanced Money Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.
- Exposure to non-credit rated property funds is limited to **no more than 20% (£2m) of expected long term cash balances.** No limit applies where invested funds are derived from **or in anticipation of** new resources e.g. proceeds from selling existing property.
- **Exposure to non-credit rated diversified income (multi-asset) funds is limited to no more than 20% (£2m) of expected long term cash balances.**
- The strategy also limits the type of instrument (e.g. fixed term deposits, certificates of deposit, commercial paper, floating rate notes, treasury bills, etc.) that can be used and establishes a maximum investment duration for Gilts of 10 years and 2 years for all other types of investment other than in property funds **and diversified income funds.**

1.3.11 At the present time an appropriate level of diversification is achieved through access, both directly and via brokers, to an adequate number of high credit rated financial institutions. Our cash flow forecasting aims to ensure the Council has sufficient liquidity to meet payment obligations at all times. Excess liquidity is avoided by using term deposits and other instruments to generate additional yield when daily cash surpluses permit. Cash flow surpluses can and are transferred to core cash to enable longer duration investments to be undertaken than would otherwise be the case.

1.3.12 The 2018/19 strategy [**Annex 4**] reflects the current economic environment, Link Asset Services' latest interest rate forecast and incorporates the risk parameters summarised in paragraph 1.3.10.

## 1.4 MiFID II.

1.4.1 The Financial Conduct Authority (FCA) implementation of the European Union's second Markets in Financial Instruments Directive (MiFID II) commenced on 3 January 2018. The directive impacts on the way local authorities access financial services provided by banks, advisors, brokers and fund managers.

1.4.2 Under MiFID II, all local authorities are by default classified as 'retail clients' i.e. the same as a private individual. Those authorities that meet certain quantitative and qualitative criteria are able to opt-up to professional status. Professional status is considered vital to ensure the Council is able maintain adequate market

access to ensure diversification, liquidity and yield can continue to be managed effectively.

- 1.4.3 Thirteen opt-up applications were submitted (autumn 2017) to the Council's money market funds, property funds, brokers and some banks. I'm happy to report that thus far nine institutions have responded and all respondents have classified the Council's treasury operation as 'elective professional'.

## **1.5 Treasury and Prudential Codes of Practice**

- 1.5.1 Updated Treasury Management and Prudential codes of practice were published by CIPFA on 21 December 2017. Whilst the codes apply to the 2018/19 financial year, given the timing of their release, CIPFA's Treasury and Capital Management Panel recommend the requirements of both Codes be 'implemented as soon as possible' and acknowledge that they may not be 'fully implemented until' the '2019/20 financial year'.
- 1.5.2 The Codes have been updated to address concerns arising from the Localism Act 2011 (commercialism agenda). The focus of both updates is to ensure the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. Non-financial assets will include the purchase of property to rent, shares and loans in subsidiaries or other outsourcing structures such as IT or building services providers.
- 1.5.3 The updated Codes will require amendment to the Council's Treasury Management Practices and Capital Strategy. Progress to ensure full compliance will be reported to Audit Committee during 2018.

## **1.6 Legal Implications**

- 1.6.1 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.
- 1.6.2 This report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009 and the 2011 update. Any changes to ensure compliance with the Treasury Management and Prudential Codes of practice issued December 2017 will be put in place at the earliest opportunity.

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

- 1.7.1 Investment income from cash flow and core cash at the end of December 2017 (month nine of the financial year) is £63,900 better than budget for the same period. Additional income for the 2017/18 financial year as a whole of £70,000 has been incorporated in the revised estimates.

- 1.7.2 No provision was included in the current year budget for income from property funds. Reflecting the timing of those investments and based on recent performance, income of £80,000 has been incorporated in the revised estimates.
- 1.7.3 The Bank Rate having remained at a historic low of 0.5% for over seven years was cut to 0.25% in August 2016. In November 2017, the Bank of England returned the Bank Rate to 0.5%. The next rise in Bank Rate is not anticipated until the fourth quarter of 2018.
- 1.7.4 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Link's benchmarking service.
- 1.7.5 Whilst the annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy capital values may fall significantly. The duration of a property fund investment may need to be extended to avoid crystalizing a loss and as a consequence, duration cannot be determined with certainty.
- 1.7.6 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped overtime through capital appreciation.
- 1.7.7 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.

## **1.8 Risk Assessment**

- 1.8.1 Link Asset Services are employed to provide advice on the content of the Treasury Management 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.
- 1.8.2 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 are established to ensure an appropriate level of diversification.

1.8.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2018/19 Strategy have been minimised.

## 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 invited to **RECOMMEND** that Cabinet:

- 1) note the treasury management position as at 31 December 2017 and the higher level of income incorporated in the 2017/18 revised estimates;
- 2) increase the Council's exposure to property funds in 2018/19 as additional long term funds become available e.g. from selling existing property;
- 3) endorse the limited use of diversified income funds for medium term investment;
- 4) adopts the Annual Investment Strategy for 2018/19 set out at **[Annex 4]**.

Background papers:

contact: Mike Withey

Link Asset Services Interest Rate Forecast (November 2017) and Economic Commentary

Sharon Shelton  
Director of Finance & Transformation

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**Tonbridge and Malling Borough Council**  
**Investment Summary as at 31 December 2017**

Counterparty	Sovereign	Fitch Credit rating		Link Suggested Post CDS Duration Limit	Investment						Instrument type / Product	Cash Flow Surpluses £	Core Cash Balances £	Long Term Investment Balances £
		Long Term	Short Term		Start Date	End Date	Duration	Amount Invested £	Return %	Proportion of total %				
Bank of Scotland	UK	A+	F1	12 months	23/03/2017	23/03/2018	12 months	500,000	0.80%	6.10%	Fixed Term	1,000,000	500,000	
Bank of Scotland	UK	A+	F1	12 months	25/07/2017	25/07/2018	12 months	1,000,000	0.65%		Fixed Term		1,000,000	
Bank of Scotland	UK	A+	F1	12 months	01/09/2017	31/08/2018	12 months	1,000,000	0.65%		Fixed Term		1,000,000	
<b>Bank of Scotland Total</b>								<b>2,500,000</b>						
Barclays Bank	UK	A	F1	6 months	30/03/2017	21/03/2018	12 months	1,000,000	0.86%	14.63%	CD	1,000,000		
Barclays Bank	UK	A	F1	6 months	11/05/2017	27/04/2018	12 months	1,000,000	0.81%		CD		1,000,000	
Barclays Bank	UK	A	F1	6 months	12/05/2017	12/02/2018	9 months	2,000,000	0.51%		Fixed Term		2,000,000	
Barclays Bank	UK	A	F1	6 months	25/07/2017	25/05/2018	10 months	1,000,000	0.51%		Fixed Term		1,000,000	
Barclays Bank	UK	A	F1	6 months	01/09/2017	17/08/2018	12 months	1,000,000	0.60%		CD		1,000,000	
<b>Barclays Bank Total</b>								<b>6,000,000</b>						
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	29/12/2017	02/01/2018	Overnight	5,853,000	0.40%	14.27%	MMF	5,853,000		
<b>BNP Paribas MMF Total</b>								<b>5,853,000</b>						
Danske Bank	Denmark	A	F1	6 months	31/10/2017	05/03/2018	4 months	1,000,000	0.49%	4.88%	CD	1,000,000		
Danske Bank	Denmark	A	F1	6 months	23/11/2017	05/03/2018	3 months	1,000,000	0.47%		CD	1,000,000		
<b>Danske Bank Total</b>								<b>2,000,000</b>						
Goldman Sachs Int'l Bank	UK	A	F1	6 months	01/06/2017	01/03/2018	9 months	2,000,000	0.73%	14.63%	Fixed Term	2,000,000		
Goldman Sachs Int'l Bank	UK	A	F1	6 months	21/06/2017	21/03/2018	9 months	2,000,000	0.79%		Fixed Term		2,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	20/09/2017	20/06/2018	9 months	2,000,000	0.83%		Fixed Term		2,000,000	
<b>Goldman Sachs Int'l Bank Total</b>								<b>6,000,000</b>						
Lloyds Bank	UK	A+	F1	12 months	23/03/2017	23/03/2018	12 months	500,000	0.80%	3.66%	Fixed Term		500,000	
Lloyds Bank	UK	A+	F1	12 months	25/07/2017	25/07/2018	12 months	1,000,000	0.65%		Fixed Term		1,000,000	
<b>Lloyds Bank Total</b>								<b>1,500,000</b>						
Morgan Stanley MMF	n/a	AAA	mmf	5 years	29/12/2017	02/01/2018	Overnight	144,000	0.37%	0.35%	MMF	144,000		
<b>Morgan Stanley MMF Total</b>								<b>144,000</b>						
Hermes Property Unit Trust	n/a	n/a	n/a	n/a	29/09/2017	n/a	n/a	1,000,000	To Follow	2.44%	Property Fund			1,000,000
<b>Hermes Property Unit Trust Total</b>								<b>1,000,000</b>						
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	29/06/2017	n/a	n/a	1,000,000	4.56%		Property Fund			
<b>Local Authorities' Property Fund Total</b>								<b>1,000,000</b>						
Lothbury Property Trust	n/a	n/a	n/a	n/a	06/07/2017	n/a	n/a	1,000,000	3.05%	2.44%	Property Fund			1,000,000
<b>Lothbury Property Trust Total</b>								<b>1,000,000</b>						
NatWest Deposit Account	UK	BBB+	F2	12 months	29/12/2017	02/01/2018	Overnight	10,000	0.05%	0.02%	Call	10,000		
<b>National Westminster Bank Total</b>								<b>10,000</b>						
Royal Bank of Scotland	UK	BBB+	F2	12 months	28/03/2017	27/03/2018	12 months	2,000,000	0.73%	9.75%	CD		2,000,000	
Royal Bank of Scotland	UK	BBB+	F2	12 months	28/06/2017	27/06/2018	12 months	1,000,000	0.66%		CD		1,000,000	
Royal Bank of Scotland	UK	BBB+	F2	12 months	25/07/2017	29/06/2018	11 months	1,000,000	0.61%		CD		1,000,000	
<b>Royal Bank of Scotland Total</b>								<b>4,000,000</b>						
Santander Deposit Account	UK	A	F1	6 months	29/12/2017	02/01/2018	Overnight	6,000,000	0.80%	14.63%	Call	3,000,000	3,000,000	
<b>Santander UK Plc Total</b>								<b>6,000,000</b>						
Standard Chartered Bank	UK	A+	F1	6 months	27/04/2017	26/01/2018	9 months	2,000,000	0.54%	9.75%	Fixed Term		2,000,000	
Standard Chartered Bank	UK	A+	F1	6 months	15/11/2017	15/02/2018	3 months	2,000,000	0.46%		CD	2,000,000		
<b>Standard Chartered Bank Total</b>								<b>4,000,000</b>						
<b>Total invested</b>					<b>41,007,000</b>					<b>100.00%</b>		<b>16,007,000</b>	<b>22,000,000</b>	<b>3,000,000</b>

Number of investments	28	Average investment value £			1,465,000
Number of counterparties	14	Average counter party investment £			2,929,000
<b>Group exposures:</b>		<b>Core £</b>	<b>Cash £</b>	<b>Combined £</b>	<b>%</b>
RBS + National Westminster (UK Nationalised 25%)		4,000,000	10,000	4,010,000	9.78
Bank of Scotland + Lloyds (20%)		4,000,000	-	4,000,000	9.75
				<b>£</b>	<b>%</b>
<b>Property Funds Total</b>				3,000,000	7.32

**Total non-specified investments should be less than 60% of Core Cash and Long Term Investment balances** 12.00%

**Notes:**

CD = Certificate of Deposit, MMF = Money Market Fund

Property Fund returns are indicative only and based on income distributed since the commencement of the investment. Capital appreciation / depreciation is recorded elsewhere.

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## Tonbridge and Malling Borough Council Lending List

Checked against Link's Duration Matrix dated 29/12/17									
Minimum investment criteria is Link's Green (100 days) Duration Band (entry point broadly equates to Fitch A-, F1 unless UK nationalised / semi-nationalised).									
Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Exposure Limits			Link Duration [2]	
					Cash Flow	Core Fund	Combined	Credit Rating	Post CDS
Bank of Montreal	Canada	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Toronto Dominion Bank	Canada	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Danske Bank	Denmark	AAA	A	F1	£3m	£3m	£6m	6 months	6 months
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
ING Bank	Netherlands	AAA	A+	F1	£3m	£3m	£6m	12 months	12 months
Nordea Bank AB	Sweden	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Svenska Handelsbanken AB	Sweden	AAA	AA	F1+	£3m	£3m	£6m	12 months	12 months
Bank of Scotland (Group limit with BOS and Lloyds of £6m)	UK	AA	A+	F1	£1m	£5m	£6m	12 months	12 months
Barclays Bank	UK	AA	A	F1	£1m	£5m	£6m	6 months	6 months
Goldman Sachs Int'l Bank	UK	AA	A	F1	£2m	£4m	£6m	6 months	6 months
HSBC Bank	UK	AA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Lloyds Bank (Group limit with BOS and Lloyds of £6m)	UK	AA	A+	F1	£1m	£5m	£6m	12 months	12 months
Santander UK	UK	AA	A	F1	£3m	£3m	£6m	6 months	6 months
Standard Chartered Bank	UK	AA	A+	F1	£2m	£4m	£6m	6 months	6 months
Coventry Building Society	UK	AA	A	F1	£3m	£3m	£6m	6 months	6 months
Nationwide Building Society	UK	AA	A+	F1	£3m	£3m	£6m	6 months	6 months
National Westminster Bank [3] (Group limit with Nat West and RBS of £7.6m)	UK	AA	BBB+	F2	£2.6m	£5m	£7.6m	12 Months	12 Months
The Royal Bank of Scotland [3] (Group limit with Nat West and RBS of £7.6m)	UK	AA	BBB+	F2	£2.6m	£5m	£7.6m	12 Months	12 Months
UK Debt Management Office including Treasury Bills	UK	AA	N/A	N/A	No limit	No limit	No limit	N/A	N/A
UK Treasury (Sovereign Bonds-Gilts)	UK	AA	N/A	N/A	No limit	£7.5 / 15m	£7.5 / 15m	N/A	N/A
UK Local Authorities	UK	AA	N/A	N/A	£3m	£3m	£6m	N/A	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-. Non-UK 20% sovereign limit equals combined limit quoted above (£6m).

[2] All deposits overnight unless otherwise approved in advance by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight, duration for non-UK entities must not exceed Link's post CDS duration assessment. For UK entities, duration may be extended by up to three months based on credit ratings alone or six months if CDS is below average subject to a maximum combined duration of 12 months.

[3] UK nationalised / semi-nationalised.

