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TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

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

21 September 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, 1st October, 2018 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

3. Minutes 9 - 14

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 23 July 2018

Matters for Recommendation to the Cabinet

4. Revised Statutory Investment Guidance and Treasury Management and Prudential Codes of Practice 15 - 38

The revised Guidance and Codes impose additional requirements on local authorities aimed to address concerns arising from the commercialism agenda, in particular, the use of loans and the purchase of property to generate a profit.

5. Treasury Management Update and Mid-Year Review 2018/19 39 - 56

The report provides an update on treasury management activity undertaken during April to August of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2018/19 is also included in this report.

Matters submitted for Information

6. Internal Audit and Counter Fraud Update 57 - 74

The report provides an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to August 2018.

7. Annual Audit Letter 75 - 90

The purpose of the report is to inform Members of the receipt of the Annual Audit Letter for the year ended 31 March 2018.

8. Grant Thornton Progress Report and Sector Update 91 - 108

A progress report and update from Grant Thornton on emerging national issues and developments that may be relevant to the local authority.

9. Urgent Items 109 - 110

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

Matters for consideration in Private

10. Exclusion of Press and Public 111 - 112

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

Matters submitted for Information

11. Insurance Claims History; April - August 2018 113 - 118

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

The report serves to inform Members as to the nature and volume of liability and property damage insurance claims submitted during the period April 2018 – August 2018.

12. Urgent Items 119 - 120

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 R P Betts (Vice-Chairman)

Cllr O C Baldock
Cllr T Bishop
Cllr T Edmondston-Low
Cllr B T M Elks
Cllr S R J Jessel
Cllr Mrs F A Kemp
Cllr T C Walker

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 23rd July, 2018

Present: Cllr V M C Branson (Chairman), Cllr R P Betts (Vice-Chairman), Cllr O C Baldock, Cllr T Bishop and Cllr Mrs F A Kemp

Grant Thornton, External Auditors: Mr C McLaughlin (Director) and Mr A Ayre (Manager)

Councillors M A Coffin and M R Rhodes were also present pursuant to Council Procedure Rule No 15.21.

PART 1 - PUBLIC

AU 18/28 DECLARATIONS OF INTEREST

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

AU 18/29 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 3 April 2018 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE COUNCIL

AU 18/30 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2017/18

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April to June of the current financial year within the context of the national economy. The treasury management outturn position for 2017/18 was also presented.

The report provided a commentary on investments derived from cash flow surpluses, core cash balances and other long term cash balances and it was noted that long term investment at the end of June 2018 comprised £4m in property fund investment. A further £1m was placed in a property fund on 2 July 2018 bringing the Council's total property fund investment to £5m. A full list of investments held on 30 June 2018 was set out at Annex 2 to the report.

RECOMMENDED: That the following be commended to the Council:

(1) the action taken by officers in respect of treasury management activity for April to June 2018 be endorsed;

(2) the £5m in property fund investments undertaken since June 2017 be noted; and

(3) the 2017/18 outturn position be noted.
***Referred to Council**

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

AU 18/31 RISK MANAGEMENT UPDATE

The report of the Management Team provided an update on the risk management process and the Strategic Risk Register, adopted by the Council on 20 February 2018, was set out at Annex 1 to the report. The emergence of a new strategic risk concerning the procurement of the Waste/Recycling Contract was noted.

Members were advised that, as part of the insurance package, funding was set aside by the Council's insurers to deliver training and projects associated with risk management to all Members, and particularly to those serving on the Audit Committee. The Committee acknowledged that training in risk management was essential for all Members.

RESOLVED: That

(1) the emergence of a new strategic risk in respect of the procurement of the Waste/Recycling Contract and its inclusion on the Strategic Risk Register be noted; and

(2) an interactive workshop on the topic of risk management be held for Members during the coming months, the final details for which to be agreed with the Chairman of the Audit Committee.

AU 18/32 ANNUAL GOVERNANCE STATEMENT 2017/18

The report of the Director of Finance and Transformation presented the Annual Governance Statement for the year ended 31 March 2018 which was required to be certified by both the Leader of the Council and the Chief Executive to accompany the Council's Statement of Accounts 2017/18.

The Annual Governance Statement had been prepared by way of a self-assessment questionnaire and supporting evidence and was intended to

demonstrate that there was a sound system of corporate governance in place throughout the organisation.

RESOLVED: That the Annual Governance Statement for the year ended 31 March 2018, as set out at Annex 1 to the report, be endorsed.

AU 18/33 STATEMENT OF ACCOUNTS AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE STATEMENT OF ACCOUNTS

The report of the Director of Finance and Transformation presented an audited set of Accounts for 2017/18 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Annual Governance Statement (referred to at Minute AU 18/32) accompanied the Statement of Accounts.

The Committee was reminded that responsibility for approval of the Statement of Accounts was delegated to the Audit Committee under the Council's constitutional arrangements and advised that the external auditor's report on the outcome of the audit of Accounts was set out at Annex 3 to the report.

A supplementary report had been published prior to the meeting advising that, as part of the final Audit process, it had been found that some of the information supporting the calculation of some of the Council Assets could not be fully supported and that this had resulted in a downward valuation of around £2.9m on these assets. Attention was drawn to the changes required to the Financial Statements circulated with the agenda papers which would allow the Financial Statements to be fully signed off. It was, therefore

RESOLVED: That

(1) the Statement provided by the Director of Finance and Transformation in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, as set out at Annex 2 to the report, be noted;

(2) authority be delegated to the Chairman and the Director of Finance and Transformation to approve the Final Audit Findings Report from Grant Thornton and be authorised to sign these Accounts in the appropriate place following the approval of the changes proposed;

(3) subject to any further clarification from Grant Thornton on the matters contained in the supplementary report, the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2017/18, as set out at Annex 3, be approved; and

(4) 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 4, when Grant Thornton are ready to issue their opinion.

AU 18/34 REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

The report of the Chief Audit Executive informed the Committee of the findings of the annual review of the effectiveness of the Internal Audit function. Members were advised that the Management Team had concluded that the opinion on the effectiveness of the Internal Audit function in place for the year 2017/18 was Good.

RESOLVED: That on the basis of the findings of the review, the opinion that the effectiveness of Internal Audit function for the year 2017/18 was Good be endorsed.

MATTERS SUBMITTED FOR INFORMATION

AU 18/35 OPINION OF CHIEF AUDIT EXECUTIVE ON INTERNAL CONTROL ENVIRONMENT, ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2017/18

The report informed the Committee of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control together with the Internal Audit work completed during 2017/18 to support that opinion. The report also informed the Committee of the work carried out by the Counter Fraud function in 2017/18.

In response to Members' concerns regarding duplicate invoicing, Officers advised that the controls in place to manage duplicate payments would be reviewed as part of the Creditors audit.

RESOLVED: That the report be received and noted.

AU 18/36 NATIONAL FRAUD INITIATIVE 2018/19 EXERCISE

The report of the Director of Finance and Transformation set out details of the Proposed Work Programme and Scale of Fees in respect of the National Fraud Initiative 2018/19 exercise.

RESOLVED: That the report be received and noted.

AU 18/37 AUDIT FEE LETTER 2018/19

The Director of Finance and Transformation reported receipt of the Audit Fee Letter for 2018/19 from Grant Thornton which gave details of the Council's audit fee of £35,248 (which represented a reduction of 23% compared to the fees applied for 2017/18) together with the scope and

timing of audit work and the audit team. A fee of £10,000 for housing benefit subsidy certification work had been agreed separately subject to the completion of the 'workbooks' resting with the Council and a variable fee for any additional testing required.

RESOLVED: That the report be received and noted.

AU 18/38 A COUNCILLOR'S WORKBOOK ON BRIBERY AND FRAUD PREVENTION

The report of the Director of Finance and Transformation provided details of the Local Government Association's Councillor's Workbook on Bribery and Fraud Prevention which included information of the role of the Audit Committee in anti-fraud and corruption activity. The Committee requested that a copy of the workbook be provided to all Members of the Council.