Money Market Funds						
Minimum investment criteria one of AAA-mf, AAmmf or AAAm						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAm	£6m	-	£6m
BNP Paribas	-	-	AAAm	£6m	-	£6m
Goldman Sachs	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Deutsche Fund	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Standard Life (Ignis)	-	AAmmf	AAAm	£6m	-	£6m
Morgan Stanley	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Prime Rate	-	AAmmf	AAAm	£6m	-	£6m
Insight Liquidity Group limit for IL and ILP of £6m	-	AAmmf	AAAm	£6m	-	£6m

Enhanced Cash Funds						
Minimum investment criteria AAA						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus Group limit for IL and ILP of £6m	-	-	AAAf /S1	£1.5m	£1.5m	£3m

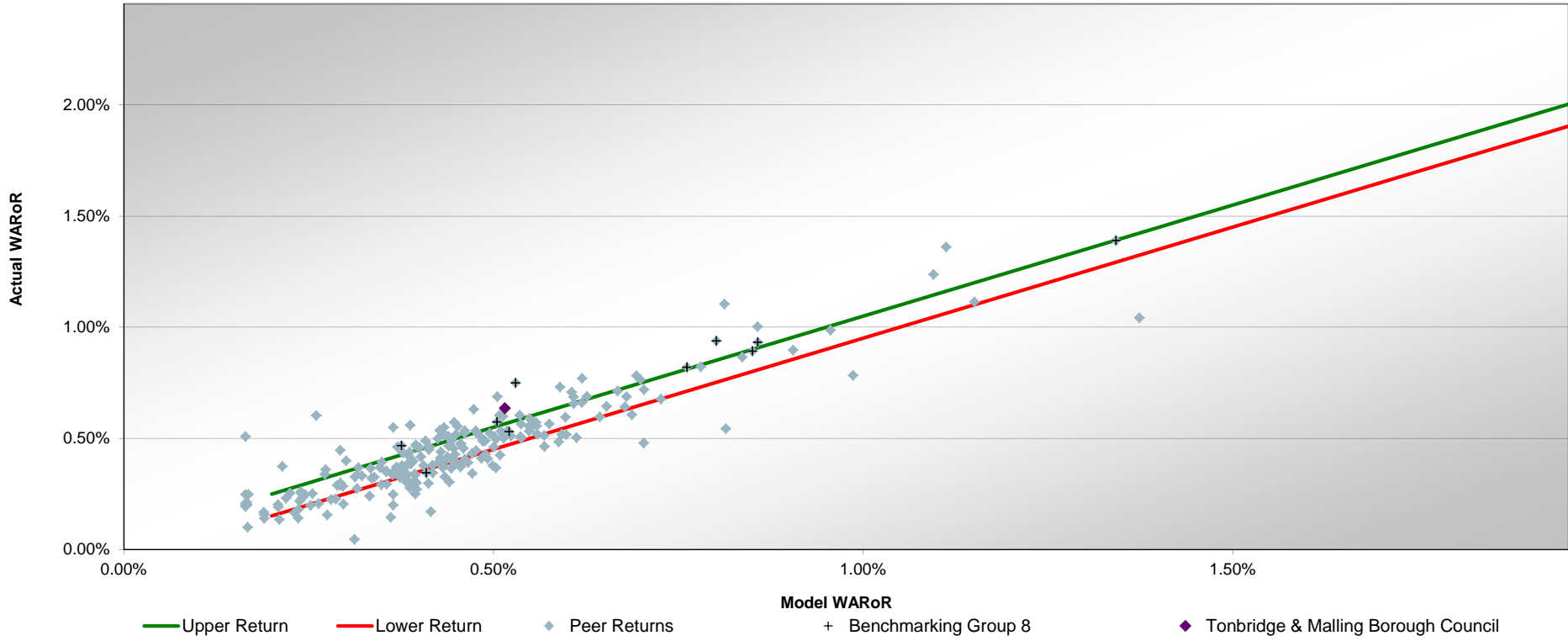
Approved by Director of Finance & Transformation  
2nd January 2018

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Tonbridge & Malling Borough Council

Population Returns against Model Returns

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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
<b>Tonbridge &amp; Malling Borough Council</b>	0.64%	0.52%	0.12%	0.47%	0.56%	Above

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## Treasury Management and Annual Investment Strategy 2018/19

### 1 Introduction

#### 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 The strategy covers:

- Statutory and regulatory requirements
- Balanced budget requirement
- Prudential and treasury Indicators
- Borrowing requirement
- Current treasury position
- Prospects for interest rates
- Investment policy
- Creditworthiness policy
- Country, counterparty and group exposure limits
- Cash flow and core fund investment
- Medium and long term investment
- Year end investment report
- Policy on use of external service providers.

### 2 Statutory and regulatory requirements

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.

2.2 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy

which sets out the Council's policies for managing its investments and for giving priority to the **security** and **liquidity** of those investments.

- 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 (The Code of Practice).
- 2.4 The Code of Practice was adopted by this Council on 18 February 2010. In preparing this strategy due regard has also been given to the Code's 2011 revision.
- 2.5 The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
  - Receipt by the full Council of an Annual Treasury Management Strategy, 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.
  - 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.
  - Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
- 2.6 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]**.

### **3 Balanced budget requirement**

- 3.1 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.

#### **4 Prudential and treasury indicators**

- 4.1 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.
- 4.2 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'.
- 4.3 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.
- 4.4 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.
- 4.5 Prudential and Treasury Indicators relevant to setting an integrated treasury management strategy are set out in **[Appendix 2]**.

#### **5 Borrowing requirement**

- 5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary. All capital expenditure in 2018/19 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assets.

- 5.2 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.

## 6 Current treasury position

- 6.1 The Council is debt free and as such the overall treasury position at 31 December 2017 comprised only investments which totaled £41m generating an average return of 0.63% excluding property funds.

## 7 Prospects for interest rates

- 7.1 The Council has appointed Link 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 3]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Link's expectation for the Bank Rate for the financial year ends (March) is:

- 2017/ 2018 0.50%
- 2018/ 2019 0.75%
- 2019/ 2020 1.00%
- 2020/ 2021 1.25%

- 7.2 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

- 7.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve has taken the lead in reversing



monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

- 7.4 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
- 7.5 From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.
- 7.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 7.7 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.
- 7.8 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
  - Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Political developments in Austria and Czech Republic could provide impetus to other, particularly former Communist bloc countries, to coalesce to create a block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump.
- A sharp Chinese downturn and its impact on emerging market countries.

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Federal Reserve causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

7.10 A more detailed view of the current economic background, provided by Link, is contained in **[Appendix 4]**.

## **8 Investment policy**

8.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, and then yield.

- 8.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 8.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.
- 8.4 Other information sources used will include the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.
- 8.5 Investment instruments identified for use are listed in **[Appendix 5]** under 'specified' and 'non-specified' investment categories. Counterparty limits are detailed in section 10 below.

## **9 Creditworthiness policy**

- 9.1 The creditworthiness service provided by Link 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. The credit ratings are supplemented using the following 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.
- 9.2 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 of an investment 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.

- 9.3 The selection of counterparties with a high level of creditworthiness is achieved by selecting institutions down to a minimum durational band within Link's weekly credit list of potential counterparties (worldwide). Subject to an appropriate sovereign and counterparty rating the Council uses counterparties within the following durational bands:

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

- 9.4 The Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. Moody's tends to be more aggressive in giving low ratings than the other two agencies and adopting the CIPFA approach may leave the Council with too few banks on its approved lending list. The Link creditworthiness service uses a wider array of information than just primary ratings and in combination with a risk weighted scoring system undue preponderance is not given to any one agency's ratings.
- 9.5 All credit ratings are 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 Link creditworthiness service.
- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.
  - In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx benchmark and other market data on a daily basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.
- 9.6 Sole reliance is not placed on the use of the Link service. In addition the Council uses market information including information on any external support for banks to assist the decision making process.

## 10 Country, counterparty and group exposure limits

- 10.1 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 6]**. The list will be amended in accordance with this policy should ratings change.
- 10.2 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.

Country, Counterparty and Group exposure	Maximum Proportion of Portfolio
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 Fitch A-, F1 (green excluding CDS using Link's credit methodology) or better.	20%
Each UK nationalised or part nationalised bank / group.	<b>20%</b>
Each AAA multilateral / supranational bank.	20%
Each AAA rated CNAV, <b>LNAV or VNAV</b> money market fund.	20%
Each AAA rated enhanced cash fund / government liquidity fund / gilt fund subject to maximum 20% exposure to all such funds.	10%
Non-specified investments over 1 year duration.	60%
Each non-rated property fund used for long term investment subject to a maximum <b>£2m (20% of expected long term balances)</b> per fund and across all such funds. <b>No limit applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.</b>	<b>N/A</b>
<b>Each non-rated diversified income (multi-asset) fund used for medium term investment subject to a maximum £2m (20% of expected long term balances) per fund and across all such funds.</b>	<b>N/A</b>

- 10.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. The investment limits identified in paragraph 10.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year augmented by core cash and other balances.

## 11 Cash flow and core fund investment

- 11.1 Funds available for investment are split between cash flow and core cash. 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.
- 11.2 **Cash flow investments.** The average daily cash flow balance throughout 2018/19 is expected to be £12m with a proportion 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.
- 11.3 In compiling the Council's estimates for 2018/19 a return on cash flow investments of 0.55% has been assumed.
- 11.4 **Core fund investments.** Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each year (approximately £2m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2018/19 is expected to be £15m.

- 11.5 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 the Council.
- 11.6 In compiling the Council's estimates for 2018/19 a return on core fund investments of 0.80% has been assumed. Subject to the credit quality and exposure limits outlined in paragraph 10.2, 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.

## **12 Medium and long term investment.**

- 12.1 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake medium term investment in diversified income (cash, bonds, equity and property) through a collective investment scheme (fund). Investment in such schemes typically implies a 5 year commitment to recoup entry and exit fees and mitigate the impact of a fall in the value of assets under management.
- 12.2 A detailed evaluation of the funds asset quality, market risk, redemption constraints, management and governance arrangements will be undertaken in advance of any investment taking place. Any sums invested will be reported at regular intervals with income received and changes in capital value separately identified.
- 12.3 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake long term investment in property through a collective investment scheme (fund). Investment in such schemes typically implies a 10 year commitment to recoup entry and exit fees. To mitigate the risk that capital values may fall due to changes in economic activity, investment duration cannot be determined with certainty at the time the investment commences. As a consequence any cash balances applied to such an investment must be available for the long term and there must be flexibility over the timing of redemption(s) in the future. Sums invested will be reported at regular intervals with income received and changes in capital value separately identified.

## **13 Year end investment report**

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

**14 Policy on the use of external service providers**

- 14.1 The Council uses Link Asset Services as its external treasury management advisors.
- 14.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.
- 14.3 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 2018**

**Appendices**

- 1. Treasury management scheme of delegation
- 2. Prudential and Treasury indicators
- 3. Interest rate forecasts
- 4. Economic background provided by Link Asset Services
- 5. Specified and Non-specified Investments
- 6. Approved countries for investments



**Appendix 1 Treasury management scheme of delegation****Full Council**

- Budget approval.
- Approval of treasury management policy.
- Approval of the Annual Treasury Management Strategy and Annual Investment Strategy.
- Approval of amendments to the Council's adopted clauses, Treasury Management Policy and the Annual Treasury Management Strategy and Annual Investment Strategy.
- Approval of the treasury management outturn and mid-year reports.

**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.

**Audit Committee**

- Reviewing the Annual Treasury Management Strategy 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.

**Finance, Innovation and Property Advisory Board**

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

**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 2 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 2018/19 report that is to be submitted to Cabinet on 8 February 2018.

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

TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2018/19	2019/20	2020/21
	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 exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	13,098 (43.5%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	Nil (0%)	60% of funds			

Maturity structure of fixed rate borrowing during 2016/17 - 2020/21	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

**Appendix 3 Interest Rate Forecasts – December 2017**

<b>Link Asset Services Interest Rate View</b>														
	<b>Dec-17</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
<b>Bank Rate View</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
<b>3 Month LIBID</b>	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
<b>6 Month LIBID</b>	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
<b>12 Month LIBID</b>	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
<b>5yr PWLB Rate</b>	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
<b>10yr PWLB Rate</b>	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
<b>25yr PWLB Rate</b>	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
<b>50yr PWLB Rate</b>	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Bank Rate</b>														
<b>Link Asset Services</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
<b>Capital Economics</b>	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
<b>5yr PWLB Rate</b>														
<b>Link Asset Services</b>	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
<b>Capital Economics</b>	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
<b>10yr PWLB Rate</b>														
<b>Link Asset Services</b>	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
<b>Capital Economics</b>	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
<b>25yr PWLB Rate</b>														
<b>Link Asset Services</b>	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
<b>Capital Economics</b>	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
<b>50yr PWLB Rate</b>														
<b>Link Asset Services</b>	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Capital Economics</b>	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

## Appendix 4 Economic Background Provided by Link Asset Services

**GLOBAL OUTLOOK.** World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this. The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution**.

### **KEY RISKS - central bank monetary policy measures**

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In

particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, nor let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income**, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift UP in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action.

On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.

- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

**UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare**

**capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017

warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually unfold.

**EZ.** Economic growth in the Eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

**USA.** Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed. has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed. said it would start in October to gradually



unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

**JAPAN** has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

### **Brexit timetable and process**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50.
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

## Appendix 5 Specified and Non-specified Investments

All specified and non-specified Investments will be:

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

Subject to the duration limit suggested by Link (+6 months for UK Financial Institutions) at the time each investment is placed.

Subject to a maximum of 60% of funds 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 excluding CDS
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 excluding CDS
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
Money Market Funds (CNAV, <b>LNAV</b> or <b>VNAV</b> )	AAA
Enhanced Cash and Government Liquidity Funds	AAA

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

Investment	Minimum Credit Criteria	Max duration to maturity
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, 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-	25% 5 years
Property Funds	N/A	N/A
<b>Diversified Income Funds</b>	<b>N/A</b>	<b>N/A</b>

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made. 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 6      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 2017 sovereigns meeting the above requirement which also have banks operating in sterling markets with credit ratings of green or above on the Link Asset Services' Credit Worthiness List were:

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

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Delegated

### 1 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

**This report informs Members of the outcome of the annual review of the Council's Anti-Fraud Policies and Whistleblowing Policy.**

#### 1.1 Introduction

1.1.1 The Anti-Fraud and Corruption Policy (the overall Policy) is used to provide structure to the combating of fraud and corruption, which the Council may be subject to. In addition, separate policies have been developed specifically for housing benefit fraud and for council tax fraud including council tax reduction, discounts and exemptions.

1.1.2 The Whistleblowing Policy provides employees and Members with information about how they may report concerns regarding breaches of laws, regulations, policies or procedures committed by other employees or Members of the Council. It also outlines how the Council will deal with those concerns once they have been reported.

#### 1.2 Anti-Fraud Policies

1.2.1 The Anti-Fraud Policies were last reviewed by the Committee in January 2017; this latest review found that minor changes were required. The title of the overall Policy has been amended to make the bribery element clearer and reference to associated policies, including the Council's Anti-Money Laundering Policy, has been added. In addition, some detail has been updated including definitions of bribery offences and updates to reporting sections to ensure correct contact details.

1.2.2 Copies of the Anti-Fraud, Bribery and Corruption Policy, Housing Benefit Anti-Fraud Policy and Council Tax Reduction, Discounts and Exemptions Anti-Fraud Policy are attached at **[Annex 1, 2 and 3]** respectively.

### **1.3 Whistleblowing Policy**

- 1.3.1 The Whistleblowing Policy was last reviewed by the Committee in January 2017. This latest review found that only minor changes were required to the policy.
- 1.3.2 A copy of the Whistleblowing Policy is attached at **[Annex 4]**.

### **1.4 Action Following Approval of Policies**

- 1.4.1 The policies, once approved, will be circulated to all staff with computer access using Netconsent and made available on the Council's Intranet and external website.

### **1.5 Legal Implications**

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

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

- 1.6.1 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. The message coming from these initiatives is that effective fraud prevention and detection releases resources from fraud.
- 1.6.2 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.
- 1.6.3 Providing clear guidelines to staff on how they may report concerns of inappropriate conduct or fraud strengthen the Council's zero tolerance approach to fraud and corruption.

### **1.7 Risk Assessment**

- 1.7.1 The policies reflect best practice and the culture of the Council and 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.
- 1.7.2 While there is no statutory requirement to have an appropriate mechanism for dealing with whistleblowing, it is relevant to helping the Council comply with associated law. Failure to have an adequate whistleblowing mechanism carries significant reputational risk.

### **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 asked to **approve**, subject to any required amendments, the Anti-Fraud Policies attached at **[Annex 1, 2 and 3]**.
- 1.9.2 Members are asked to review the Whistleblowing Policy attached at **[Annex 4]** and subject to any required amendments **recommend** that it is endorsed by the next General Purposes Committee.

Background papers:

contact: Samantha Buckland

Nil

Sharon Shelton  
Director of Finance and Transformation

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# **ANTI-FRAUD, BRIBERY & CORRUPTION POLICY**



**January 2018**

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## **Tonbridge and Malling Borough Council Anti-Fraud, Bribery & 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, Bribery & 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 and Corruption 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 This may involve:

- The offence of bribing another person
- The offence of being bribed
- Bribery of a foreign public official
- A corporate offence of failure to prevent bribery

### **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, bribery and corruption 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 and Selection Policy, Procedure and Guidance 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 Disclosure and Barring Service checks for certain identified posts.

- 4.2 The Council has developed a formal induction process for new employees. This is intended to assist them in understanding the Council, its decision-making arrangements and the requirements of the Officers' 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 Members' Code of Conduct.

### **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 contracts 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 Members' 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 at **[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 (where the value is more than £100) 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 Whistleblowing Policy 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. The 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 has 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, for example, External Audit and Central Government Departments including DCLG, DWP and Defra through statutory returns.
- 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 DWP, Kent Police, the Cabinet Office (National Fraud Initiative) and a number of networking groups.

## **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 are designed 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 Members, employees, the general public and other stakeholders.
- 5.2 Members, employees, the general public and other stakeholders are encouraged to come forward and report any concerns or suspicions they may have through one of the following:
- Line Manager or Service Manager
  - The Council's Internal Audit and Fraud Team (01732 876101)
  - The Council's Whistleblowing Policy
  - Chief Executive / Monitoring Officer / Director of Finance & Transformation
  - The Council's External Auditor, Grant Thornton LLP
- 5.3 The Council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance and Transformation of any financial irregularity or suspected financial irregularity.
- 5.4 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 Whistleblowing Policy.

## **6 INVESTIGATION**

- 6.1 Any Manager with information about suspected fraud, bribery or corruption activity must report this immediately to the Internal Audit and Fraud Team. Managers should liaise with the Internal Audit and Fraud Team and Personnel as appropriate to agree the approach to:



- recording and securing all evidence received and collected;
  - ensuring that evidence is sound and adequately supported;  
and
  - 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 and Fraud 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 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 Internal Audit and Fraud Team is responsible for all investigations relating to Council Tax fraud including Single Person Discount, Council Tax Reduction Scheme and discounts and exemptions. These investigations will be undertaken in accordance with the Council's Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy.

## **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
  - A Member
  - The 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 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.

10.2 The Anti-Fraud, Bribery & Corruption Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2018 with the next review due January 2019.

## **11 ASSOCIATED COUNCIL POLICIES**

11.1 The following associated policies are also key to managing risks in relation to Fraud, Bribery & Corruption. This list should not be considered exhaustive.

- The Council's Constitution including Finance Procedure Rules
- The Code of Conduct for Staff and Members
- The Whistleblowing Policy
- The Anti-Money Laundering Policy

- Supplementary Anti-Fraud, Bribery and Corruption Policies, i.e. those in relation to Benefits and Council Tax
- Policies and procedures in relation to recruitment, personnel and finance processes

## **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 BENEFIT ANTI-FRAUD POLICY**



**January 2018**

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

### **1. INTRODUCTION**

- 1.1 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. 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.
- 1.2 The Council has an Anti-Fraud and Corruption Policy 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 Benefit Anti-Fraud Policy is designed to reinforce the Anti-Fraud, Bribery & Corruption Policy specifically in relation to Housing 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
  - recover fraudulent overpayments of benefit
  - deter people from trying to commit fraud

### **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 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 Fraud 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 fraud must be referred to the DWP. Contact details can be found at paragraph 5.3.

### **4. PREVENTION**

#### **Staff**

- 4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential employees are comprehensively checked. Benefits staff should also sign a declaration covering any interests that may conflict with their work. For example, receiving housing benefit, or acting as a landlord or agent.
- 4.2 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 Benefit application form for a relative or friend.
- 4.3 Benefits staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive annual refresher training.

#### **Systems**

- 4.4 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.
- 4.5 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.
- 4.6 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 authorised users only. All individuals must protect their passwords and not keep them written down or 'lend them'.

- 4.7 All manual Housing Benefit records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.
- 4.8 All valuables, including documentation, must be recorded and tracked through the housing benefit system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.

## **5. DETECTION**

- 5.1 Surveys have identified that Housing 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:
  - participation in the National Fraud Initiative data-matching exercise
  - publicity of anti-fraud initiatives, and press releases.
- 5.3 When a potential housing benefit fraud is identified during routine administration the member of staff within the Benefits Section should refer suspected cases of fraud to the DWP Single Fraud Investigation Service in accordance with agreed procedures (the exception being cases where benefit has not yet gone into payment, such cases should be referred to the Audit and Fraud Team on 01732 876101). In all other instances the individual should use the existing DWP channels:
  - Online – [www.gov.uk/benefit-fraud](http://www.gov.uk/benefit-fraud)
  - By Telephone – National Benefit Fraud Hotline 0800 854 440
  - By Post – NBFH, PO Box 224, Preston, PR1 1GP
- 5.4 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. The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by

an employee.

**6. REVIEW AND APPROVAL OF THIS POLICY**

- 6.1 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.
- 6.2 The Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2018 with the next review due January 2019.

# **COUNCIL TAX REDUCTION, DISCOUNTS & EXEMPTIONS ANTI-FRAUD POLICY**



**January 2018**

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**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy**

**1. INTRODUCTION**

- 1.1 Tonbridge and Malling Borough Council (the Council) is committed to ensuring that the correct levels of council tax liability are collected from its residents and considers that council tax reduction and 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, Bribery and Corruption Policy 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, Discounts & Exemptions Anti-Fraud Policy is designed to reinforce the Anti-Fraud, Bribery & Corruption Policy 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, Discounts & Exemptions Anti-Fraud Policy and the associated Sanction & Prosecution Policy will be reviewed at least annually by the Audit and Assurance Manager for approval by the Audit Committee.

## 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 Fraud 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 Internal Audit and Fraud Team who 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.

## 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. Revenues and Benefits staff should also sign an annual declaration covering any interests that may conflict with their work. For example, council tax reduction entitlement or acting as a landlord or agent.

4.2 All individuals within the Internal Audit and Fraud 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 Appropriate staff within the Council will receive Fraud Awareness training as part of their induction; thereafter they will receive annual refresher training. All Fraud Officers will undertake training in order to ensure that they carry out their duties in accordance with recognised standards for Fraud Investigation.

### **Systems**

- 4.5 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.
- 4.6 All Council Tax 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.
- 4.7 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 authorised users only. All individuals must protect their passwords and not keep them written down or 'lend them'.
- 4.8 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.
- 4.9 All valuables, including documentation, must be recorded and tracked through the council tax system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.
- 4.10 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 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 876101
- participation in the National Fraud Initiative data-matching exercise
- carrying out joint fraud investigations with other bodies
- publicity of anti-fraud initiatives, the Fraud Hotline number and press releases.

- 5.3 All referrals passed to the Fraud 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 an employee.
- 5.5 Members of staff within the Council Tax Section should refer suspected cases of fraud to the Internal Audit and Fraud Team. The Team will give feedback to staff regarding the quality of the fraud referral and the outcome of any resulting investigation as appropriate.
- 5.6 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 Sanction and Prosecution Policy. The sanctions open to the Council include a Caution, an Administration Penalty (in respect of council tax reduction) or Prosecution.
- 5.7 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.

## **6. REVIEW AND APPROVAL OF THIS POLICY**

- 6.1 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.
- 6.2 The Anti-Fraud, Bribery & Corruption Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2018 with the next review due January 2019.

**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discounts & Exemptions**  
**Sanction and Prosecution Policy**

**I. STATEMENT OF INTENT**

- The 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.
- The 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 Audit and Assurance Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the Audit and Assurance 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
  - ❑ Any other mitigating factors
- 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**

- The 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 administrative process

## **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
- 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**

- The 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 that the Council 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 final decision on whether to apply a civil penalty lies with the Audit and Assurance Manager.
- The Council 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 discount or council tax reduction which is greater than the amount to which the person was entitled
  - ❑ Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances
  - ❑ The failure results in an award of a discount or 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 Council 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 person's 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 Council may consider issuing a Caution if:
  - ❑ To our knowledge the person has never previously offended
  - ❑ The person has committed 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 person's 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 Council may consider issuing an Administrative Penalty if:
  - ❑ To our knowledge the person has never previously offended
  - ❑ The person has committed 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 the Council may decide that a Caution or Administrative Penalty is not appropriate if the person:
  - ❑ Has been prosecuted for a 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 the Council may consider referring the case for prosecution.

## **VII. PROSECUTION**

- The final decision on whether to refer a case for prosecution lies with the Audit and Assurance Manager. 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 Fraud 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
  - ❑ The change in circumstances was intentionally withheld
  - ❑ Whether there was planning in the process
  - ❑ Whether the suspect was a ring leader or an organiser 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, the 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 STAFF INVESTIGATING FRAUD**

### **Code of Conduct & Good Practice for Staff Investigating Fraud**

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 Audit and Assurance Manager 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 the Council will not:

- Exceed their actual authority or hold them 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, or 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, deliberately or negligently destroy or damage any property, seize or retain any property without lawful authority, or use threatening physical violence towards a colleague or member of the public.

# WHISTLEBLOWING POLICY



January 2018

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# TONBRIDGE & MALLING BOROUGH COUNCIL WHISTLEBLOWING POLICY

## A confidential reporting policy for all Members, employees and contractors

### 1. Introduction

- 1.1 Tonbridge & Malling Borough Council operates within legal requirements and regulations and expects its employees to co-operate in this by adhering to all laws, regulations, policies and procedures. The Council recognises that employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not 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.
- 1.2 The Public Interest Disclosure Act 1998 (the 1998 Act) contains measures which help to promote greater openness between employers and employees in the workplace and supports a structure for whistleblowing. The 1998 Act:
- a) *is designed to give statutory protection to employees who “blow the whistle” on their employer’s malpractice; and*
  - b) *although not requiring the Council to set up an appropriate mechanism for dealing with whistleblowing, makes clear the important role that such a mechanism can play in helping the Council comply with the law.*
- 1.3 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect and support employees, and others that we deal with, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. This policy is intended to encourage and enable individuals to raise concerns within the Council, without fear of reprisals, rather than overlooking a problem or “blowing the whistle” outside. The policy does, however, recognise that individuals must be able to take matters further if they are dissatisfied with the Council’s response.

### 2. Definition of Whistleblowing

- 2.1 *‘Whistleblowing’ means the disclosure of malpractice or wrongdoing within an organisation.*

### 3. Aims and Scope of this Policy

- 3.1 The Whistleblowing Policy aims to:

- encourage you to feel confident about raising concerns and to question and act on those concerns;

- provide a way for you to raise concerns and receive appropriate feedback on any action taken;
- confirm that all concerns raised will be examined and the Council will assess what action should be taken;
- reassure you that you will be protected from possible reprisals or victimisation if you have made a disclosure in good faith; and
- provide ways for you to take the matter further if you are dissatisfied with the Council's response.

3.2 The *Whistleblowing Policy* is intended to cover concerns that fall outside the scope of the Council's Grievance Procedure which enables employees to lodge a grievance relating to their employment. This Policy is also intended to cover concerns that fall outside the scope of the Council's corporate complaints procedures and other statutory reporting procedures. These may include:

- any unlawful act, whether criminal (e.g. theft) or a breach of the civil law (e.g. slander or libel)
- health and safety risks, including risks to the public as well as to other employees (e.g. faulty electrical equipment)
- damage to the environment (e.g. pollution)
- the unauthorised use of public funds (e.g. expenditure for improper use)
- possible fraud and corruption
- inappropriate or improper conduct (e.g. abuse of power, bullying / harassment)
- serious failure to comply with appropriate professional standards (e.g. National Code of Local Government Conduct)
- breach of Council or statutory codes of practice or the Council's standing orders (e.g. Officers' Code of Conduct)
- discrimination on the grounds of race, colour, creed, ethnic or national origin, disability, age, sex, sexual orientation, marital status or class
- abuse of children and vulnerable adults (e.g. through physical, sexual, psychological or financial abuse, exploitation or neglect)
- other unethical conduct.

#### 4. Who does this Policy Cover?

4.1 This policy applies to disclosures made in relation to or by:

- any employee of the Council, either under contract of employment or apprenticeship
- any Member of the Council
- any contractors, their agent, subcontractors and suppliers working with or on behalf of the Council
- consultants and agency staff working with or for the Council
- any organisation working in partnership with the Council.

#### 5. Supporting the Individual Raising a Concern

5.1 **Harassment or Victimisation:** The Council is committed to good practice and high standards. The Council also recognises that the decision to report a concern can be a difficult one to make. It will not tolerate harassment or victimisation of whistleblowers and will take action to protect individuals who raise concerns in good faith.

Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary or redundancy procedures that may already affect the individual. However, this does not mean that if the individual is already the subject of disciplinary or redundancy procedures, that those procedures will be halted as a result of raising a concern under this policy.

5.2 **Confidentiality:** Individuals are encouraged to put their name to any allegation; however you are not required to do so and can make a report anonymously. Anonymity can hamper any investigation should further information be required however anonymous reports will be considered, taking into account:

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

All concerns will be treated in confidence and the Council will do its best to protect the individual's identity when they do not want their name to be disclosed. It must be appreciated that the investigation process may reveal the source of the information and a statement by the individual raising the concern may be required as part of the evidence. If the situation arises where the Council is not able to resolve the concern without revealing the individual's identity, this will be discussed with the individual in an attempt to identify how the matter can be progressed.

5.3 **Untrue Allegations:** Any individual who makes an allegation in good faith, but which is not subsequently confirmed by the investigation, will have no action taken against them. If, however, an individual makes malicious or vexatious allegations or an allegation for personal gain, disciplinary action may be taken against them.

## 6. How to Raise a Concern

6.1 When an individual wishes to raise a concern, they will need to identify the issues carefully. An individual must be clear about the standards against which they are judging practice. They should consider the following:

- Is it illegal?
- Does it contravene professional codes of practice?
- Is it against government guidelines?
- Is it against the Council's guidelines?
- Is it about one individual's behaviour or is it about general working practices?
- Does it contradict what the employee has been taught?
- Has the employee witnessed the incident?
- Did anyone else witness the incident at the same time?
- Where an individual is unsure whether to raise a concern they should contact the Internal Audit and Fraud Team for advice.

6.2 Members should raise a concern in the first instance with the Chief Executive, Monitoring Officer or S151 Officer. Employees should raise concerns in the first instance with their immediate Line Manager or Service Manager, if possible. Similarly, non-employees (e.g. agency workers or contractors) should raise a concern in the first instance with their contact within the Council, usually the person to whom they directly report.

6.3 In some cases, the nature, seriousness or sensitivity of the concern or the individuals involved in the activities causing concern means that this may not always be appropriate. If a person feels they cannot raise their concern with their immediate management/contact, they are able to go directly to the Audit and Assurance Manager.

6.4 Individuals may also contact the Internal Audit and Fraud Team for advice/guidance on how to pursue matters of concern or if, having raised the concern with the immediate manager/contact, they feel there has not been an appropriate response.



- 6.5 In the event of a concern being of an extreme and potentially serious nature, individuals may raise the matter directly with the Chief Executive.
- 6.6 Once an employee is certain that the concern should be raised, the following action should be considered:
- Concerns may be raised verbally or in writing. Employees who wish to make a written report should give the background and history of the concern and the reason why they are particularly concerned about the situation. The earlier concerns are expressed the easier it is to take action. A form is available at Appendix 1 of this policy for those wishing to raise a concern in writing.
  - If the employee wishes, they may ask for a private meeting with the person to whom they wish to make the complaint. An employee may take a Trade Union representative or work colleague with them as a witness or for support. The employee should take to the meeting, if possible, dated and signed written supporting statements from anyone who can also confirm the allegations.
  - When making the complaint verbally the employee is encouraged to write down any relevant information and date it. Copies of all correspondence and relevant information should be retained.
  - The employee should ask the person to whom they are making the complaint what the next steps will be and if anything more is expected of them.
- 6.7 Although the individual raising the concern is not expected to prove the truth of an allegation, they will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

## **7. How the Council will Respond**

- 7.1 Once a concern is raised the appropriate Council manager is responsible for making initial enquiries, taking advice from Personnel and/or Internal Audit and Fraud Team to help decide if an investigation is appropriate and if so, what form it should take. In determining the action to be taken, the Council will take into consideration public interest and whether the concerns or allegations fall within the scope of and may be dealt with under other specific procedures such as the Council's Grievance Procedure.
- 7.2 Concerns raised may:
- be resolved by agreed action without the need for investigation;
  - be investigated by management;
  - be investigated by the Internal Audit and Fraud Team and or Personnel;

- be referred to the Police;
  - be referred to the External Auditor.
- 7.3 As soon as possible, and in any case within 10 working days of a concern being raised, the person handling the matter will either write to or email the individual raising the concern acknowledging that it has been raised and indicating how, as far as possible, it will be dealt with. The individual will be kept informed of progress and will receive a full and final response, subject to any legal constraints.
- 7.4 The amount of contact between the persons considering the issues and the individual(s) raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary to pursue investigation activity, the Council will seek further information from the individual. Where any meeting is arranged, the individual may be accompanied by a union or professional association representative or a friend or colleague.
- 7.5 The Council will take steps to minimise any difficulties which individuals may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will arrange for you to receive advice and support in doing this.

## **8. How the Matter can be Taken Further**

- 8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if they are not satisfied, or feel it is right to take the matter outside the Council, the following are possible contact points:
- The Council's External Auditor, currently Grant Thornton UK LLP (Tel: 01293 554072, sarah.l.ironmonger@uk.gt.com)
  - Public Concern at Work (Tel: 020 7404 6609, www.pcaw.co.uk) who are a registered charity whose services are free and confidential
  - The local Citizens Advice Bureau
  - Relevant professional bodies, Trade Unions or regulatory organisations
  - Unison's whistleblower's hotline 0800 597 9750
  - The Police
  - A solicitor

- The Local Government Ombudsman.

8.2 If individuals do feel it is right to take the matter outside the Council, they will need to ensure that confidential information is not disclosed. Advice and guidance on this issue may be sought from the Internal Audit and Fraud Team or the Council's Monitoring Officer.

## **9. Review and Approval of this Policy**

9.1 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.

9.2 The Whistleblowing Policy will be reviewed at least annually by the Audit Committee for recommendation to the General Purposes Committee for approval. The most recent review was undertaken in January 2018 with the next review due January 2019.

**WHISTLEBLOWING POLICY - REPORT OF A CONCERN**

Give a description of the concern including any serious risk to persons or property.

Give details of the information that you have relating to the concern, e.g. what evidence do you have that gives rise to your concern.

Have you previously raised this concern? If so, with whom and what action was taken?

Give details about yourself – Please note you are not required to do so and can make a report anonymously, which will still be considered, however this can hamper any investigation should further information be required. All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. At the appropriate time, however, you may need to come forward as a witness.

Name.....

Contact details.....

I understand that this concern is being raised under the Council's Whistleblowing Policy and have read and understood the Policy.

Signed..... Date.....

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

#### Report of the Chief Audit Executive

#### 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.**

#### 1.1 Introduction

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 January 2017; subsequently the PSIAS were updated with changes implemented from April 2017. A review of the Charter found that it continues to meet the requirements of the PSIAS and CIPFA's Local Government Application Note to the Standards, no changes were required. A copy of the Charter is attached at **[Annex 1]**.

1.2.2 Members will note that the document reflects the shared service arrangement with Kent County Council. In particular, the Audit and Assurance Manager is named as the officer fulfilling the role of the Chief Audit Executive (CAE) under the Public Sector Internal Audit Standards.

#### 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 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 PSIAS 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 PSIAS and the CIPFA Local Government Application Note to the PSIAS. 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 **approve** the attached Internal Audit Charter.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland  
Chief Audit Executive



## 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." The Accounts and Audit Regulations specifically require 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 Audit and Assurance Manager. 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 and Professional Standards

The Internal Audit activity will govern itself by adherence to the Standards along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA). This mandatory guidance constitutes the definition of Internal Audit, the Code of Ethics and Standards for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit activity's performance. The Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life, and will adhere to the Council's policies and procedures and the Internal Audit Manual.

### Organisational Relationships

The CAE will report functionally to the Council's Management Team and Audit Committee and therefore the appointment or termination of the CAE will be reported to Management Team and the Audit Committee.

The Chair of the Audit Committee will monitor the performance of the CAE and will be invited to provide feedback to the appraisal process for this officer.

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



## INTERNAL AUDIT CHARTER

The CAE 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 their responsibility. Where the CAE is a client of Internal Audit, audit management responsibilities in relation to the assignment will be passed to an independent third party to ensure that Internal Auditors remain independent 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 CAE has direct access to the Director – Finance & Transformation as Section 151 Officer.

### *Relationship with the Monitoring Officer*

The CAE has direct access to the Director – Central Services as Monitoring Officer.

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

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

### *Relationship with Management Team*

The CAE is able to report in their 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 CAE has direct access to the Chair of the Audit Committee and is able to report in their own right to the Audit Committee. The role of the Committee includes monitoring of the performance of the Internal Audit function. This is primarily achieved through consideration of interim and annual Internal Audit reports. Additionally, the CAE will prepare and present an annual risk based audit plan to the Audit Committee for approval and give an annual opinion on governance, risk management and internal control.

### *Relationship with External Audit*

The CAE 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 CAE 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 relevant External Auditor communications.





## INTERNAL AUDIT CHARTER

### 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 CAE 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 the CAE is responsible, audit management responsibilities in relation to the assignment will be passed to an independent third party.

The CAE will confirm to the Audit Committee, 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 a proper degree of coordination with External 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 Audit Committee 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 CAE is responsible for the Council's counter fraud activity including



## INTERNAL AUDIT CHARTER

maintenance of the Anti-Fraud, Bribery & Corruption Policy 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 CAE to fulfil the responsibility under the Accounts and Audit Regulations 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 role of CAE is provided by way of a secondment agreement with Kent County Council under a partnership working arrangement. The objective of this partnership is to provide a high quality Internal Audit service with added resilience, share best practice and work to align 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 CAE by way of a secondment agreement with Kent County Council and two full time trainee auditors/auditors. The partnership working arrangement with Kent County Council provides the opportunity for Internal Auditors at both councils to conduct audits at either council where it is practical and beneficial to do so. The Internal Auditor assigned to each audit review is selected by the CAE 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 council or of a consultant, formal arrangements are to be set in place and agreed by the Director of Finance & Transformation in accordance with the Council's Contracts Procedure Rules after budget provision has been agreed.

### Internal Audit Plan

At least annually, the CAE 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 CAE 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 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,



## INTERNAL AUDIT CHARTER

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.

### **Quality Assurance and Periodic Assessment**

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

In addition, the CAE will communicate to the Council's Management Team and the Audit Committee on the Internal Audit activity's Quality Assurance and Improvement Programme, including any non-conformance with the Standards, results of annual internal assessments of the effectiveness of the system of internal audit and external assessments conducted at least every five years.

Signed by:

Chief Audit Executive (CAE)

Chair of the Audit Committee

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Delegated

### 1 ANTI-MONEY LAUNDERING POLICY

**Members are invited to consider an update of the Council's Anti-Money Laundering Policy and supporting guidance notes.**

#### 1.1 Introduction

1.1.1 The Council's current Anti-Money Laundering Policy and associated guidance was last updated in 2010 and circulated in 2011. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 were introduced in June 2017 and provide the opportunity to update the Council's Policy to bring it in line with the new requirements.

1.1.2 Public authorities are excluded in the Money Laundering Regulations 2007 from the definition of 'relevant persons' and the 'regulated sector' and, as a result, are not obliged to apply the main provisions of the Regulations. However, it is acknowledged that public authorities, as responsible public bodies, should employ policies and procedures which reflect the essence of the UK anti-terrorist financing and anti-money laundering legislation.

1.1.3 Consequently the Anti-Money Laundering Policy and associated documentation attached at **[Annex 1 and 2]** have been reviewed and updated as appropriate in light of the new requirements, together with a change in the designated Money Laundering Reporting Officer to the Financial Services Manager in anticipation of the planned retirement of the Exchequer Services Manager later this year.

1.1.4 The Policy, once approved, will be circulated to all staff with computer access using Netconsent and made available on the Council's Intranet and external website.

#### 1.2 Legal Implications

1.2.1 The Policy is not mandatory, but existence of the same is deemed good practice and refers to the relevant legislation where appropriate.

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

1.3.1 There are no additional resource implications.

### **1.4 Risk Assessment**

1.4.1 A low level of awareness of the Anti-Money Laundering Policy can increase the risk that money laundering would go unnoticed.

### **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 Policy Considerations**

1.6.1 Crime & Disorder Reduction

### **1.7 Recommendations**

1.7.1 Members are asked to **approve**, subject to any required amendments, the Anti-Money Laundering Policy and associated documentation attached at **[Annex 1 and 2]** and the change of designated Money Laundering Reporting Officer noted at paragraph 1.1.3.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

## **TONBRIDGE & MALLING BOROUGH COUNCIL ANTI-MONEY LAUNDERING POLICY**

**Failure by a person to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them in accordance with the Council's Disciplinary Policy and Procedure and criminal prosecution.**

### **1. INTRODUCTION**

- 1.1. Tonbridge and Malling Borough Council has a zero tolerance policy concerning money laundering and is committed to the highest standards of conduct.
- 1.2. The Proceeds of Crime Act (POCA) 2002, the Terrorism Act 2000 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on Tonbridge and Malling Borough Council and its employees to ensure that procedures are in place to prevent the Council's services being used for money laundering.
- 1.3. This policy sets out the process to minimise the risk, as well as provide guidance on the Council's money laundering procedures. Adhering to this policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.
- 1.4. The policy is not intended to prevent customers and service users from making payments for Council services, but to minimise the risk of money laundering in high value cash transactions.

### **2. SCOPE OF THE POLICY**

- 2.1 This Policy, applies to all Councillors, employees (permanent or temporary) and contractors of the Council, and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering.
- 2.2 The Policy sets out the procedures to enable the Council to comply with its legal obligations.
- 2.3 The Policy sits alongside the Council's Whistleblowing Policy and the Anti-Fraud, Bribery and Corruption Policy.

### **3. WHAT IS MONEY LAUNDERING?**

3.1 Money laundering is defined as meaning:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of POCA 2002); or

- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329); or
- becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation.

3.2 Potentially any Councillor or member of staff could contravene the POCA 2002 provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

3.3 Whilst the risk to the Council of contravening this legislation is considered low, Councillors and employees should know of their legal responsibilities as serious criminal sanctions may be imposed for breaches.

#### **4. WHAT ARE THE OBLIGATIONS ON THE COUNCIL?**

4.1 The Council has adopted certain of the procedures required of 'relevant persons' as defined in the Regulations –

- appoint a Money Laundering Reporting Officer ("MLRO") to receive disclosures from employees of money laundering activity (their own or anyone else's);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

4.2 Compliance with the law is to apply them to all areas of work undertaken by the Council; therefore, all Councillors and staff are required to comply with the reporting procedure set out in section 6 below.