RESOLVED: That the report be received and noted

AU 18/39 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.33 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 2018

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 REVISED STATUTORY INVESTMENT GUIDANCE AND TREASURY MANAGEMENT AND PRUDENTIAL CODES OF PRACTICE

The revised Guidance and Codes impose additional requirements on local authorities aimed to address concerns arising from the commercialism agenda, in particular, the use of loans and the purchase of property to generate a profit.

1.1 Introduction

1.1.1 Under the Local Government Act 2003 the Council is required to comply with Statutory Guidance on Local Government Investments and through that guidance, have regard to the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code. Historically the scope of the statutory guidance and the codes was limited to the investment of an authority's cash surpluses and the management of borrowing undertaken to support its capital expenditure plans. Updated statutory guidance and codes have been issued that broaden that scope to include expenditure on loans and the acquisition of non-financial assets (property) intended to generate a profit.

1.1.2 The Statutory Guidance and Codes of Practice are lengthy documents and are not appended to this report. If a Member would wish to obtain copies please contact Michael Withey at michael.withey@tmbc.gov.uk

1.2 Statutory Guidance on Local Government Investments 2018 Edition

1.2.1 The Statutory Guidance on Local Government Investments requires authorities to prepare an annual investment strategy (the Strategy) to be approved by full Council prior to the start of each financial year. The disclosures required to be published and made publicly available in the Strategy may be included in a treasury management strategy, a capital strategy or any other publicly available document (e.g. budget presentation). The requirements and disclosures that arise in respect of loans and non-financial assets are summarised in [Annex1].

1.3 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition

Introduction

1.3.1 For the purposes of this Code CIPFA has adopted the following as its definition of treasury management activities:

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

1.3.2 Investments in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as *directly owned* investment property. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

1.3.3 In the main, the changes made to the Code, address concerns arising from the 'commercialism agenda' 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.

1.3.4 The Code makes it clear that the control of risk and optimising returns consistent with the organisation's risk appetite should be applied across all investment activities, including more commercially based investments.

Key Principles

1.3.5 The Code identifies three key principles detailed below with a minor change made to Key Principle 2 highlighted in italics.

- Key Principle 1 – Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Key Principle 2 – Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and *portfolio* liquidity when investing *treasury management* funds.

- Key Principle 3 – They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance

measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management; their treasury management policies and practices should reflect this.

1.3.6 The Code further recommends the adoption of four key clauses and the preparation of a treasury management policy statement and treasury management practices in order to achieve the above.

Clauses to be Formally Adopted

1.3.7 It is recommended that the four clauses recommended to be formally adopted as set out in the Code and reproduced at **[Annex 2]** be adopted / readopted.

Treasury Management Policy Statement

1.3.8 It is recommended that the Treasury Management Policy Statement as set out in the Code and reproduced at **[Annex 3]** be adopted / readopted.

Treasury Management Practices

1.3.9 The TMPs (12) detail the processes and procedures to be followed in the operation and management of the treasury management function and run to many pages and as a result are not reproduced in full. Much of the changes detailed below focus on TMPs as they apply to non-treasury management investments.

- TMP1 *Risk management* amended to include within the General Statement that – "This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment." This includes investment and risk management criteria for any material non-treasury investment portfolios.

- A new risk management consideration has been introduced under TMP1 covering inflation risk management – "The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures."

- TMP2 *Performance measurement* to include methodology and criteria for assessing the performance and success of non-treasury investments.

- TMP4 *Approved instruments, methods and techniques* includes a new paragraph regarding MIFID II – "This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client." Treasury Management Strategy

Statement will need to reflect in what circumstances an authority has opted up to professional status, and a schedule prepared of all counter parties where this applies, with a commitment that these arrangements will be regularly reviewed as appropriate.

- TMP5 *Decision making, governance and organisation* to include a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.

- TMP6 *Reporting requirements and management information arrangements* to include where and how often monitoring reports are taken in relation to non-treasury investments.

- TMP8 *Cash and cash flow management* makes a correction to a previous error when referencing back to TMP1.

- TMP10 *Training and qualifications* to include how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Investments that are not part of Treasury Management Activity

1.3.10 A new section has been added covering investments that are not part of treasury management activity (commercialism agenda) and the primary reason for the changes made to the Code; requiring the inclusion of a new statement **[Annex 4]**.

1.3.11 These investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for consideration of risk and return are applied to these decisions.

1.3.12 Due diligence procedures should ensure effective scrutiny of proposed investments, identification of risk to both capital and returns, any external underwriting of those risks, and the potential impact on the financial sustainability of the organisation if those risks come to pass. Where necessary independent and expert advice should be sought to ensure due diligence is suitably robust.

1.3.13 A published schedule should be agreed by Council that set outs the organisation's investment management practices for non-treasury investments. Where a Capital Strategy is produced by a local authority including the authority's approach to commercial activities, the detail may be published separately. The authority should ensure effective arrangements are in place for the effective scrutiny of strategy and policies.

1.3.14 A register of investments and financial guarantees should be maintained and regularly reviewed as part of performance reporting arrangements, including periodic reassessment of the probability of financial guarantees being called upon.

1.3.15 For ease of reference the additional text to be added to the TMPs as a result can be found at **[Annex 5]**.

1.4 Prudential Code for Capital Finance in Local Authorities 2017 Edition

1.4.1 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

1.4.2 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

1.4.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and prudential indicators. This will be done by the same body that takes the decisions for the local authority's budget.

1.4.4 The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.4.5 The Capital Strategy to include the authority's approach to commercial activities including processes ensuring effective due diligence and defining the authority's risk appetite including proportionality in respect of overall resources; and requirements for independent and expert advice and scrutiny arrangements. An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities; and a summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

1.4.6 The additional paragraphs to be added to the Council's Capital Strategy as a result can be found at **[Annex 6]** and the prudential indicators required to be published under the 2017 Code can be found at **[Annex 7]**.

1.5 Legal Implications

1.5.1 The Local Authorities (Capital Finance and Accounting (England) Regulations 2003 require local authorities to have regard to both documents.

1.5.2 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to financial administration and stewardship including securing effective arrangements for treasury management.

1.5.3 In addition, Link Asset Services are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.6 Financial and Value for Money Considerations

1.6.1 A purpose of the Code is to encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

1.6.2 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 Risk Assessment

1.7.1 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.

1.7.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits are established to ensure an appropriate level of diversification.

1.7.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the Treasury Management function have been minimised.

1.8 Equality Impact Assessment

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

1.9 Recommendations

1.9.1 Members are asked to **recommend** to Cabinet and subsequently full Council:

1) To note the new requirements and disclosures contained in the Statutory Guidance on Local Government Investments 2018 Edition set out at **[Annex 1]**.

2) The four clauses to be formally adopted as set out in the Code and reproduced at **[Annex 2]** be readopted.

3) The Treasury Management Policy Statement as set out in the Code and reproduced at **[Annex 3]** be readopted.

4) To note the new statement pertaining to investments that are not part of treasury management activity reproduced at **[Annex 4]**.

5) To note the additional paragraphs to be added to the Council's TMPs as set out at **[Annex 5]**.

6) To note the additional paragraphs to be added to the Council's Capital Strategy as set out at **[Annex 6]**.

7) To note the prudential indicators as set out at **[Annex 7]**.

Background papers: contact: Michael Withey
Neil Lawley

Statutory Guidance on Local Government Investments
(3rd Edition) 2018
Treasury Management Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition
Prudential Code 2017 Edition

Sharon Shelton
Director of Finance and Transformation

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Statutory Guidance on Local Government Investments 2018 Edition

New requirements and disclosures to address concerns attributed to loans and non-financial investments. Some elements may also be applicable to investment activity undertaken for treasury management purposes.

1 General

1.1 Investments made by local authorities can be classified into one of two main categories. Investment held for treasury management purposes and other investments. Treasury management investments prioritise security (protecting the sum invested), liquidity (funds are available to spend when needed) and yield in that order of importance. The balance between security, liquidity and yield may differ for other types of investment. Local authorities should ***disclose the contribution*** that other investments make towards service delivery objectives and or its place making role.

2 Use of indicators

2.1 The Strategy should ***include quantitative indicators*** that allow Councillors and the public to asses a local authority's total risk exposure as a result of its investment decisions. They should include how investments are funded and the rate of return received. Where investments are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on. The indicators an authority has chosen to use should be consistent from year to year.