## 5. THE MONEY LAUNDERING REPORTING OFFICER

- 5.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Financial Services Manager, Paul Worden. He can be contacted as follows:

**Paul Worden**  
**Financial Services Manager**  
**Financial Services**  
**Gibson Building**  
**Gibson Drive**  
**Kings Hill**  
**West Malling**  
**ME19 4LZ**  
**Telephone: 01732 876175 Direct Line or at**  
[paul.worden@tmbc.gov.uk](mailto:paul.worden@tmbc.gov.uk)

- 5.2 In the absence of the MLRO, the Senior Exchequer Assistant, Dominic Reynolds, is authorised to deputise for him. Dominic can be contacted at the above address or on telephone number 01732 876110 Direct Line or at [dominic.reynolds@tmbc.gov.uk](mailto:dominic.reynolds@tmbc.gov.uk).

## 6. DISCLOSURE PROCEDURE

### Reporting to the Money Laundering Reporting Officer

- 6.1 Where an individual knows or suspects that money laundering activity is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the legislation, it must be disclosed immediately to the MLRO.
- 6.2 The disclosure should be made to the MLRO using the statement attached at Appendix 1. The report must include as much detail as possible, for example:
- a) Full details of the individual making the report.
  - b) Full details of the people involved.
  - c) Full details of the nature of their/your involvement;
  - d) The details of the suspected / known activities, including:
    - Whether the transactions have happened, are ongoing or are imminent;
    - The dates of the transactions;
    - Where they took place;
    - How they were undertaken;
    - The (likely) amount of money/assets involved;
    - Why, exactly, you are suspicious;
    - Supporting relevant documentation.
- 6.3 Once you have reported the matter to the MLRO you must follow any directions they may give you.

6.4 Any reporting should be treated as confidential and should not be discussed or disclosed to anyone, unless directed by the National Crime Agency (NCA) or MLRO. This includes notation on client files.

**Consideration of the disclosure by the Money Laundering Reporting Officer**

6.5 Upon receipt of a disclosure report, the MLRO must note the date of receipt and acknowledge receipt of it to the individual making the report along with an estimated timescale for a response.

6.6 The MLRO will consider the report and request any other available internal information they think relevant to substantiate the claims.

6.7 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether money laundering is suspected or actually taken place and if NCA consent is required for the transaction to proceed.

6.8 If suspicion is confirmed the MLRO must disclose the matter immediately to the NCA on their standard report form.

6.9 Where the MLRO suspects money laundering but has a reasonable excuse for nondisclosure, then he must note the report accordingly and give consent for any ongoing or imminent transactions to proceed.

6.10 In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to the NCA.

6.11 If consent is required from the NCA for a transaction to proceed, then the transaction(s) in question cannot take place until consent is specifically given, or there it is deemed consent has been given due to expiration of the relevant time limits without objection from the NCA.

6.12 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then the report will be marked accordingly and give consent for any ongoing or imminent transaction(s) to proceed.

6.13 All disclosure reports referred to the MLRO and reports made by him to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

**IT IS A CRIMINAL OFFENCE FOR THE MLRO TO FAIL TO DISCLOSE MONEY LAUNDERING CONCERNS TO THE NCA AS SOON AS PRACTICAL.**

## **7. CLIENT IDENTIFICATION PROCEDURE**

7.1 The Client Identification Procedure should enable us to have confidence in accepting instructions from a known client. For a new client, then you may also wish to seek additional evidence, for example:

- checking the organisation's website to confirm the identity of personnel, its business address and any other details;
- attending the client at their business address;
- a search of the internet;
  - asking the key contact officer to provide evidence of their personal identity and position within the organisation, for example: passport or driving licence; signed, written confirmation from their Head of Service or Chair of the relevant organisation that such person works for the organisation.

7.2 In all cases, the evidence should be retained for at least five years from the end of the business relationship or transaction(s).

7.3 If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.

## **8. RECORD KEEPING PROCEDURES**

8.1 Each section of the Council must maintain records of:

- client identification evidence obtained; and
- details of all relevant business transactions carried out for clients for at least five years. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

8.2 The precise nature of the records is not prescribed by law however they must be capable of providing an audit trail during any subsequent investigation. If in doubt please discuss with the MLRO.

## **9. CONCLUSION**

9.1 The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Policy has been written so as to enable the Council to meet the legal requirements in a way which is proportionate to the very low risk to the Council of contravening the legislation.

9.2 Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO.

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

This Policy is owned by the Director of Finance and Transformation and reviewed by the Financial Services Manager on her behalf.

The Anti Money Laundering Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2018 with the next review due January 2019.

January 2018

**Anti-Money Laundering Reporting Form****Your Contact Details**

Please provide your contacts details in the box below so we can confirm that we have received the report and get into contact with you if required.

Name :	
Service / Post Title	
Email:	
Contact Telephone:	

**Details of suspected offence**

Please enter details of your suspicions. Please provide as much information as possible.

--

**Name(s) and Address(es) of Person(s) involved**

If a company or public body please include the nature of business.

--

**Transaction(s)**

Please enter the details of the transactions you think are suspicious, please continue on a separate sheet if necessary.

Date:			
Amount:		Currency:	
Credit/Debit			
Nature of transaction:			

**Nature of suspicion regarding such activity:**

Please continue on a separate sheet if necessary.

--

**Are you aware of any investigations undertaken to date:**

If yes please give details otherwise please write NO.

--

**Have you discussed your suspicions with anyone else?**

If yes please give details otherwise please write NO.

**Please give any other information that you feel is relevant.**

Signed \_\_\_\_\_

Dated \_\_\_\_\_

**THE REPORTER SHOULD NOT WRITE ANYTHING BELOW THIS LINE**

**THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO**

Date report received \_\_\_\_\_

Date receipt of report acknowledged \_\_\_\_\_

**Consideration of disclosure:**

Action Plan:

**Outcome of Consideration of disclosure:**

**Are there sufficient grounds for suspicion, will a report be made to the NCA? If yes please complete details below.**

Date report sent \_\_\_\_\_

Date receipt of report acknowledged \_\_\_\_\_



Notice Period From \_\_\_\_\_ to \_\_\_\_\_

Moratorium Period From \_\_\_\_\_ to \_\_\_\_\_

**Is consent required from the NCA to any ongoing or imminent transactions which would otherwise be a prohibited act? If yes please complete details below.**

Date consent received from NCA \_\_\_\_\_

Date consent given by MLRO to employee \_\_\_\_\_

**If there are reasonable grounds for suspicion of money laundering, but you do not intend to report the matter to the NCA, please give the reasons for non-disclosure.**

**Date of consent given by MLRO to proceed with transaction**

\_\_\_\_\_

**Any other relevant information:**

**Signed**

\_\_\_\_\_

**Dated**

\_\_\_\_\_

**THIS REPORT IS TO BE RETAINED FOR AT LEAST 5 YEARS**

# TONBRIDGE & MALLING BOROUGH COUNCIL

## GUIDANCE NOTE - Anti-Money Laundering

### 1. INTRODUCTION

Tonbridge and Malling Borough Council has a zero tolerance policy concerning money laundering and is committed to the highest standards of conduct.

The Proceeds of Crime Act (POCA) 2002, the Terrorism Act 2000 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on Tonbridge and Malling Borough Council and its employees to ensure that procedures are in place to prevent the Council's services being used for money laundering.

This note seeks to provide guidance on the Council's anti-money laundering procedures in order to minimise any risk. Adhering to the policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.

The approved policy is not intended to prevent customers and service users from making payments for Council services, but to minimise the risk of money laundering in high value cash transactions.

### 2. GENERAL

Whilst the Council has no obligation under statute to provide what is defined as a 'Relevant Person(s)' for the purposes of money laundering there is substantial reputational risk for the authority if it does not have an adequate policy or procedure in place to prevent money laundering.

To that end the Council has adopted certain of the procedures required of the regulations

These are;

- appoint a Money Laundering Reporting Officer ("MLRO") to receive disclosures from employees of money laundering activity (their own or anyone else's);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

Certain areas of the Council's business will be more likely to attract potential money laundering activity – property/legal transactions and financial arrangements. All Councillors, employees (permanent or temporary) and contractors of the Council are required to comply with the Council's Anti-Money Laundering Policy in terms of reporting concerns regarding money laundering. This will ensure consistency throughout the organisation and avoid 'offences' being committed inadvertently.

### 3. THE OFFENCES

Under the legislation there are two main types of offences which may be committed:

- Money laundering offences
- Failure to report money laundering offences.

Details of what falls under each of these headings are shown below:

#### Money Laundering Offences

Money laundering now goes beyond the transformation of the proceeds of crime into apparently legitimate money/assets, it now covers a range of activities (which do not necessarily need to involve money or laundering) regarding the proceeds of crime. It is technically defined as any act constituting:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of POCA 2002); or
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329); or
- becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

“Criminal property” is widely defined - it is property, situated in the UK or abroad, real or personal, including money, and also includes an interest in land or a right in relation to property other than land obtained through a person’s benefit from criminal conduct where you know or suspect that that is the case.

“Terrorist property” means money or other property which is likely to be used for the purposes of terrorism, proceeds of the commission of acts of terrorism, and acts carried out for the purposes of terrorism.

The law assumes a reasonable and honest person to draw a judgement on the circumstances and information available to you, ignoring this information and guidance will not absolve you of your responsibilities under the legislation.

**The Council has appointed the Financial Services Manager, Paul Worden, as its Money Laundering Reporting Officer to receive reports from employees of suspected money laundering activity. He can be contacted on 01732 876175 and at [paul.worden@tmbc.gov.uk](mailto:paul.worden@tmbc.gov.uk).**

**In his absence the Senior Exchequer Assistant, Dominic Reynolds, is authorised to deputise for him and can be contacted on 01732 876110 and at [dominic.reynolds@tmbc.gov.uk](mailto:dominic.reynolds@tmbc.gov.uk).**

## Examples of money laundering activity

By way of an example, consider the following hypothetical scenario:

A council officer is assessing a customer's finances to calculate how much they should pay towards a service, in the course of which they become aware of, or suspects the existence of, criminal property.

In this scenario the officer may commit an offence under section 328 by "being concerned in an arrangement" which they knows/suspects "facilitates the acquisition, retention, use or control of criminal property" if they do not report their concerns. Any lawyer involved could also be guilty of an offence if s/he assists in the transaction.

Any person found guilty of a money laundering offence is liable to imprisonment (maximum of 14 years), a fine or both. However an offence is not committed if the suspected money laundering activity is reported to the MLRO and, where necessary, official permission obtained to continue in the transaction.

## Possible signs of money laundering

It is impossible to provide a definitive list of ways in which to spot money laundering or how to decide whether to make a report to the MLRO. The following are types of risk factors which may, either alone or cumulatively with other factors, suggest the possibility of money laundering activity:

### Legal and financial

- A new client;
- Concerns about the honesty, integrity, identity or location of a client;
- Illogical or unreasonable transactions: unnecessary routing or receipt of funds via third parties, or is out of line with normal expectations;
- Payment of a substantial sum in cash (over £13,000);
- Absence of an obvious legitimate source or purpose of funds;
- Movement of funds overseas, particularly to a higher risk country or tax haven;
- An overpayment, cancellation or reversal of an earlier transaction which would require a refund;
- Requests for release of client account details other than in the normal course of business;
- Companies and trusts: extensive use of corporate structures and trusts in circumstances where the client's needs are inconsistent with the use of such structures;
- Poor business records or internal accounting controls;
- A previous transaction for the same client which has been, or should have been, reported to the MLRO.

### Property

- Unusual property investment transactions if there is no apparent investment purpose or rationale;
- Instructions to receive and pay out money where there is no linked substantive property transaction involved (surrogate banking);

- Funds received for deposits or prior to completion from an unexpected source or where instructions are given for settlement funds to be paid to an unexpected destination.

Facts which tend to suggest that something odd is happening may be sufficient for a reasonable suspicion of money laundering to arise. In short, the money laundering offences apply to your own actions and to matters in which you become involved. If you become aware that your involvement in a matter may amount to money laundering then you must discuss it with the MLRO and not take any further action until you have received further instructions from the MLRO.

The failure to report money laundering obligations, referred to below, relate also to your knowledge or suspicions of others, through your work.

Failure to report money laundering offences.

Under the Terrorism Act 2000 all individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

The Council's Anti-Money Laundering Policy makes it clear that Members and staff must report any concerns they may have of money laundering activity, irrespective of their area of work and whether it is relevant business for purposes of the legislation. If you know or suspect, through the course of your work, that anyone is involved in any sort of criminal conduct then it is highly possible that the client is also engaged in money laundering and a report to the MLRO will be required, irrespective of the value of the transaction.

Such disclosures to the MLRO are confidential and will be protected in that they will not be taken to breach any restriction on the disclosure of information. You should report any matter you consider as an illegal act to the MLRO, failure to report may render you liable to prosecution.

Where you suspect money laundering and report it to the MLRO, information should not be disclosed to a third party without the permission of the MLRO, as it could result in prejudicing any further investigation, subsequent charge or prosecution. Both of these actions could give rise to a criminal offence and result in your own prosecution.

#### **4. CONSIDERATION OF DISCLOSURE REPORT BY MLRO**

Where the MLRO receives a disclosure from a member of staff and concludes that there is actual/suspected money laundering taking place, or there are reasonable grounds to suspect so, then they must make a report as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless he has a reasonable excuse for non-disclosure. Where relevant, the MLRO will also need to request appropriate consent from the NCA for any acts/transactions, which would otherwise amount to prohibited acts, to proceed.

The MLRO may receive appropriate consent from the NCA in the following ways:

- specific consent;
- no refusal of consent during the notice period (seven working days starting with the first working day after the MLRO makes the disclosure); or
- refusal of consent during the notice period but the moratorium period has expired (31 days starting with the day on which the MLRO receives notice of refusal of consent).

## **5. RELEVANT GUIDANCE**

When considering any offence under the legislation, the Court will consider whether you followed any relevant guidance approved by the Treasury, a supervisory authority, or any other appropriate body which includes, for example, the Law Society, the Financial Conduct Authority, members of the Consultative Committee of Accountancy Bodies (CCAB) and other such bodies. Such guidance is available for lawyers and accountants by their respective professional bodies.

## **6. INTERNAL PROCEDURES**

As mentioned earlier, the various acts impose specific obligations on individuals and businesses in the UK, requiring them to:

- obtain sufficient knowledge to ascertain the true identity of clients in certain circumstances, by maintaining client identification procedures;
- ensure record keeping procedures (e.g. for evidence of identity obtained, details of transactions undertaken, for at least 5 years afterwards).

These procedures are contained in the Anti-Money Laundering Policy and further explanation of them is given below.

## **7. CLIENT IDENTIFICATION PROCEDURE**

Where the Council -

- forms an ongoing business relationship with a client; or
- undertakes a one-off or series of transactions involving payment by the client of £13,000 or more; or
- it is known or suspected that a one-off transaction (or a series of them) involves money laundering

The Client Identification Procedure must be followed before any business is undertaken for that client. Where the client is acting or appears to be acting for someone else, reasonable steps must also be taken to establish the identity of that other person (although this is unlikely to be relevant to the Council).

The law states that particular care must be taken when the client is not physically present when being identified. There are a limited number of exceptions where identification evidence does not need to be obtained, however these are unlikely to ever be relevant to the Council.

## **8. SATISFACTORY EVIDENCE OF IDENTITY**

Satisfactory evidence is that which:

- is capable of establishing, to the satisfaction of the person receiving it, that the client is who they claim to be; and
- does in fact do so.

General guidance on the money laundering legislation suggests that fairly rigorous identification checks should be made. However, due to the considered low risk of the Council being open to money laundering the authority provides for only the most basic of identity checks:

- for internal clients, signed, written instructions on Council headed notepaper or an email on the internal email system at the outset of a particular matter; and
- for external clients, signed, written instructions on the organisation in question's headed paper at the outset of a particular matter.

The following factors suggest a minimum level client identification procedure for the Council is appropriate:

- For internal clients: we all work for the same organisation and therefore have detailed awareness of individuals and their location through previous dealings.
- For external clients: generally local authorities can only provide services to local authorities and designated public bodies; they are therefore heavily regulated by their very nature; most are repeat clients, well known to us in terms of people and the business address.

The Client Identification Procedure should enable us to have confidence in accepting instructions from a known client. For a new client, then you may also wish to seek additional evidence, for example:

- checking the organisation's website to confirm the identity of personnel, its business address and any other details;
- attending the client at their business address;
- a search of the internet;
- asking the key contact officer to provide evidence of their personal identity and position within the organisation, for example: passport or driving licence; signed, written confirmation from their Head of Service or Chair of the relevant organisation that such person works for the organisation.

## **9. TRAINING**

Because of the perceived low risk of the Council of becoming involved in money laundering activity, this Guidance Note will provide sufficient awareness/ training for most members of staff. However, further guidance may be issued from time to time and targeted training provided to those staff more directly affected by the legislation.



## **10. CONCLUSION**

Given the nature of what the Council does and who it can provide services for, instances of suspected money laundering are unlikely to arise very often, if at all; however we must be mindful of the legislative requirements, as failure to comply with them may render individuals liable to prosecution.

Please take prompt and proper action if you have any suspicions and feel free to consult the MLRO on 01732 876175 or at [paul.worden@tmbc.gov.uk](mailto:paul.worden@tmbc.gov.uk) at any time should you be concerned regarding any related matter.

January 2018

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Delegated

### 1 ACCOUNTING POLICIES

This report presents the Accounting Policies proposed for the 2017/18 Financial Statements for consideration and endorsement.

#### 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 endorsement.

1.1.2 A change proposed to be made to the Accounting Policies is in respect of componentisation. For ease of reference the proposed change is detailed below.

#### ***Componentisation***

*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 **significant in relation to the gross book value of the asset**. (was previously in excess of £100,000).*

1.1.3 There have also been a small number of technical or textual changes made and to reflect the change to the date the Accounts are to be ready for audit and publication of the audited accounts.

#### 1.2 Legal Implications

1.2.1 The Accounts are to be prepared in accordance with the Code of Practice on Local Authority Accounting of which the Accounting Policies form an integral part.

#### 1.3 Financial and Value for Money Considerations

1.3.1 As set out in the Accounting Policies.

## **1.4 Risk Assessment**

- 1.4.1 Failure to adequately follow Accounting Policies could result in misrepresentation 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.

## **1.6 Recommendations**

- 1.6.1 Members are asked to **consider** and subject to any required amendments **endorse** the Accounting Policies to be used in the preparation of the 2017/18 Financial Statements as set out at **[Annex 1]**.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

## 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 2017/18*. The Code is based on levels 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 and Revenue Recognition**

Income and expenditure is accrued to ensure that it is accounted for in the year to which it relates, not when cash payments are made or received. In particular:

- Revenue from the sale or provision of goods and services is recognised when it is probable that the economic benefit will flow to the Council.
- Supplies are recorded as expenditure when they are consumed, where supplies remain unconsumed as at the balance sheet date they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, including services provided by employees, are recorded as expenditure when the services are received rather than when payments are made.
- Revenue relating to council tax and business rates will be recorded at the full amount receivable, net of any impairment losses. These transactions are deemed to be of a non-contractual, non-exchange nature in that there is no difference between the delivery of services and the payment of the debt raised.
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant investment rather than the cash flows for the redemption of the investment or interest due dates.

Where income or expenditure has been recognised within the income and expenditure account, but cash has not been received or paid, a debtor or creditor for the amount stated will be recorded on the Balance Sheet. Where debts raised may not be settled, the balance of debtors will be adjusted by an impairment adjustment charged to the revenue account.

Exceptions to these principles 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. The Council is a member of the Kent Business Rates Pool as approved by the Secretary of State in December 2015 where payments to Kent County Council and Kent Fire and Rescue are made via the administering authority, Maidstone Borough Council. As a member of the Business Rates Pool where the business rates income exceeds our baseline funding level the levy payable to central government is less than it would otherwise be, and where a safety net payment is due this is to be met by the Pool rather than central government.

In addition, included in the Comprehensive Income and Expenditure Statement is 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 defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement, 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 most recent actuarial valuation to determine contributions was on 31 March 2016.



#### **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 is:

- When the Accounts are signed by the Council's Section 151 Officer for approval by Members and published with the audit opinion and certificate which should be by no later than 31 July.

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 any exceptional items will be 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.

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 £10,000 for the purposes of capital expenditure. In the case where the individual value of an item, e.g. IT equipment 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 as follows.

#### 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:

<b>Asset Category</b>	<b>Year of Valuation</b>	
Leisure Premises	2012/13	Completed
Properties for Community Use	2013/14	Completed
Public Conveniences	2014/15	Completed
Council Offices	2015/16	Completed
Car Parks	2016/17	Completed
Leisure Premises	2017/18	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 Council's external valuers will also advise annually on any further work required to identify material changes in asset valuations.

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 on the current year's valuation 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 significant in relation to the gross book value of the asset.

#### 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 street furniture, footpaths and signage.

These assets are carried on the Balance Sheet at historic cost.

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 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 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.

Heritage assets are not subject to depreciation.

### **Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. The fair value of these assets can be attributed in three ways.

- Level 1 - Quoted prices in active markets for identical assets/liabilities that the authority can access at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

For the purposes of investment property fair value will be determined at level 2 using market knowledge and indices on market values of compatible properties.

Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. 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 is considered.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals income received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are, therefore, reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Investment properties are 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.

#### **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.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Delegated

#### 1 SCALE OF AUDIT FEES FOR 2018/19

The report informs Members of the proposed scale of audit fees for 2018/19.

#### 1.1 Introduction

1.1.1 In July 2016, the Secretary of State specified Public Sector Audit Appointments Limited (PSAA) as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.1.2 From 2018/19, PSAA's responsibilities include appointing auditors to opted-in bodies, setting fees, and monitoring the quality of auditors' work. The proposed scale of audit fees for 2018/19 can be found at the following link:

<https://www.psaa.co.uk/wp-content/uploads/2017/11/2018-19-scale-fees-consultation-document-Final.pdf>

1.1.3 The document sets out the proposed scale of audit fees for the work to be undertaken by appointed auditors in respect of the 2018/19 financial statements at authorities that have opted into PSAA national auditor appointment scheme. The document also discusses PSAA's intentions, and provides indicative estimates, for scale fees for the five years of the appointing period, from 2018/19 to 2022/23.

1.1.4 The proposed scale of audit fees for 2018/19 audits are based on the scale fees applicable for 2017/18, with a reduction of 23%. This reduction is possible as a result of the favourable prices secured from audit firms in the recent audit services procurement.

1.1.5 This is technically a consultation process and the return date for comments was 15 January 2018. On this occasion it was concluded there were no particular comments that needed to be made in response to the consultation.

## **1.2 Legal Implications**

- 1.2.1 PSAA has a statutory duty to prescribe a scale of fees for the audit of accounts of bodies that have opted into its national auditor appointment arrangements.

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

- 1.3.1 The proposed scale of audit fees for 2018/19 is £35,248 representing a reduction of 23% compared to the fees applicable for 2017/18.

## **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 asked to both **note** and **endorse** the proposed scale of audit fees for 2018/19.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton  
Director of Finance and Transformation

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

#### Report of the Chief Audit Executive

#### Part 1- Public

#### Matters for Information

#### 1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to December 2017.

#### *Internal Audit Update*

#### 1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council 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 (PSIAS) and CIPFA's Local Government Application Note to the PSIAS. The PSIAS requires 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*.

#### 1.2 Progress against the 2017/18 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2017/18 was approved by this Committee on the 3 April 2017. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2017/18 against the Plan.

1.2.2 The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the items on the original Plan, 20 were audits or proactive fraud reviews that would result in an assurance opinion; one of these was subsequently split into two separate pieces of work (Housing Payments and Grants split into Discretionary Housing Payments and Disabled Facilities & Housing Assistance Grants) and we have merged planned work on Data Sharing Agreements into ongoing work on General Data Protection Regulations (GDPR) readiness. We have also agreed to defer the audit of Development Management to 2018/19 to allow changes follow the service

review to embed. This audit has been replaced with additional consultancy work on Corporate Policy Management, ID passes and cemetery capacity. The remainder of the Plan is made up of consultancy items (Bribery and Corruption, GDPR, IR35 and the Waste Contract Tender), follow-up of recommendations due, an allowance for the provision of advice, fraud awareness and investigations.

- 1.2.3 The team have issued final reports and agreed management action plans in respect of nine 2017/18 audits. A draft report has been issued for a further four audits with two audits currently underway and planning in progress for a further three. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2017/18 Plan, including a summary of findings where finalised, is attached to this report at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.2.4 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and agreed with client management prior to finalising the report. Internal Audit follow-up on recommendations agreed and have an escalation process in place that would ultimately result in reporting to Management Team and this Committee should a key control weakness remain; this has not been required for 2017/18.
- 1.2.5 In line with the Public Sector Internal Audit Standards, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. 71 high and medium recommendations were due for implementation in 2017/18 to end of September; of these 21 will be followed up through re-audits during the year and reported to this Committee once those audits are complete (one of these is the Local Plan Audit which is reported at Annex 1). Of the remaining 50 recommendations, 29 have been closed as fully implemented and 5 are partly implemented, i.e. in progress. We require further clarification and/or evidence of implementation in relation to 8 recommendations and we have agreed revised implementation dates for the remaining 8, one of which is a high; having assessed the risk of extending these dates there are no concerns to raise at this time.
- 1.3 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards (the Standards)**
- 1.3.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of internal audit's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3.2 Internal Audit was subject to an independent External Quality Assessment (EQA) during 2016/17, this exercise is undertaken every five years in line with

requirements. The overall opinion was that Internal Audit Generally Conforms to the Standards.

- 1.3.3 The results of the EQA undertaken in May 2016 were reported to the September 2016 Committee meeting and an action plan was prepared to address the eight areas assessed as partially conforms with updates on progress reported to the April and September 2017 Committee meetings. At September action was complete for five of the eight partially conforms. Of the remaining three, two are ongoing and one is now complete barring an element on hold (this relates to a professional training for the audit team, given we currently have one person in post who is undertaking professional studies this will be re-visited if/when we recruit to the current vacancy). The Standards were updated from April 2017, the amended Standards have been reviewed to assess their impact on current practice. While no substantial changes are required some enhancements to current practice would be helpful and a further update will be provided as part of the annual self-assessment of conformance in my annual report to this Committee in July 2018.

### ***Counter Fraud Update***

## **1.4 Prevention and Detection of Fraud and Corruption**

- 1.4.1 This section of the report provides details of the Council's activity in preventing and detecting fraud and corruption in the year 2017/18.
- 1.4.2 The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The result of the exercise completed in October 2016 was that 1,751 matches were received in January 2017. To date 1,680 have been closed with no further action required and 32 have been closed with errors found. The remaining 39 are currently subject to further investigation.
- 1.4.3 In 2017, for the first time, NFI conducted additional data matching using Council Tax Single Person Discount data to a myriad of other data sets held, including Blue Badges, Concessionary Fares, Pensions, Payroll and Parking Permits. This resulted in 2,311 matches; of these 2,239 have now been closed with no further action required and 2 were closed with errors found. The remaining 70 are subject to further investigation.
- 1.4.4 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount; the most recent results were received in January 2017. There were 842 matches received, 671 have been closed with no further action required and 96 have been closed with errors found. The remaining 75 are subject to further investigation.
- 1.4.5 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 2016. The partnership's key aim is to

prevent and detect fraud, reduce partner's fraud risk profiles and support development of fraud professionals in Kent. It delivers a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI. The data analyst recruited by the KIN has recently resigned and the data matching software contract expired. This is being used as an opportunity to review progress to date and consider the way forward; KIN Board members have been meeting with leads of other fraud hubs and will be attending software presentations in January. The results of this work will be used to agree next steps.

- 1.4.6 KCC recently provided part funding for the procurement of software and a temporary staff member to proactively identify high risk cases in relation to Council Tax and NNDR where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. The first batch of cases for review has recently been run from the system and the outcome of this exercise will be reported to the Committee when initial results are forthcoming.
- 1.4.7 Where a match is found through any of the routes above it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.
- 1.4.8 Meetings are being set up with key stakeholders to take forward other proactive work in the 2017/18 Audit and Fraud Plan, planned proactive work outside of the data matching through NFI and KIN addressed above includes training on fraud risks and working with services to support enforcement. In 2017/18 to date fraud awareness training has been provided to Revenues and Benefits staff and to Customer Service Officers, further training is planned by year-end for the Procurement OSG and Housing. One area identified for focus in 2017/18 was Blue Badge fraud, we have undertaken some early liaison with Kent County Council who have been working successfully with other district councils.

## 1.5 Investigating Fraud

- 1.5.1 The Fraud Team is responsible for investigating all allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required.
- 1.5.2 In 2017/18 to end of December, the Counter Fraud Team have closed 307 cases and received a total of 345 referrals, 316 of which relate to NFI as detailed at 1.4; there are 76 current fraud investigations. The total amount of income due as a result of investigations to end of December is £39,960.90 with increased annual liability of £36,960.39. **[Annex 3]** summarises the results of investigations concluded in 2017/18 to date.