2.2 Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

3 Loans

3.1 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though the loans may not be seen as prudent in terms of security and liquidity. Such loans can continue to be made provided the Strategy ***demonstrates***:

- Total financial exposure is proportionate;
- An allowed "expected credit loss" model has been used;
- Appropriate credit control arrangements to recover overdue repayments are in place;
- The authority has formally agreed the total level of loans by type and the total loan book is within a self-assessed level.

4 Non-financial investments

4.1 Non-financial investments are non-financial assets (property) that are held primarily to generate a profit. Strategies should ***confirm the fair value of assets***, assessed annually, is sufficient to provide security against loss. Where fair value is no longer sufficient to provide security against loss the strategy should ***detail the mitigating action*** being taken to protect the capital invested. An updated strategy should be presented to full Council if a loss is recognised in the year end accounts ***detailing the impact*** of the loss on the security of investments and the revenue consequence.

5 Risk assessment

5.1 The Strategy should ***state the authority's approach*** to assess risk of loss before entering into and whilst holding an investment, making clear in particular: how it has assessed the market that it is / will be competing in, the nature and level of competition, how it thinks that the market / customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirement.

6 Liquidity

6.1 For non-financial investments the Strategy should ***set out the procedures*** for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

7 Proportionality

7.1 Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should ***detail the extent*** to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.

7.2 The ***assessment of dependence*** on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

8 Borrowing in advance of need

8.1 Authorities ***must not borrow more than or in advance of their needs*** purely in order to profit from the investment of the extra sums borrowed.

8.2 Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

9 **Capacity, skills and culture**

9.1 The Strategy should ***disclose the steps*** taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

9.2 The Strategy should ***disclose the steps*** taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

9.3 Where appropriate the Strategy should ***comment on*** the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

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Four clauses recommended to be formally adopted

Clause 1 – This organisation will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

Clause 2 – This organisation, i.e. full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

Clause 3 – This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet via the Audit Committee, and for the execution and administration of treasury management decisions to the Director of Finance and Transformation, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

Clause 4 – This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
   The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.

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Investments that are not part of Treasury Management Activity

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisations investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

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Additional text to be added to the Council's Treasury Management Practices

TMP 1 Risk Management

General Statement

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

TMP 1.5 Inflation risk management

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

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

TMP 4 Approved Instruments, Methods and Techniques

TMP 4.2 Implementation of MIFID II requirements

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

TMP 4.7 Non-treasury management investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

See separate schedule encompassing *[to be prepared if required]*:

- Risk Management.
- Performance Measurement.
- Organisation, clarity and segregation of responsibilities, and dealing arrangements.
- Reporting requirement and management information arrangements.
- Training and qualifications.

TMP 6 Reporting Requirements and Management Information Arrangements

TMP 6.1 Annual programme of reporting

Capital Strategy *[to be reported as part of the Treasury Management and Annual Investment Strategy, Capital Plan Review and or Budget Report]* to cover the following:

- Give a longer term view of the capital programme and treasury management implications thereof beyond the detailed three year time horizon.
- An overview of treasury and non-treasury investments to highlight the risks and return involved in each and the balance (proportionality) between types of investments.
- The authorities risk appetite and specific policies and arrangements for non-treasury investments.
- Schedule of non-treasury investments.

Extract from the Capital Strategy relating to the 2017 Prudential Code

1 The legislative framework is set out in the Local Government Act 2003 and its subsidiary regulations. This framework provides for a prudential system based on borrowing limits set by each individual local authority. Under this system, local authorities must have regard to affordability, prudence and sustainability and must follow the "Prudential Code for Capital Finance in Local Authorities 2017 Edition" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2 The Prudential Code requires that a number of prudential indicators are set.

3 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt.

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Prudential Indicators

Estimates calculated on a three year rolling basis. Actuals for the last complete financial year.

1 Capital Expenditure (obligatory)

1.1 Estimate of total capital expenditure to be incurred in years 1, 2 and 3 (and 4, etc. if applicable).

1.2 Actual capital expenditure for previous financial year.

1.3 Estimate of capital financing requirement as at the end of years 1, 2 and 3. *[This is a measure of an authorities underlying need to borrow for capital purposes.]*

1.4 Actual capital financing requirement for previous financial year.

2 External Debt (obligatory)

2.1 Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long-term liabilities for years 1, 2 and 3. *[This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.]*

2.2 Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long-term liabilities for years 1, 2 and 3. *[This based on the probable external debt during the course of a financial year. It is not a limit. Actual external debt could vary around this boundary for short periods of time during a financial year. It acts as a monitoring indicator to ensure that the authorised limit is not breached.]*

2.3 Actual external debt = actual borrowing + actual other long-term liabilities.

2.4 Comparison of gross debt and the capital financing requirement. *[In order to ensure that over the medium term debt will only be for capital purposes, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.]*

3 Affordability (obligatory)

3.1 Estimate of financing costs ÷ estimate of net revenue stream x 100% for years 1, 2 and 3. *[This ratio provides an indication of the impact an authority's capital investment plans will have on its overall finances.]*

3.2 Actual financing costs ÷ actual net revenue stream x 100%

4 Local indicators (discretionary)

4.1 Estimate of the incremental impact of capital investment decisions on the council tax *[How much council tax at Band D will increase by or decrease by if a particular capital plan scheme is progressed.]*

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 2018

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet – Council Decision

1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW

The report provides an update on treasury management activity undertaken during April to August of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2018/19 is also included in this report.

1.1 Introduction

1.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 18 February 2010. The Code's revision in 2017 is the subject of a separate report on this agenda.

1.1.2 The primary requirements of the 2009 Code (and it's 2011 minor update) 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 Statement, including the Annual Investment Strategy, for the year ahead; a mid-year Review Report (this 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 treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

1.1.3 This mid-year report has been prepared in compliance with CIPFA's 2009 and 2011 Codes of Practice, and covers the following:

- An economic update and revised interest rate forecast.
- Investment performance for April to August of the 2018/19 financial year including recent benchmarking data.
- Compliance with Treasury and Prudential Limits for 2018/19.
- Long term investment update.
- A review of the risk parameters contained in the 2018/19 Treasury Management and Annual Investment Strategy.

1.2 Economic Background

1.2.1 The UK economy grew by 1.8% in 2017, its slowest rate of annual growth since 2012. Growth in the first quarter (Q1) of 2018 at 0.2% also disappointed. This was driven in part by the unusually bad weather that affected all parts of the country. The weak growth was also attributed to the fall in consumer disposable income as inflation has, until recently, outstripped wage growth. Growth improved in Q2 to 0.4% and Q3 got off to a good start helped by the warmer weather and World Cup.

1.2.2 The labour market has continued to show strength with the unemployment rate maintaining its downward trend falling to a multi-decade low in July of 4.0%. At the same time pay growth, excluding bonuses, rose by 2.9% in July outstripping inflation for the fourth consecutive month. CPI inflation whilst still above target (2.0%) has fallen from a high of 3.1% in November 2017 to 2.5% in July 2018. Inflation is expected to come under pressure from rising oil / energy prices in the short term but fall back later in the year from easing food prices and other imported goods inflation as the impact of the post referendum fall in the value of sterling fades.

1.2.3 At their February 2018 meeting, the Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.5%. However, the committee indicated 'rates would be increasing sooner and at a greater rate than was previously thought'. This prompted market expectation rising to near 100% of a Bank Rate increase in May. The May meeting disappointed and the Bank's stance changed to a data dependent wait and see. The improving economic position and the split vote (6:3) at the June meeting again led to growing market expectation of an early rate rise. At the MPC's August meeting members voted unanimously to increase Bank Rate to 0.75%. The decision reaffirmed the Q1 dip in output was only temporary. In the subsequent press conference the rise was justified based on 'employment is at a record high, there is very limited spare capacity, real wages are picking up and external price pressures are declining'.

1.3 Interest Rate Forecast

1.3.1 The Bank Rate, having remained at an emergency level 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%. Bank Rate was increased to 0.75% in August 2018. Link's current forecast (August 2018) anticipates Bank Rate rising to 1.0% by September 2019 and to 1.25% by June 2020.