## **1.6 Legal Implications**

- 1.6.1 The Accounts and Audit Regulations place a statutory requirement on authorities 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 as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.
- 1.6.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.
- 1.6.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

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

- 1.7.1 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.
- 1.7.2 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. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

## **1.8 Risk Assessment**

- 1.8.1 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.
- 1.8.2 Failing to have an efficient and effective Counter Fraud function could lead to an increased level of fraud. This report, summarising the work of the Counter Fraud function, provides a key source of assurance for the Council on the adequacy and effectiveness of its counter fraud arrangements.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland  
Chief Audit Executive

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## 2017-18 Internal Audit Reviews

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
Payroll	1	1	Complete	Substantial	<p>The overall objective of the audit was to provide assurance that effective controls are in place to ensure that; salaries, wages, and third parties such as HMRC, Unison, and the Kent Pension Fund are paid correctly and on time. Payments are authorised, reconciled and transferred to the Council's financial management systems. We found that each stage of the payment run is recorded, with appropriate and accurate checks in place. At the time of the audit the team was experiencing high levels of absence and brought in help from other teams to provide support. The team is now returning to a full complement of staff over forthcoming months through a phased return to work programme. It was noted that the Exchequer Services Manager and the Payroll Officer have both been dedicated and flexible in their approach to covering absence to ensure that the work has been carried out.</p> <p>Strengths include that separation of duties are in place for the running of reports and reconciliations; a new user access report has been developed by IT to identify user access and privileges to the payroll system which had previously not been possible.</p> <p>Areas for development include that the BACS payment is made by the same officer who processed it; the user access report is somewhat limited and not yet embedded into the control system and there was a redundant stock of payment cheques retained.</p>
Serious and Organised Crime	1	1	Complete	Varied across	The objective of the audit was to provide assurance that the Council has an awareness of the potential to

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
				service areas	<p>be targeted for Serious and Organised Crime, has sufficiently assessed the risks involved, and has adequate controls in place to mitigate against Serious and Organised Crime. We found that Management Team awareness is proportionate to the level of expected risk based on liaison with local police advice through the Community Safety Partnership, Chief Constable and Divisional Commander. There are varying degrees of awareness of how Serious and Organised Crime might affect service areas.</p> <p>Strengths were identified in that the Council has a robust procurement process which is proportionate with the value of the contracts. High value contracts have officer project groups with representatives from key areas which help to ensure that procurement is fair and transparent and the Council protected as far as possible. There are mechanisms within kiosks to prevent anyone depositing significant cash funds.</p> <p>Areas for development include that the Council's Anti-Money Laundering (AML) Policy and guidance have not been reviewed or circulated since 2011 and the fourth generation of AML legislation came into effect in June 2017. Awareness of the policy and guidance is limited. No official AML reports have been submitted and any enquiries have been related to payments from cash-oriented business such as taxi firms and car washing firms. We found gaps in evidence on file of right to work for employees, agency workers and self-employed consultants working for the Council. References were not available for all staff. The Home Office can impose substantial civil penalties if found that the Council had employed officers without a legal right to work in the UK.</p>

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
Corporate Governance - compliance with new framework	1	1	Complete	Adequate	<p>The objective of the audit was to provide assurance on compliance with the revised Local Code of Corporate Governance. We found that overall the Council does comply.</p> <p>Strengths identified include that Members have been kept up to date on progress made by the Council to ensure compliance with the revised Local Code of Corporate Governance; officers have completed a self-assessment questionnaire and listed supporting evidence and suitable evidence is in place to support the Annual Governance Statement.</p> <p>Areas for development include ensuring completeness of Officer and Member declarations of interests; lack of corporate enforcement and partnership policies and localised performance management rather than corporate reporting.</p>
S106 agreements	1	2	Draft Report	TBC	
Housing Payments and Grants -Housing Discretionary Payments	2	2	Complete	Limited	<p>The overall objective of the audit was to provide assurance that the fraud and error risks associated with Discretionary Housing Payments (DHP's) are reduced to an acceptable level. Overall we found that staff awareness of DHP and Benefit legislation is strong, however controls need to be improved.</p> <p>Areas for development include that all decisions should be made within the normal DHP decision making process ensuring payment is appropriate and Housing Benefit is in payment correctly; decisions made should be supported by relevant and sufficient evidence, for example bank &amp; rent statements, and appeals should be undertaken in accordance with DHP policy.</p>

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
Housing Payments and Grants	2	2	Draft Report	TBC	
-Disabled Facilities and Housing Assistance Grants					
Savings and Transformation Strategy	3	4	Planning		
Risk Management	4				
Bribery & Corruption	1	3	In Progress		
Safeguarding follow-up	3	3	Draft Report	TBC	
General Data Protection Regulations	Ongoing	Ongoing	Ongoing consultancy work	N/a	
Information Governance including data sharing agreements	3	Merged with above	Ongoing consultancy work	N/a	
IR35	1	3	Draft Report	TBC	
Licensing	3	3	Complete	Substantial for Fraud & Safeguarding	The objective of the audit was to provide assurance that fraud and safeguarding risks are appropriately managed in relation to taxi and alcohol licensing. However during the course of the audit the scope was

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
				Limited for Data & Information Security	<p>expanded due to issues being identified regarding data privacy and information security.</p> <p>Overall the licensing section is organised, aware of the risks and have adequate control processes in place to mitigate fraud and safeguarding risks. However issues relating to data privacy and retention of Disclosure Baring Service certificates were identified.</p> <p>Strengths include that staff are knowledgeable and experience; a daily licensing surgery is held; processes for verifying identity, residency, right to work and DBS are in place and adhered to and Members are given sufficient information for licensing appeal panels.</p> <p>Areas for development identified include that procedures are not updated; Data Privacy issues including that DBS certificates are retained; there is a lack of accountability in relation to evidence checking; no process to ensure that all mid-year certificates of compliance are received and a no contracts, service level agreements or inspections with garages</p>
Help desk	2	4			
IT Disaster Recovery Plan	4	TBC			
Cyber attacks	2	2	Complete	Substantial	<p>The overall objective of the audit was to provide assurance that the Council is able to identify whether suspicious activity is occurring, protect the Council's computer infrastructure and electronic data against attack as far as is reasonable/practicable, detect whether an incident has occurred, respond and recover, as well as reviewing the adequacy of information and training available to all users of the Council's computer systems. We found that the Council has adequate policies, procedures, and systems in</p>

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
					<p>place to minimise vulnerabilities to cyber-attacks and mitigate damage should a virus or malware be detected.</p> <p>Strengths were identified in relation to easily accessible, comprehensive, recently reviewed and updated Information Security policies; the identification and correction of viruses and malware, including re-imaging of infected PCs; a recent positive IT Health Check and penetration testing; phased system patch releases permitting easier roll-back in case of issue and access to information security guidance, network, and training for IT management.</p> <p>Areas for development include the lack of current capability to passively detect unusual levels of internet traffic; no specialist forensic resource (this is currently being tendered for jointly with other Kent authorities) and difficulty demonstrating release and prioritisation of patch maintenance.</p>
Change in banking arrangements	1	N/a	Planning		
Local Plan – follow-up	3	3	Complete	N/a	The objective of this audit was to provide assurance on progress in developing the Local Plan in line with government guidance and to required timescales. It was intended to do further testing of progress against milestones, however this has been delayed by changes to requirements and therefore we focussed on following up implementation of the issues raised in the

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
					2016/17 audit. Our testing confirmed that all recommendations have been addressed with appropriate action taken.
Development Management	4	Deferred to 18/19	N/a	N/a	This audit was deferred as completion of the service review has been delayed. It will be undertaken in Q2 of 2018/19
Building control resilience	3	3	In progress		
Planning enforcement	3	4	Planning		
Health and Safety	2	2	Complete	Substantial	<p>The objective of the audit was to provide assurance that the Council, its Officers, Members and visitors are adequately protected by the policies and practices in place to manage Health and Safety. Overall, good progress has been made covering a breadth of areas including review of Council policies, implementing changes that are suitable for the organisation, identifying issues and correcting, and streamlining processes. Work has been appropriately prioritised, and where relevant work has been conducted with partner organisations.</p> <p>Strengths include that the revised policies are easy to understand, as succinct as possible, and contain appropriate roles and responsibilities; professional advice from the Council's qualified Health and Safety Officer is provided timely and an annual work programme and schedule in place for assurance work and planning reviews.</p> <p>Some areas for development remain operationally, Fire Wardens are not consistently completing checklists; fire evacuation testing has not been held in line with policy and not all new officers are receiving Health and Safety inductions.</p>

Audit Review Title	Planned Quarter	Quarter Undertaken	Status	Audit Opinion	Scope of Audit and Findings
Air Quality Management	3	3	Complete	Substantial	<p>The objective of the audit was to provide assurance that processes in place meet statutory guidance, support environmental objectives, and ensure air quality is considered in relevant decisions. Overall it is considered that the Air Quality (AQ) function within Environmental Health is operating effectively and efficiently, including liaison with Development Control on planning matters.</p> <p>Strengths include the testing regime and continuous monitoring, including regular calibration, is in line with DEFRA guidance; location of monitoring stations reflects AQ Monitoring Areas and other appropriate areas; pollution results are recorded accurately; AQ is considered with planning applications and concerns incorporated into decisions; prompt and full payment for the majority of Environmental Protection Regulation (EPR) premises and risk rating of EPR premises.</p> <p>Areas for development included a small number of record keeping issues; EPR inspections behind schedule and recording of planning advice provided.</p>
Business Continuity Plan	4	TBC			
Waste Contract Tender	Ongoing	Ongoing	Ongoing consultancy	N/a	



## Definitions of Audit Opinions

<b>High</b>	<p>There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.</p>
<b>Substantial</b>	<p>The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non-compliance were noted during the audit that may put a system/service objective at risk.</p>
<b>Adequate</b>	<p>The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non-compliance with some controls that may put system/service objectives at risk.</p>
<b>Limited</b>	<p>Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.</p>
<b>No Assurance</b>	<p>The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.</p>

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Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error / Incorrect Discount	Fraud Proven/ Prevented*	Total due to be repaid to TMBC	Increase In liability (annual amount)	No of Penalty Charges	Total £ Penalty charge
Housing	6	5	0	1	£0.00	£0.00	0	£0.00
Council Tax Reduction	11	5	5	1	£9,856.80	£6,526.51	2	£140.00
SPD	284	215	69	0	£30,104.10	£30,433.88	54	£3,780.00
SPD & CTR	4	3	0	1	£0.00	£0.00	0	£0.00
NNDR	0	0	0	0	£0.00	£0.00	0	£0.00
DHP	0	0	0	0	£0.00	£0.00	0	£0.00
New HB Claim	2	0	0	2	£0.00	£0.00	0	£0.00
	<b>307</b>	<b>228</b>	<b>74</b>	<b>5</b>	<b>£39,960.90</b>	<b>£36,960.39</b>	<b>56</b>	<b>£3,920.00</b>

Sanctions as follows:

- £70 Penalty x 56
- 2 x Cautions

\*The remaining 3 cases were fraud prevented – we do not currently place a value on these

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Matters for Information

#### 1 GRANT THORNTON – AUDIT COMMITTEE UPDATE

This paper is a progress report and update from Grant Thornton, our external auditors.

#### 1.1 Committee Update

1.1.1 Attached at [**Annex 1**] is a progress report and update from Grant Thornton covering information on a number of areas including the following:

- Progress update
- Setting up a successful social enterprise
- Code of Practice on Local Authority Accounting.

#### 1.2 Legal Implications

1.2.1 As set out in the paper.

#### 1.3 Financial and Value for Money Considerations

1.3.1 As set out in the paper.

#### 1.4 Risk Assessment

1.4.1 As set out in the paper.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton  
Director of Finance and Transformation

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# Audit Progress Report and Sector Update

**Tonbridge & Malling Borough Council**  
Year ending 31 March 2018  
Page 191  
19 January 2018



# Contents

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# Introduction



**Ciaran McLaughlin**

**Engagement Lead**

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E [ciaran.t.mclaughlin@uk.gt.com](mailto:ciaran.t.mclaughlin@uk.gt.com)

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

The paper also includes:

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

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

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

Page 193



**Andy Ayre**

**Engagement Manager**

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# Progress at January 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We are due to commence our interim audit in February 2018. Our interim fieldwork visit will include:

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

We will report any findings from the interim audit to you in our Progress Report at the April Audit Committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We discuss our plan and timetable with officers.

The final accounts audit is due to begin in early June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

## Value for Money

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

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

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

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

We will make our initial risk assessment to determine our approach in December 2017 and report this to you in our Progress Report at the April Audit Committee.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

We met with Finance Officers in January as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. This meeting was also used to introduce key Officers to Ciaran who is taking over as Engagement Lead for 2017/18 for Sarah Ironmonger.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Local Government update sessions, which provide an update on the changes to the Accounts for 2017-18. A session for our Kent clients is being run at Ashford BC on the 7<sup>th</sup> of February, with further dates in London during February. Please liaise with your Engagement Team if you wish to attend any of these events.

# Audit Deliverables

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

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# Sector Update

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

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

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

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

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



Public Sector



Local  
government

# Combined Authorities: Signs of Success



In her foreword to ‘Building our Industrial Strategy’ the Prime Minister states that the initiative “will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East.”

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

## Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

[Click on the report cover to download and read more.](#)

Grant Thornton  
An insight for growth

Bond Dickinson

Combined Authorities:  
signs of success



Grant Thornton Publication



# Setting up a successful social enterprise



Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended.

The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

## Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted exiting models into social enterprises; for example where a greater focus on social outcomes has been identified

[Click on the report cover to download and read more](#)

Grant Thornton  
An indirect for growth

Setting up a  
social enterprise



Grant Thornton Publication



# The Board: creating and protecting value



In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance.

This powerful tool provides a framework with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

[Click on the report cover to download and read more](#)

<b>Value creation</b>									
<b>Non-executives</b>	<table border="1"> <tr> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;"><b>Directorship</b></td> <td> <p><b>How well do the non-executives:</b></p> <ul style="list-style-type: none"> <li>design, debate and decide the organisation's future?</li> <li>inspire and guide the executive to realise the organisation's purpose?</li> <li>provide support to the executives?</li> </ul> </td> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;"><b>Leadership</b></td> <td> <p><b>How well do the executives:</b></p> <ul style="list-style-type: none"> <li>Make decisions aligned with realising the organisation's purpose?</li> <li>Inspire and motivate employees to realise the organisation's purpose?</li> <li>model the values of the organisation?</li> </ul> </td> </tr> <tr> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;"><b>Assurance</b></td> <td> <p><b>How well do the non-executives:</b></p> <ul style="list-style-type: none"> <li>monitor financial, compliance and business indicators?</li> <li>ensure appropriate processes are in place to manage risk?</li> <li>have oversight of the executive team?</li> </ul> </td> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;"><b>Management</b></td> <td> <p><b>How well do the executives:</b></p> <ul style="list-style-type: none"> <li>set goals, creating plans and allocating resources to achieve them?</li> <li>effectively assign roles and responsibilities?</li> <li>Focus on day-to-day tasks and resources needed to deliver strategic aims?</li> </ul> </td> </tr> </table>	<b>Directorship</b>	<p><b>How well do the non-executives:</b></p> <ul style="list-style-type: none"> <li>design, debate and decide the organisation's future?</li> <li>inspire and guide the executive to realise the organisation's purpose?</li> <li>provide support to the executives?</li> </ul>	<b>Leadership</b>	<p><b>How well do the executives:</b></p> <ul style="list-style-type: none"> <li>Make decisions aligned with realising the organisation's purpose?</li> <li>Inspire and motivate employees to realise the organisation's purpose?</li> <li>model the values of the organisation?</li> </ul>	<b>Assurance</b>	<p><b>How well do the non-executives:</b></p> <ul style="list-style-type: none"> <li>monitor financial, compliance and business indicators?</li> <li>ensure appropriate processes are in place to manage risk?</li> <li>have oversight of the executive team?</li> </ul>	<b>Management</b>	<p><b>How well do the executives:</b></p> <ul style="list-style-type: none"> <li>set goals, creating plans and allocating resources to achieve them?</li> <li>effectively assign roles and responsibilities?</li> <li>Focus on day-to-day tasks and resources needed to deliver strategic aims?</li> </ul>
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<b>Value protection</b>									



Source: The Board: Creating and protecting value, 2017, Grant Thornton

Grant Thornton Publication



# Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available [here](#).