Rate	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	**0.75**	**0.75**	**0.75**	**0.75**	**1.00**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**
3 mth LIBID	**0.75**	**0.80**	**0.80**	**0.90**	**1.10**	**1.10**	**1.20**	**1.40**	**1.50**	**1.60**	**1.60**
6 mth LIBID	**0.85**	**0.90**	**0.90**	**1.00**	**1.20**	**1.20**	**1.30**	**1.50**	**1.60**	**1.70**	**1.70**
12 mthLIBID	**1.00**	**1.00**	**1.00**	**1.10**	**1.30**	**1.30**	**1.40**	**1.60**	**1.70**	**1.80**	**1.80**
25yr PWLB	**2.80**	**2.90**	**3.00**	**3.10**	**3.10**	**3.20**	**3.30**	**3.30**	**3.40**	**3.50**	**3.50**

1.4 Investment Performance

1.4.1 In accordance with the CIPFA Code the Council's priorities, in order of importance, are: to ensure security of capital; liquidity; and having satisfied both, to obtain an appropriate level of return which is consistent with the Council's risk appetite.

1.4.2 The Council's investments are derived from cash flow surpluses, core cash and other long term cash balances.

1.4.3 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 2018/19 cash flow surpluses have averaged £11.3m.

1.4.4 The Authority also has £20m 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 £4m to meet business rate appeals which are expected to be resolved in 2018/19 and 2019/20.

1.4.5 Long term investment at the end of August 2018 comprised £5m in property fund investments.

1.4.6 A full list of investments held on 31 August 2018 is provided at **[Annex 1]** and a copy of our lending list of the same date is provided at **[Annex 2]**. The table below provides a summary of funds invested and interest / dividends earned at the end of August.

	Funds invested on 31 August 2018 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned to 31 August 2018 £	Annualised return %	LIBID benchmark (average from 1 April 2018) %
Cash flow	14.5	63	0.73	27,200	0.57	0.40 (7 Day)
Core cash	20.0	201	0.94	77,050	0.82	0.59 (3 Mth)
Sub-total	**34.5**	**143**	**0.85**	**104,250**	**0.74**	**0.53 (Ave)**
Long term	5.0			30,200	3.62	
Total	**39.5**					

Property funds pay dividends quarterly. The return quoted above is based on dividends received for the quarter April to June 2018.

1.4.7 **Cash flow and Core cash Investments**. Interest earned of £104,250 to the end of August is £33,050 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 21 basis points. The additional income is due in part to higher core fund balances (unspent business rate appeals provisions) and in part due to an improvement in investment rates banks offered in the lead-up to and are now offering following the August Bank Rate rise.

1.4.8 The Council takes advantage of Link's benchmarking service 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 June 2018 our return at 0.76% (purple diamond) was above the local authority average of 0.66%. Based on the Council's exposure to credit / duration risk that return was also above Link's predicted return (above the upper boundary indicated by the green diagonal line). The Council's risk exposure was broadly in-line with the local authority average.

1.4.9 **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, including that derived from the sale of assets, was subsequently approved by Council in February 2017 and reaffirmed in February 2018.

1.4.10 £2m of the Council's existing cash balances was identified for long term investment. This in combination with £1m anticipated from the sale of surplus property was applied in 2017/18 bringing the total investment in property funds in that financial year to £3m. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. More recently a further £2m has been invested in property funds. This has been financed from the 2018/19 business rates pilot grant (£0.5m), the better than expected 2017/18 outturn (£0.5m) and a further £1m in anticipated sale proceeds. Further investments are envisaged though timing will be dependent on the progress of planned disposals (River Walk Offices and Teen & Twenty site).

1.4.11 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling 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. The following table compares the current sale value of each investment with the initial purchase price.

Property fund (Primary = units in the fund purchased from the fund manager, Secondary = units purchased from another investor at a discount, Date = first month investment attracted dividends)	**Purchase price** **(a)** **£**	**Sale value at date of purchase** **(b)** **£**	**Current sale value August 2018** **(c)** **£**	**Current sale value above (below) purchase price** **(c-a)** **£**
LAPF (Primary, July 2017)	1,000,000	922,200	964,400	(35,600)
Lothbury (Primary, July 2017)	1,000,000	927,700	997,300	(2,700)
Hermes (Secondary, October 2017)	1,000,000	939,000	997,900	(2,100)
LAPF (Primary, June 2018)	1,000,000	922,200	924,700	(75,300)
Lothbury (Secondary, July 2018)	1,000,000	973,000	978,100	(21,900)
Total	**5,000,000**	**4,684,100**	**4,862,400**	**(137,600)**

1.4.12 Income from property funds of £30,200 has been received thus far in 2018/19 (quarter ending June 2018) which represents an annualised return of 3.62%.

1.5 Compliance with the Treasury Management and Annual Investment Strategy

1.5.1 Throughout the period April to August 2018 all of the requirements contained in the 2018/19 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit ratings; duration limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April to August 2018.

1.5.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **[Annex 4]** to this report.

1.6 Review of Risk Parameters

1.6.1 Members will recall the detailed consideration that was given to the 2018/19 Treasury Management and Annual Investment Strategy at the January 2018 meeting of the Audit Committee. The strategy includes the parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with high credit rated institutions and that those investments are diversified across a range of counterparties. More specifically the 2018/19 Strategy requires:

- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's and 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 and groups of related counterparty must not exceed 20% of funds.

- In selecting suitable counterparties 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. 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 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. Where duration exceeds Link's recommendation by more than three months, the institution's CDS must be below average at the

time the investment is placed and exposure in the extended duration (3 to 6 months) limited to 10% of funds.

- Money Market funds should be rated AAA and exposure limited to no more that 20% per fund. LNAV and VNAV funds may be used as a substitute for CNAV 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 each non-rated property fund used for long term investment is subject to a maximum £2m (20% of expected long term balances) per fund and across all such funds. No limit applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.

- Each non-rated diversified income (multi-asset) fund used for medium term investment is subject to a maximum £2m (20% of expected long term balances) per fund and across all such funds.

- Non-specified investments over 1 year duration (includes both property funds and diversified income funds) must not exceed 60% of investment balances.

1.6.2 The returns being offered by financial institutions vary significantly one to another and across all durations. Whilst scope is limited from an income generation perspective there are a sufficient number of creditworthy institutions available to the Council to ensure an appropriate level of diversification. In undertaking this review **no changes to the current approved risk parameters are proposed**.

1.7 Legal Implications

1.7.1 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. In addition, Link are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.8 Financial and Value for Money Considerations

1.8.1 Investment income from cash flow and core cash at the end of August 2018 (month five of the financial year) is £33,050 better than budget for the same period. Income for the 2018/19 financial year as a whole is likely to exceed budget by some £75,000.

1.8.2 Property funds are presently performing in-line with budget albeit just below the 4% target return. Budget performance for the year as a whole will in part be dependent on the timing of additional planned investments which have yet to take place and are themselves dependent on the receipt of sale proceeds from asset disposals.

1.8.3 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%. Bank rate was increased to 0.75% in August 2018. Link's current forecast (August 2018) anticipates Bank Rate rising to 1.0% by September 2019 and to 1.25% by June 2020.

1.8.4 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.

1.8.5 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, the investment's duration cannot be determined with certainty.

1.8.6 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.

1.8.7 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.

1.9 Risk Assessment

1.9.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to be an effective way of mitigating the risks associated with treasury management.

1.10 Equality Impact Assessment

1.10.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.

1.11 Recommendations

1.11.1 Members are invited to **RECOMMEND** that Cabinet:

1) Endorse the action taken by officers in respect of treasury management activity for April to August 2018.

2) Note the £5m in property fund investments that have been undertaken since June 2017.

3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers: contact: Mike Withey

Link interest rate forecast (August 2018)
Link benchmarking data (June 2018)

Sharon Shelton
Director of Finance and Transformation

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Annex 1

Tonbridge and Malling Borough Council - Investment Summary 31 August 2018

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	1 year	23/05/2018	23/05/2019	1 year	1,000,000	1.00%		Fixed Term		1,000,000	
Bank of Scotland Total								**1,000,000**		2.53%				
Barclays Bank	UK	A	F1	6 months	20/06/2018	20/03/2019	9 months	1,000,000	0.73%		Fixed Term		1,000,000	
Barclays Bank	UK	A	F1	6 months	07/08/2018	07/05/2019	9 months	3,000,000	0.89%		Fixed Term		3,000,000	
Barclays Bank Total								**4,000,000**		10.12%				
Blackrock MMF	n/a	AAA	mmf (Eq)	5 years	31/08/2018	03/09/2018	Overnight	121,000	0.65%		MMF	121,000		
Blackrock MMF Total								**121,000**		0.31%				
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	31/08/2018	03/09/2018	Overnight	2,635,000	0.67%		MMF	2,635,000		
BNP Paribas MMF Total								**2,635,000**		6.66%				
Federated MMF	n/a	AAA	mmf	5 years	31/08/2018	03/09/2018	Overnight	4,280,000	0.66%		MMF	4,280,000		
Federated MMF Total								**4,280,000**		10.83%				
Goldman Sachs Int'l Bank	UK	A	F1	6 months	21/03/2018	21/12/2018	9 months	2,000,000	1.13%		Fixed Term		2,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	02/05/2018	04/02/2019	9 months	2,000,000	1.00%		Fixed Term		2,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	20/06/2018	20/03/2019	9 months	2,000,000	0.97%		Fixed Term		2,000,000	
Goldman Sachs Int'l Bank Total								**6,000,000**		15.18%				
Lloyds Bank	UK	A+	F1	1 year	15/05/2018	15/05/2019	1 year	2,000,000	1.00%		Fixed Term		2,000,000	
Lloyds Bank Total								**2,000,000**		5.06%				
Morgan Stanley MMF	n/a	AAA	mmf	5 years	31/08/2018	03/09/2018	Overnight	500,000	0.65%		MMF	500,000		
Morgan Stanley MMF Total								**500,000**		1.26%				
Hermes Property Unit Trust	n/a	n/a	n/a	n/a	29/09/2017	n/a	n/a	1,000,000	3.58%		Property Fund			1,000,000
Hermes Property Unit Trust Total								**1,000,000**		2.53%				
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	29/06/2017	n/a	n/a	1,000,000	4.40%		Property Fund			1,000,000
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	30/05/2018	n/a	n/a	1,000,000	3.79%		Property Fund			1,000,000
Local Authorities' Property Fund Total								**2,000,000**		5.06%				
Lothbury Property Trust	n/a	n/a	n/a	n/a	06/07/2017	n/a	n/a	1,000,000	3.11%		Property Fund			1,000,000
Lothbury Property Trust	n/a	n/a	n/a	n/a	02/07/2018	n/a	n/a	1,000,000	To Follow		Property Fund			1,000,000
Lothbury Property Trust Total								**2,000,000**		5.06%				
National Westminster Bank	UK	A-	F2	1 year	20/06/2018	20/03/2019	9 months	2,000,000	0.85%		CD		2,000,000	
National Westminster Bank	UK	A-	F2	1 year	29/06/2018	29/03/2019	9 months	2,000,000	0.88%		CD		2,000,000	
National Westminster Bank	UK	A-	F2	1 year	25/07/2018	25/04/2019	9 months	2,000,000	0.95%		CD		2,000,000	
National Westminster Bank Total								**6,000,000**		15.18%				
Nordea Bank AB	Sweden	AA-	F1+	1 year	08/08/2018	08/02/2019	6 months	2,000,000	0.84%			2,000,000		
Nordea Bank AB Total								**2,000,000**		5.06%				
Santander Deposit Account	UK	A	F1	6 months	31/08/2018	03/09/2018	Overnight	1,000,000	0.50%		Call	1,000,000		
Santander UK Plc Total								**1,000,000**		2.53%				
Standard Chartered Bank	UK	A+	F1	6 months	20/04/2018	19/10/2018	6 months	1,000,000	0.90%		CD		1,000,000	
Standard Chartered Bank	UK	A+	F1	6 months	16/07/2018	16/01/2019	6 months	2,000,000	0.83%		CD	2,000,000		
Standard Chartered Bank	UK	A+	F1	6 months	27/07/2018	25/01/2019	6 months	2,000,000	0.90%		CD	2,000,000		
Standard Chartered Bank Total								**5,000,000**		12.65%				
					Total invested			**39,536,000**		**100.00%**		**14,536,000**	**20,000,000**	**5,000,000**

Number of investments	24	**Average investment value £**			1,647,000
Number of counter parties	15	**Average counter party investment £**			2,636,000
Group exposures:		**Core £**	**Cash £**	**Combined £**	**%**
Royal Bank of Scotland + National Westminster (UK Nationalised 20%)		6,000,000	-	6,000,000	15.18
Bank of Scotland + Lloyds (20%)		3,000,000	-	3,000,000	7.59
				£	**%**
Property Funds Total				5,000,000	12.65

Total non-specified investments should be less than 60% of Investment balances	12.65%

Notes:

CD = Certificate of Deposit, MMF = Money Market Fund

Property Fund returns are indicative only and based on income distributed since the commencement of each 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 31/08/18

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	UK Classification	Exposure Limit	Link Duration [2]	
							Credit Rating	Post CDS
Bank of Montreal	Canada	AAA	AA-	F1+	n/a	£6m	1 year	1 year
Toronto Dominion Bank	Canada	AAA	AA-	F1+	n/a	£6m	1 year	1 year
Danske Bank	Denmark	AAA	A	F1	n/a	£6m	6 months	6 months
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	n/a	£6m	1 year	1 year
ING Bank	Netherlands	AAA	A+	F1	n/a	£6m	1 year	1 year
Nordea Bank AB	Sweden	AAA	AA-	F1+	n/a	£6m	1 year	1 year
Svenska Handelsbanken AB	Sweden	AAA	AA	F1+	n/a	£6m	1 year	1 year
Bank of Scotland (Group limit BOS & Lloyds £6m)	UK	AA	A+	F1	Ring-fenced	£6m	1 year	1 year
Barclays Bank (Group Limit Barclays and Barclays UK £6m)	UK	AA	A	F1	Non-RF	£6m	6 months	6 months
Barclays Bank UK (Group Limit Barclays and Barclays UK £6m)	UK	AA	A	F1	Ring-fenced	£6m	6 months	6 months
Goldman Sachs Int'l Bank	UK	AA	A	F1	Exempt	£6m	6 months	6 months
HSBC UK Bank	UK	AA	AA-	F1+	Ring-fenced	£6m	1 year	1 year
Lloyds Bank (Group limit BOS & Lloyds £6m)	UK	AA	A+	F1	Ring-fenced	£6m	1 year	1 year
Santander UK	UK	AA	A	F1	To be determined	£6m	6 months	6 months
Standard Chartered Bank	UK	AA	A+	F1	Exempt	£6m	6 months	6 months
Coventry Building Society	UK	AA	A	F1	Exempt	£6m	6 months	6 months
Nationwide Building Society	UK	AA	A	F1	Exempt	£6m	6 months	6 months
National Westminster Bank (Group limit Nat West and RBS £6m). UK Nationalised.	UK	AA	A-	F2	Ring-fenced	£6m	1 year	1 year
The Royal Bank of Scotland (Group limit Nat West and RBS £6m). UK Nationalised.	UK	AA	A-	F2	Ring-fenced	£6m	1 year	1 year
UK Debt Management Office including Treasury Bills	UK	AA	n/a	n/a	n/a	No limit	5 years	5 years
UK Treasury Sovereign Bonds (Gilts)	UK	AA	n/a	n/a	n/a	£15m (£7.5m	5 years	5 years
UK Local Authority (per authority)	UK	AA	n/a	n/a	n/a	£6m	5 years	5 years

[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 sovereign limit of 20% or £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.