CIPFA  
The Chartered Institute of  
Public Finance & Accountancy

code of practice on  
local authority accounting  
in the United Kingdom 2017/18



CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

Looking further ahead, this sets out the changes to the 2018/19 Code in respect of [IFRS 9 Financial Instruments](#) and [IFRS 15 Revenue from Contracts with Customers](#). It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.

CIPFA Publication



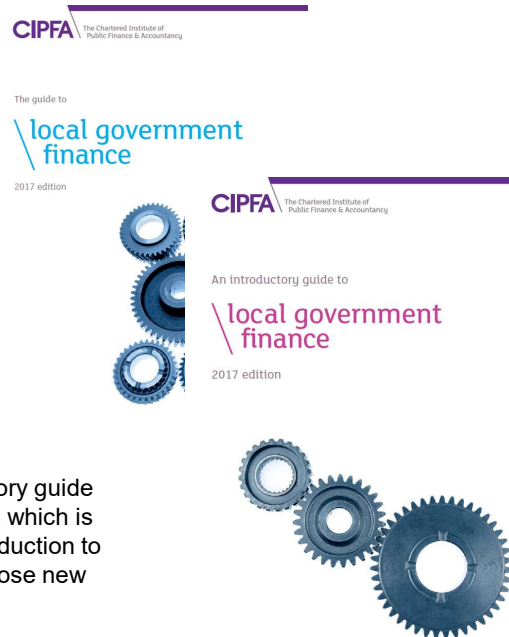


# CIPFA Publication – Guide to Local Government Finance

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.



CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.

CIPFA Publication



# DCLG Consultation

## DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The Government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closed on 22 December 2017 and may be accessed [here](#).

### Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

### Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

DCLG consultation



# Local Authority 2016/17 Revenue Expenditure and Financing

DCLG has produced a summary of Local Authorities' 2016/17 final outturn for revenue spending and financing. It notes that local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure.

The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

Local authority revenue expenditure totalled £93.6 billion for all local authorities in England in 2016-17. This was 1% lower than £94.5 billion spent over 2015-16.

Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. The 2016-17 financial year was the first year where local authorities were able to raise additional funding for Adult Social Care through the council tax precept.

- The largest decrease in local authority expenditure was on Education services. This was £0.75 billion (2.2%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.4 billion of this increase is due to the Greater London Authority.

The full report is available [here](#).

## Did you know....

This data set and many others are included in CFO Insights.

CFO Insights, is the Grant Thornton and CIPFA online analysis tool.

It gives those aspiring to improve the financial position of their organisation, instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

**CFO Insights**

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# Links

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## Grant Thornton website links

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

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.cfoinsights.co.uk/>

## CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

## DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

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

#### Part 1- Public

#### Matters for Information

### 1 GRANT CERTIFICATION LETTER

This report summarises the outcomes from certification work carried out by our external auditors, Grant Thornton, for 2016/17.

#### 1.1 Introduction

1.1.1 Certain claims and returns submitted by local authorities require auditor certification. For 2016/17 the only claim requiring auditor certification was the Council's claim for housing benefit subsidy of £34.9m, based on benefit granted of £35.5m.

1.1.2 Auditors are required to report the outcomes of certification work to those charged with governance which for this purpose is the Audit Committee. Key messages taken from the Certification Letter 2016/17 are:

- Certification work identified a small number of issues as detailed in the Letter.
- As a result of the issues identified the 2016/17 claim was amended in the sum of £23,747 and qualified as required.
- Recommend that the Council as part of its internal quality assurance process increase its focus on the areas identified.

1.1.3 A copy of the Certification Letter 2016/17 is attached at **[Annex 1]**.

#### 1.2 Legal Implications

1.2.1 Auditors are required to report the outcome of certification work to those charged with governance.

#### 1.3 Financial and Value for Money Considerations

1.3.1 The fee can be met from within existing budgets.

## **1.4 Risk Assessment**

1.4.1 Recommendations made as a result of certification work are discussed with and any resulting actions required agreed with officers.

Background papers:

contact: Andrew Rosevear

Nil

Sharon Shelton

Director of Finance and Transformation





# Grant Thornton

An instinct for growth™

Sharon Shelton  
Director of Finance and Transformation  
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Dear Sharon

## **Certification work for Tonbridge and Malling Borough Council for year ended 31 March 2017**

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

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

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £34.95 million. Further details are set out in Appendix A.

We identified a small number of issues from our certification work which we wish to highlight for your attention. Firstly, one new error was identified in 2016/17 relating to modified schemes. Secondly, the issues identified from our work related to two areas where we identified issues in the previous year. Full details of these areas and the issues identified can be seen in Appendix A. This does represent an improvement from the previous year however both areas where issues were identified will require additional testing in 2017/18 to determine whether the issues have been sufficiently resolved.

As a result of the errors identified, the claim was amended for the financial impact and qualified as required, and we reported our findings to the DWP. It is worth highlighting that the total value of errors identified was relatively insignificant when compared with the total subsidy receiveable by the Council. The DWP may, however, require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £13,950, and we are proposing an additional fee of £2k in respect of the additional testing required for 2016/17.

Yours sincerely

Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing Benefits Subsidy Claim	£34,954,475	Yes	£23,747	Yes	See below for detailed comments on the issues identified in this year's Claim Form.

### Findings from certification of housing benefits subsidy claim

#### **Modified schemes**

We found that the Council had not applied the correct income for War Widow(er) pensioners with the result that four claims were incorrectly calculated. Officers were able to review the whole of the population and we agreed as no amendment was required the calculations would be corrected on the system in 2017/18.

#### **Incorrect Claimant Self-Employed Income – Rent Allowances**

In the previous year, we identified an error in relation to the calculation of the claimant's self-employed income within the Rent Allowance section of the Claim Form. Given the nature of the population, the Council were required to test 40 cases where the claimant's self-employed income is included within the Housing Benefit calculation for 2016-17. Testing identified seven cases where the Council has not used the appropriate earnings within the benefit calculation. The errors were classified as:

- two cases where the claimant was overpaid (total value £1,355)
- five cases where the claimant was underpaid (total value £2,062)
- a further case where there was no impact on the claimant's benefit entitlement

These issues mean that detailed testing will be needed in this area in 2017-18 to determine whether the issues has been adequately resolved.

#### **Classification of Expenditure in Cells 12/13 and 14/15 – Non-HRA**

In the previous year, we also identified an error in relation to the classification of expenditure on cases living in self-contained lodging (cells 12 & 13), and short-term leased and self-contained licensed accommodation (cells 14 & 15) within the Non-HRA section of the Claim Form. Given the nature of the population the Council opted to test 100% of the cases within these cells to determine whether they were correctly classified. Testing identified 15 cases (out of 125) where the expenditure up to and above the cap had been incorrectly classified between Cells 12 & 13 and Cells 14 and 15.

The value of these errors totalled £23,747, which was amended on the claim form. Again, this will mean that specific testing will be needed in this area in 2017/18.

#### **Recommended actions for officers**

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

### **Appendix B: Fees for 2016/17 certification work**

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£18,600	£13,950	£15,950	£2,000	Additional work undertaken by auditor on 40+ testing that was to be completed by TMBC

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

22 January 2018

#### 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 for the year ended 31 March 2017.

#### 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 2017. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in September.

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 2016/17 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) You employed effective processes for producing accurate and high quality draft financial statements, which were supported by good working papers.
- 2) The changes made to the accounts were minor, either being textual or presentational in nature. Many of the adjustments were below the threshold which requires us to report to Those Charged With Governance.
- 3) Concluded that you have proper arrangements to plan finances effectively to manage the medium term financial position of the Council.

#### 1.2 Legal Implications

1.2.1 The Annual 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 As set out in the Annual Audit Letter for the year ended 31 March 2017.

**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 taxpayers.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton

Director of Finance and Transformation

# The Annual Audit Letter for Tonbridge and Malling Borough Council

Year ended 31 March 2017

October 2017

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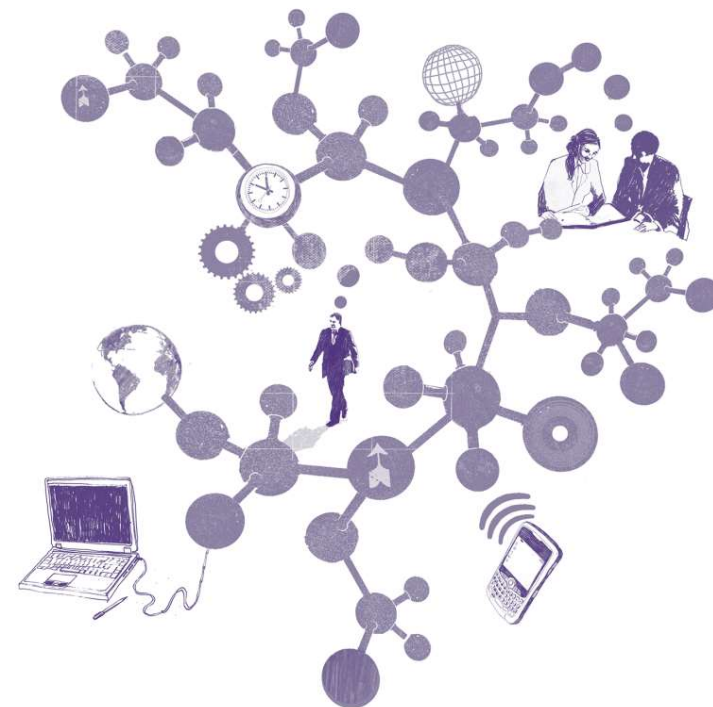
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A Reports issued and fees

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# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Tonbridge and Malling Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 4<sup>th</sup> September 2017.

## Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## Our work

### Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2017.

### Value for money conclusion

We were satisfied that the Council has put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 September 2017.

### Certificate

We certified that we had completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code on 22 September 2017.

### Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

### Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.212 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

### The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance and Transformation are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council's and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.



# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Employee remuneration</b> Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>Walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>Substantive testing of payroll information for a sample of employees to supporting documentation</li> <li>Review of year end reconciliations to ensure completeness of information in the accounts</li> <li>Trend analysis to assess completeness of payroll information</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b> Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>Walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>Substantive testing of creditor balances to supporting documentation</li> <li>Testing of new year payments to ensure expenditure had been posted to the correct accounting period</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Employee remuneration</b> Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated</li> <li>• Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation</li> <li>• Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made</li> <li>• Review of the consistency of disclosures in the financial statements with the actuarial report.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 22 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 4 September 2017. We did not identify any adjustments affecting your reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of (£3,085k).

The key messages arising from our audit of your financial statements are:

- you employed effective processes for producing accurate and high quality draft financial statements, which were supported by good working papers.
- the changes made to the accounts were minor, either being textual or presentational in nature. Many of the adjustments were below the threshold which requires us to report to Those Charged With Governance.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that have required us to apply our statutory powers and duties under the Act.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings

## Overall VfM conclusion

We are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial Position</b>            On its current trajectory, you have identified a funding gap of £1.9m in their Medium Term Financial Strategy from 2016/17 to 2019/20. However a savings plan has been put in place to manage this overspend during the 3 year course of the Medium Term Financial Strategy to return the position to balance by the end of the period. The longer term picture also looks challenging due to the likely cessation of the Revenue Support Grant, the New Homes Bonus scheme has a 2 year life in its current format before payments reduce, along with changes to other areas such as Business Rates Retention. You will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on your long term financial stability</p>	<p>We reviewed the progress against the 2016/17 financial plan up to the completion of our audit; and obtained an update on your Medium Term Financial Strategy, including progress on identified and unidentified savings required in 2017/18. We also carried out discussions with your progress to date.</p>	<p>You set a balanced budget for the year and achieved an improved year end reported position. The factors behind the improved financial position are an improved performance by a number of individual service budgets, together with management savings on pay costs and better than budgeted performance in major operational income streams which resulted in the contribution of £0.9 million to your general reserves.</p> <p>The programme for compiling your savings plans is based on the processes you put in place as part of your Savings and Transformation Strategy. You identified a savings target of £1.9 million for the period 2016/17 to 2019/20.</p> <p>Following the local government settlement the savings target was revised to £1.6 million for the period 2017/18 to 2020/21 to reflect changes in assumptions in the new homes bonus scheme which will continue to decrease up to 2021/22. Your current projections show that the new homes bonus could be as low as £1.4 million (the current level is £3.8 million). The impact of the reduction in new homes bonus will require further savings to be made in an already challenging environment.</p> <p>Following regular updates to your financial plans and the achievement of ongoing budget reductions, you have in place a 10 year MTFS which requires the successful delivery of a 3 year savings programme of £1.6 million from 2018/19. You are planning to build reserves up to 2019/20 to be able to use the reserves from 2020/21 to achieve a balanced budget. As the savings targets become more challenging you will need to continue to monitor your MTFS closely to ensure assumptions remain appropriate. The savings target currently being addressed requires budget reductions of £0.65m to be in place by April 2018. At the time of preparing this report, we understand that only half of this target has so far been identified. Members and Senior management will need to work closely together in order to ensure that the remainder of the target is achieved within the timescales set.</p> <p><b>We concluded that you have proper arrangements to plan finances effectively to manage the medium term financial position of the Council.</b>  <b>Value</b></p>

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	45,776	45,776	45,776
Housing Benefit Grant Certification	13,950	*TBC	18,084
<b>Total fees (excluding VAT)</b>	<b>59,726</b>	<b>TBC</b>	<b>63,860</b>

## Non- audit services

No non-audit or audited related services had been undertaken for the Council in the year.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

\* Audit of Housing benefit subsidy is in progress and will be completed and certified by the 30 November 2017 deadline

## Reports issued

Report	Date issued
Audit Plan	13 March 2017
Audit Findings Report	4 September 2017
Auditor's opinion on accounts	22 September 2017
Auditor's value for money conclusion	22 September 2017
Annual Audit Letter	October 2017
Housing Benefit Grant Certification and report	November 2017 (planned)



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# Agenda Item 15

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 16

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 17

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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