Money Market Funds
Minimum investment criteria one of AAA-mf, AAAmmf or AAAm

Fund Name	Moody	Fitch	S&P	Exposure Limit
Blackrock	AAA-mf	-	AAAm	£6m
BNP Paribas	-	-	AAAm	£6m
Goldman Sachs	AAA-mf	AAAmmf	AAAm	£6m
Deutsche Fund	AAA-mf	AAAmmf	AAAm	£6m
Standard Life (Ignis)	-	AAAmmf	AAAm	£6m
Morgan Stanley	AAA-mf	AAAmmf	AAAm	£6m
Federated (Prime Rate)	-	AAAmmf	AAAm	£6m
Insight Liquidity Group limit IL & ILP of £6m	-	AAAmmf	AAAm	£6m

Enhanced Cash Funds
Minimum investment criteria AAA

Fund Name	Moody	Fitch	S&P	Exposure Limit
Insight Liquidity Plus Group limit IL & ILP £6m	-	-	AAAf /S1	£3m

Approved by Director of Finance and Transformation **3rd September 2018**	No Change

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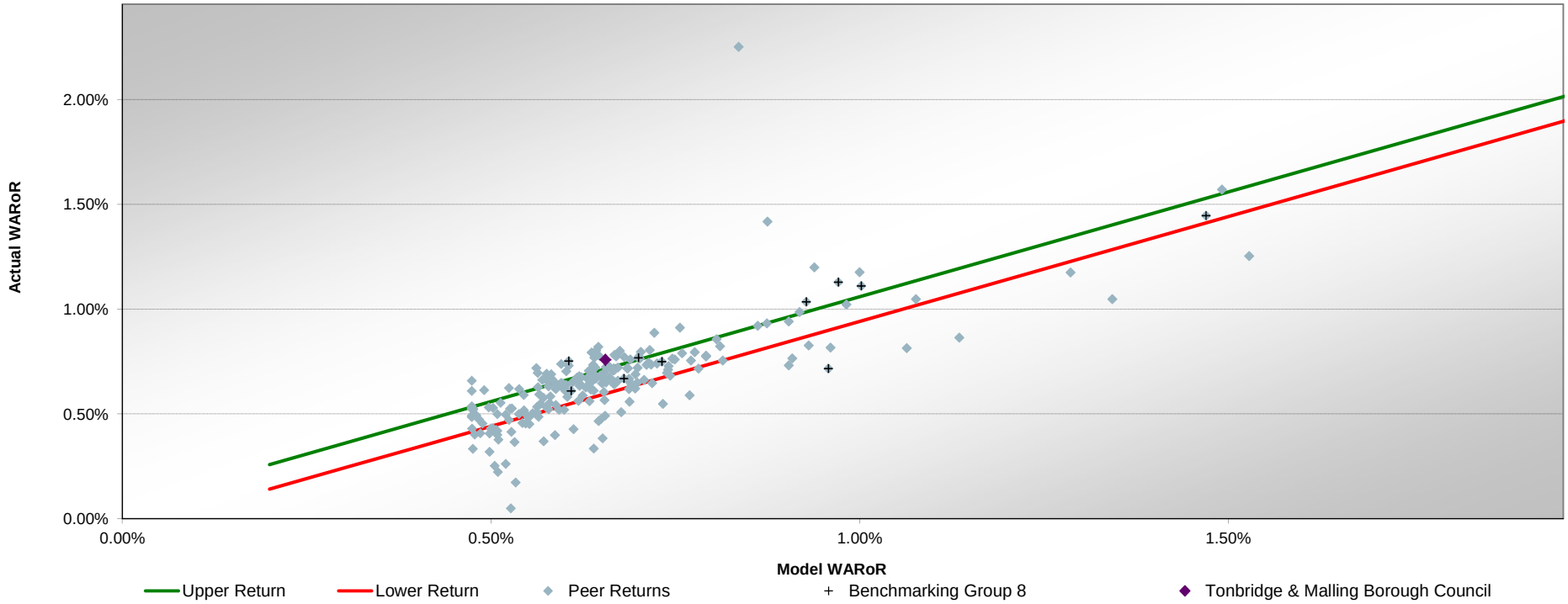
Tonbridge & Malling Borough Council

Population Returns against Model Returns June 2018



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.76%	0.66%	0.10%	0.60%	0.71%	Above

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Prudential and Treasury Indicators

1 Prudential Indicators	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital expenditure	1,834	4,336	1,740
Ratio of financing costs to net revenue stream	-2.46%	-2.89%	-4.32%
Net borrowing requirement: Brought forward 1 April Carried forward 31 March In year borrowing requirement	 nil nil nil	 nil nil nil	 nil nil nil
Capital financing requirement as at 31 March	nil	nil	Nil
Annual change in capital financing requirement	nil	nil	Nil
Incremental impact of capital investment decisions: Increase in Council Tax (Band D) per annum	£0.48	£0.20	£0.20

2 Treasury Management Indicators	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Authorised limit for external debt: Borrowing Other long term liabilities Total	 nil nil nil	 5,000 nil 5,000	 5,000 nil 5,000
Operational boundary for external debt: Borrowing Other long term liabilities Total	 nil nil nil	 2,000 nil 2,000	 2,000 nil 2,000
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	0 – 60%
Upper limit for variable rate exposure under one year at the year end	13,434 (45.6%)	40 – 100%	40 – 100%
Upper limit for total principal sums invested for over 364 days	3,000 (10.2%)	60%	60%

3 Maturity structure of new fixed rate borrowing during 2018/19	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 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 August 2018.

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.

1.1.2 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 2018/19 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2018/19 was approved by this Committee on the 3 April 2018. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2018/19 against the Plan and finalisation of any work brought forward from the 2017/18 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 Plan, 23 were audits or proactive fraud reviews that will result in an assurance opinion. This includes 1 audit postponed from the 2017/18 Audit Plan. The remainder of items on the plan relate to four consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

1.2.3 We are liaising with the business regarding progress on the IT disaster recovery plan for the one outstanding audit from 2017/18. There is also a substantive audit in this area plan to be completed in quarter 4 of 2018/19 Plan.

1.2.4 Slower than usual progress in completion of the 2018/19 Plan is due to the vacancy of the Senior Internal Auditor post within the Internal Audit team. The post was vacant for 3 months, but has now been filled on a part-time basis. Audits have been allocated however, given the 2018/19 Plan assumed a full-time Auditor in post for the whole of the financial year we will need to keep a close eye on progress to inform any decision on additional resource requirements. Initial enquiries have been made to establish availability and cost of additional contractor time or use of KCC auditors through our partnership arrangement. An update on resources will be provided to the January Committee.

1.2.5 The team have issued two draft reports, with three audits currently underway and planning in progress for a further three. One piece of consultancy work is completed and a further piece is in progress. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2018/19 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]**.

1.3 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards

1.3.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team.

1.3.2 In the Annual Report to this Committee in July I reported that it is good practice to review performance measures periodically to ensure the right things are measured and that targets remain achievable but appropriately challenging. The intention was to bring a paper to this Committee with proposed new measures for the Committee's consideration. A review of the existing performance measures has commenced however due to the vacancy/resource issue detailed at 1.2.4 above this work is yet to be completed; the paper will now be brought to the January Committee meeting.

1.3.3 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 at that time was that Internal Audit Generally Conforms to the Public Sector Internal Audit Standards. In addition, it is a requirement of the Public Sector Internal Audit Standards that periodic self-assessments are conducted to evaluate conformance with the PSIAS Code of

Ethics and Standards. To ensure compliance with this element of PSIAS an annual internal review of the effectiveness of the Internal Audit function was undertaken and endorsed by Management Team for the year 2017/18 and the results were presented to this Committee in July. The self-assessment established that we continue to generally conform to the Code of Ethics and Standards that constitute the PSIAS. Some minor areas for development were identified that relate to changes made to the Standards in April 2017 where existing processes should be documented/formalised, only two areas were identified for specific action and therefore assessed as Partially Conforms. The action plan to address the outcomes of the self-assessment is provided at **[Annex 3]**.

Counter Fraud Update

1.4 Prevention and Detection of Fraud, Bribery and Corruption

1.4.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2018/19 to date.

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 next exercise is due to commence in October 2018 with results due January 2019.

1.4.3 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 2018 with the next round due in January 2019. In 2018 there were 967 matches received, 773 have been closed with no further action required and 89 have been closed with errors found. A further 87 have been opened to undertake further enquiries leaving only 18 yet to be reviewed.

1.4.4 There are currently two matches from the 2017 exercises that remain subject to 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. A KIN manager is being recruited with the aim of moving the project forward at pace and this individual will have a key role in liaison across all partner organisations to agree project plans and ensure consensus. A data matching software solution has been sourced and updates will be provided to subsequent Committee meetings on progress made.

1.4.6 In June 2017 KCC 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 business rates where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high risk Single Person Discount cases are now being undertaken and this has resulted in identifying a number of cases where the discount has been removed. For 2018/19 to date these reviews have resulted in an amount of £14,704.80 to be recovered with an increased annual liability of £7,237.89. Penalty charges in the amount of £910 were issued.

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 We continue to review areas of fraud risk and have been working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further over the year with consideration given to the potential to undertake periodic matching of SPD to Parking Permits.

1.4.9 Training on fraud risks continues to be provided to services, targeted at those where risk of fraud is greatest. For 2018/19 we will be providing training to Housing and Parking Services (including awareness of Blue Badge fraud) as well the planned briefing to the Procurement OSG carried forward from last year. In addition, following recruitment of a Fraud/Audit Assistant in August (replacing the previous 0.6fte investigator role) we will be looking at formalising a plan for additional proactive work and raising awareness of fraud more broadly.

1.5 Investigating Fraud

1.5.1 The Fraud Team is responsible for investigating all allegations of fraud, bribery 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 2018/19 to end of August, the Counter Fraud Team have closed 185 cases and received a total of 168 referrals, 144 of which relate to NFI as detailed at 1.4.3; there are 69 ongoing investigations. The total amount of income due as a result of investigations to end of August is £30,698.81 with increased annual liability of £31,118.27. **[Annex 4]** summarises the results of investigations concluded in 2018/19 to date.

1.6 Legal Implications

1.6.1 The Accounts and Audit Regulations place a statutory requirement on local 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 the National Fraud Initiative and Local Government Counter Fraud and Corruption Initiative. 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 framework for governance, risk management and control.

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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Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Risk Management	4			
Safeguarding	3	Planning		
Procurement	2	Fieldwork		
Information Governance – General Data Protection Regulations	4			
Business Continuity Plan including Emergency Planning resilience	4			
Public Safety	2	Planning		
Corporate Governance – Democratic Process and Decision Making	2	Fieldwork		
Starters and Leavers Payroll and Personnel processes	3			
IT Disaster Recovery Plan	4			
Council Tax Administration	3			

Benefits assessments – Change of circumstances	3			
Counter Fraud Function	3	Planning		
Creditors	1	Draft Report	TBC	TBC
Treasury Management	2	Draft Report	TBC	
IT – New Strategy	TBC			
Local Plan	4			
Development Management	3	Fieldwork		
Prevention of Homelessness Act	4			
Contaminated Land	3			
Contract Management including grounds maintenance and Leisure Trust	4			
Follow-up DHP	4			
Follow-up NNDR	3			

Council Tax fraud and error – KCC Funding	**2**	**Completed**	**n/a**	This piece of consultancy work was undertaken on the Call Credit project, which is aimed at increasing the council tax yield. The work was undertaken to act as a self-assessment for the Council prior to the mid-year review scheduled for October 2018 by KCC. A number of recommendations were raised with the business

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Definitions of Audit Opinions

High	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.
Substantial	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.
Adequate	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.
Limited	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.
No Assurance	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.

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Annex 3

Recommendations to become fully conformant to the Public Sector Internal Audit Standards

Attribute Standard	Key Conformance Criteria	CAE EQA Reviewer Assessment (June 2018)	Response & action date	Progress at Aug 2018
1112 Chief Audit Executive Roles Beyond Internal Auditing Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. Interpretation: The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional	Full disclosure in the IA Charter of any management responsibilities that the Chief Audit Executive holds. Conflicts of interest are identified and recorded in the terms of reference for audit assignments and referenced in the report. The CAE has relinquished some of their audit direct line management for specific audits with regard to reviewing files and reports, other team members leading on reviews where the CAE has operational responsibility. The Senior Auditor/Audit	Full disclosure in the IA Charter of any management responsibilities that the Chief Audit Executive holds. Conflicts of interest are identified and recorded in the terms of reference for audit assignments and referenced in the report. The CAE has relinquished some of their audit direct line management for specific audits with regard to reviewing files and reports, other team members leading on reviews where the CAE has operational responsibility. The CAE does have	Establish process for independent assurance on Fraud function and commission independent review for 2018/19. Approach other Council's to join forces on providing independent assurance to each other on the fraud function. Agree activities to be reviewed and schedule ongoing reviews on a rotational basis. January 2019	**Ongoing**

Attribute Standard	Key Conformance Criteria	CAE EQA Reviewer Assessment (June 2018)	Response & action date	Progress at Aug 2018
responsibility. Public Sector Interpretation: When asked to undertake any additional roles/responsibilities outside of internal auditing, the CAE must highlight to the Board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong. The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000).	Manager reports directly to a party external to the CAE for audits that are under the control or direct influence of the CAE. Contracted, third-party entity or external auditors are used to complete audits of those areas reporting to the CAE.	responsibility for the Counter Fraud section. Therefore we can't "audit" what they are doing and we do not get independent assurance on this. The Charter does state our role in Fraud and Safeguards to managing independence in theory but not how to gain assurance on their activities.		
2050 Coordination and Reliance The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts. Interpretation: In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should	IA work is coordinated with that of the external auditors and with other internal providers of assurance and consulting services. This might include regular meetings, documented agreements, coordinated plans, sharing resources, training arrangements. In some cases IA may be required to assess the reliability of the work of	Cannot see that there are any formal processes in place at macro or micro level to co-ordinate and share with other assurance providers, or to establish what the basis for placing reliance on them is.	Map who other assurance providers are, and then document the process for co-ordination and reliance including the basis for reliance. Consider if the provider can demonstrate adequate objectivity. March 2019	Ongoing

Attribute Standard	Key Conformance Criteria	CAE EQA Reviewer Assessment (June 2018)	Response & action date	Progress at Aug 2018
consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.	other assurance providers. This is established in the IA Charter and factored into the IA plans.			

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Fraud Case figures to end of August 2018

Annex 4

Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect benefit/Discount	Fraud Proven /Prevented*	To due to be repaid to TMBC	Increase In liablility (Annual Amount)	No of Penalty Charges	Total £ Penalty charge
NNDR	0	0	0	0				
SPD	169	107	61	1	**£25,919.84**	**£28,218.23**	58	**£4,060.00**
CTR	9	6	2	1	**£4,778.97**	**£2,900.04**	0	**£0.00**
New HB Claim	3	2	0	1				
Housing	2	2	0	0				
Parking	2	1	0	1				
Planning	0	0	0	0				
Licencing	0	0	0	0				
Other*	0	0	0	0				
	185	**118**	**63**	**4**	**£30,698.81**	**£31,118.27**	**58**	**£4,060.00**

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 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 2018.

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 2018. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in July.

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 2017/18 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) Gave an unqualified opinion on the Council's financial statements.

2) Satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

3) Delivered an efficient audit with you delivering the accounts audit opinion four days before the deadline.

4) The Council presented draft accounts in accordance with the national deadline, and provided a good set of working papers to support them.

5) Management to put in place appropriate arrangements to ensure the period of public inspection includes the first 10 working days of June.

6) Concluded that although the Council faces significant pressures it continues to have a robust financial planning framework.

1.2 Legal Implications

1.2.1 The Annual Audit Letter fulfils the requirement to communicate the results of the work of external audit 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 2018.

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: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

Annual Audit Letter

Year ending 31 March 2018

Tonbridge and Malling Borough Council

August 2018

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tonbridge and Malling Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that 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 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 23 July 2018.

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,212,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 July 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July 2018, delivering the accounts audit opinion four days before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 the audit of the Council's accounts to be £1,212,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £61,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

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

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

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Tonbridge and Malling Borough Council, mean that all forms of fraud are seen as unacceptable	Therefore we do not consider this to be a significant risk for Tonbridge and Malling Borough Council. – review and testing of revenue recognition policies – performance of attribute testing on material revenue streams – review of unusual significant transactions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	The following audit work has been performed: • review of accounting estimates, judgements and decisions made by management • review of the rationale for any change in accounting policies or unusual significant transactions • testing of journal entries	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Accounts

Significant Audit Risks

These are the significant 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
Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	• Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Consideration of the competence, expertise and objectivity of any management experts used. • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	We identified an error in the valuation of three leisure centres. For their valuation, the external valuer had used Gross Internal Areas for these three properties that did not match those held by the in-house property team. This meant the valuations ha been based on incorrect inputs since 2012/13 and led to an overstatement of £2,920k as at 31 March 2018. The prior year statements have not been adjusted, however the valuation as at 1 April 2017 has been adjusted to reflect the effect on the opening balance. These have been adjusted in the Statement of Accounts.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	• Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. We did identify one inconsistency in the disclosure of the actuarial assumptions which has been corrected. The salary increase assumption for the basis of estimating assets and liabilities for members of the LGPS was stated as 2.4%. As per the actuary report, it should have been 3.45%. This was correct in the final version of the Statement of Accounts.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

However, for 2017/18 the Accounts and Audit Regulations 2015 required the period of public inspection of the Statement of the Accounts to include the first 10 working days of June 2018. The Council did not publish its inspection notice until 10 June 2018 with an inspection period covering the period 11 June 2018 to 20 July 2018. As a result it has not complied with the Accounts and Audit Regulations 2015. Management have agreed to ensure appropriate arrangements to ensure compliance are put in place for 2018/19.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 23 July 2018.
In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.

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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial Health The December 2017 provisional Local Government financial settlement to 2019/20 anticipates a £1.6m (56%) decrease in the Settlement Funding Assessment and a £0.4m (12%) decrease in New Homes Bonus grant funding compared to 2016/17. Based on the above, amongst other things, latest projections point to a funding gap of circa £1m to be addressed over the short to medium term. You have already delivered around £3.0m in savings over the last 4-5 years. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council	We reviewed your Medium Term Financial Plan, including the robustness of assumptions. We will reviewed savings plans and revenue generating schemes. We discussed your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.	The Council has a well-established Medium Term Financial Strategy (MTFS) covering a 10 year period. The MTFS continues to be updated at least annually and to be aligned with the Council's annual budget-setting process. The Council continues to face significant financial pressures associated with reductions in central government funding and the ongoing implications of a major business ratepayer going into administration in February 2015. The February 2018 revision of the MTFS has identified a funding gap of around £1.0m over the three year period until April 2021. This is an improved position compared to the funding gap of £1.6m identified in the February 2017 MTFS. The Council continues to address this gap in a structured way, breaking down the gap into tranches of £350k, £350k and £300k to deliver over the 3 year period. This will allow time for effective project planning and implementation. The outturn balance on the General Revenue Reserve at 31 March 2018 exceeded that forecast in the MTFS by £640k, enabling you to transfer £500k to Property Investment Fund Reserve to generate increased investment income in the future. The favourable variance against estimates was mostly due to one-offs including the benefits arising from the Business Rates Retention Scheme and management savings on the salary bill. In the final outturn reported to council for 2017/18 you were able to increase your yearend contribution to the General Revenue Reserve to £698k from the £435k anticipated in the Council's budget. Overall the assumptions within the MTFS appear prudent and in line with the council's strategy. We concluded that although the Council faces significant pressures it continues to have a robust financial planning framework. There is a clear understanding of the financial risks facing the Council and of the implications of current decisions over the medium term. **On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.**

Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

We have not completed any other audit related or non-audit related services in 2017/18.

Reports issued

Report	Date issued
Audit Plan	3 April 2018
Audit Findings Report	23 July 2018
Annual Audit Letter	30 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	45,776	45,776	45,776
Housing Benefit Grant Certification	18,084	TBC	15,950
Total fees	**63,860**	**TBC**	**61,726**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)
Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1		• Although the Council's accounting policies provide information on revenue recognition in respect of Council Tax and National Non-Domestic Rates, they would be improved by a more explicit policy in respect of General Fund Revenue.	• Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements. **Management response** • We will undertake a review of this policy for the 2018/19 Statement

Control
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Tonbridge and Malling Council's 2016/17 financial statements, which resulted in 1 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendation and note it is still to be completed and is a repeated recommendation for 2017/18.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	• Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.	• We will undertake a review of this policy for the 2018/19 Statement

Assessment
- ✓ Action completed
- X Not yet addressed

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 2018

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON PROGRESS REPORT AND SECTOR UPDATE

A progress report and update from Grant Thornton on emerging national issues and developments that may be relevant to you as a local authority.

1.1 Committee Update

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

- Progress in delivering our responsibilities as your external auditors.
- CIPFA consultation – Financial Resilience Index.
- MHCLG – Social Housing Green Paper.
- MHCLG - Business rate pilots.

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:

Nil

contact: Neil Lawley
Paul Worden

Sharon Shelton
Director of Finance and Transformation

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Grant Thornton

An instinct for growth™

Audit Progress Report and Sector Update

Tonbridge and Malling

Year ending 31 March 2019

October 2018

Contents

Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the 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 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.

Progress at 1 October 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 27 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

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

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

Meetings

We met with Finance Officers in July 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. We also met with your Chief Executive in July to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will continue to invite key management to events as they arise. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

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

Sector Update

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

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

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Director of Finance and Transformation briefed members on the Council's response to the Financial Resilience Index consultation?

MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
https://www.gov.uk/government/consultations/a-new-deal-for-social-housing

Social Housing Green Paper Consultation

Challenge question:

What does the Social Housing Green Paper mean for your local authority?

MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

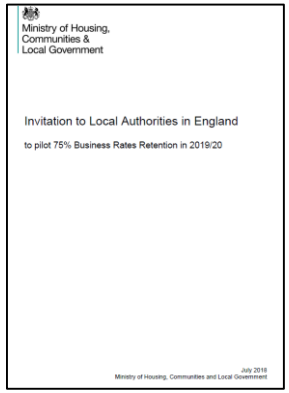
Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.

Business Rates pilots 2019/20

Challenge question:

Has your authority considered applying to be a Business Rates pilot?


Ministry of Housing, Communities & Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20

July 2018
Ministry of Housing, Communities and Local Government

Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

National Audit Office – The health and social care interface

The NAO has published its latest 'think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a 'whole system' sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government's unrealistic expectations of the pace at which the required change in working practices can progress..

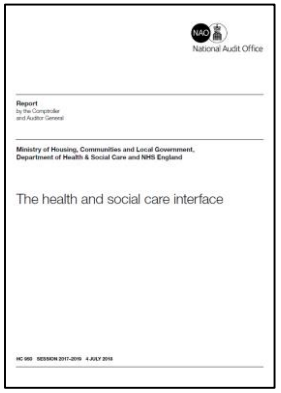
This 'think piece' draws on the NAO's past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission's review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO's website at:
https://www.nao.org.uk/report/the-health-and-social-care-interface/

The health and social care interface

Challenge question:

Has the Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?


National Audit Office

Report
by the Comptroller and Auditor General

Ministry of Housing, Communities and Local Government, Department of Health & Social Care and NHS England

The health and social care interface

HC 993 SESSION 2017–2019 4 JULY 2018

The Vibrant Economy Index
a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

Supply Chain Insights tool helps support supply chain assurance in public services

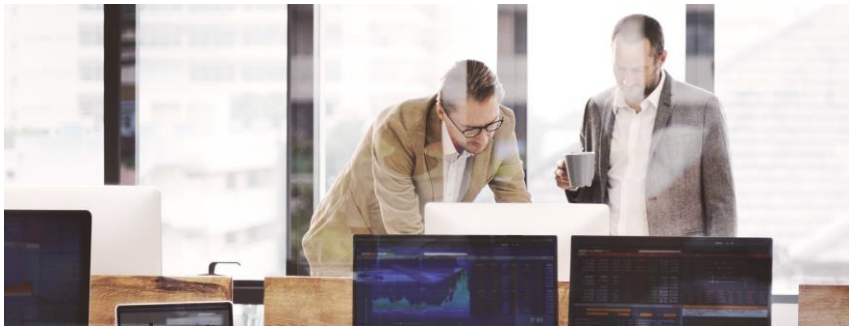
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - — organisation and category
  - — service provider
  - — date at a monthly level
- benchmark your spend against your peers
- identify:
  - — organisations buying similar services
  - — differences in pricing
  - — the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?

Links

Grant Thornton website links

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

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

National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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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.

ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT INFORMATION

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of the Local Government Act 1972.

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